



Audit Committee

Date **Tuesday 26 February 2019**
Time **10.00 am**
Venue **Committee Room 1A - County Hall, Durham**

Business

Part A

**Items during which the Press and Public are welcome to attend.
Members of the Public can ask questions with the Chairman's
agreement.**

1. Apologies for absence
2. Minutes of the meeting held on 29 November 2018 (Pages 5 - 10)
3. Declarations of interest, if any
4. Quarter 3 2018/19 Health, Safety and Wellbeing Performance Report - Report of Corporate Director of Resources (Pages 11 - 26)
5. Changes to the Code of Practice for Local Authority Accounting in the UK 2018-19 - Report of Corporate Director of Resources (Pages 27 - 34)
6. Agreement of Accounting Policies for Application in the 2018-19 Financial Statements - Report of Corporate Director of Resources (Pages 35 - 70)
7. Final Accounts Timetable for the Year Ended 31 March 2019 - Report of Corporate Director of Resources (Pages 71 - 78)
8. External Audit - Durham County Council Audit Strategy Memorandum Year Ended 31 March 2019 - Report of the External Auditor (Pages 79 - 98)
9. External Audit - Durham Pension Fund Audit Strategy Memorandum Year Ended 31 March 2019 - Report of the External Auditor (Pages 99 - 116)
10. External Audit Progress Report - February 2019 - Report of the External Auditor (Pages 117 - 134)
11. Corporate Governance Review 2018/2019 - Key Dates - Report of Corporate Director of Resources (Pages 135 - 138)

12. Strategic Risk Management Progress Report for the Quarter Ended 31 December 2018 - Report of Corporate Director of Resources (Pages 139 - 156)
13. Audit Committees: Practical Guidance for Local Authorities and Police 2018 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 157 - 170)
14. Emergent Internal Audit Plan 2019/2020 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 171 - 186)
15. Internal Audit Progress Report for the quarter ended 31 December 2018 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 187 - 212)
16. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
17. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)

18. Internal Audit Progress Report for the quarter ended 31 December 2018 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 213 - 234)
19. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration

Helen Lynch

Head of Legal and Democratic Services

County Hall
Durham
18 February 2019

To: **The Members of the Audit Committee**

Councillor E Bell (Chairman)
Councillor J Rowlandson (Vice-Chairman)

Councillors C Carr, J Carr, J Clark, J Nicholson, J Robinson,
J Shuttleworth and O Temple

Co-opted Members:

Mr C Robinson and Mr I Rudd

Contact: Jackie Graham

Tel: 03000269704

This page is intentionally left blank

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1B - County Hall, Durham on **Thursday 29 November 2018 at 10.00 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:

Councillors J Rowlandson (Vice-Chairman), C Carr, J Carr, J Clark, J Nicholson, J Robinson and O Temple

Co-opted Members:

Mr C Robinson and Mr I Rudd

1 Apologies for absence

There were no apologies for absence.

2 Minutes

The Minutes of the meeting held on 30 September 2018 were confirmed as a correct record and were signed by the Chairman.

3 Declarations of interest

Declarations of interest were provided by Members. A general declaration of interest would be recorded given that Members were school governors, members of various Committees of the Council, former District Councillors and bodies such as the Fire Authority.

4 IFRS Update - Presentation from Finance Manager, Commercial, Capital & Treasury

The Committee received a presentation from the Finance Manager – Commercial, Capital and Treasury which gave details of the introduction of 2 new accounting standards; IFRS 9 – Financial Instruments and IFRS 16 - Leases (for copy see file of Minutes).

IFRS 9 affected contracts relating to financial assets and liabilities, and equity instruments, and the Officer explained the impact the changes would have on accounting statements and the balance sheet. Three classifications would be required in future; amortised cost, Fair Value through Other Comprehensive Income

and Fair Value through Profit and Loss and these were determined by the application of 2 tests (business model test and cash flow test).

The treatment of financial liabilities and most financial assets would be largely unchanged. The key areas of change would be for investments and equity instruments, and impairment losses.

Councillor Clark referred to future losses which would be charged to revenue each year and asked what the implications would be if losses were over-estimated. The Officer informed the Member that losses were estimates and any that were over-estimated would be reviewed in the following year's accounts. The new standard required the Council to be forward looking, as opposed to charges to revenue as losses were incurred.

Mr Robinson asked at what point classifications would be determined, and was informed that this would be completed before the end of year accounts were finalised, and on an asset by asset basis.

IFRS 16 introduced a new type of asset to be shown in the balance sheet – Right of Use Assets. These were assets that were owned by others and dedicated by them or the Council to provide services to the Council and only the Council, through a contract, and that were significant in value and lasted more than a year. Members were informed of action required for the new standard which included an exercise to identify Right of Use assets and make arrangements to manage and account for those assets going forward. The Council was in a good position as it already accounted in this way for vehicles, plant and equipment under finance leases and PFI.

In response to questions from Councillor Carr, Members were informed that there would be no impact upon the leases for the Council's vehicles as they were already accounted for as if they were finance leases. The waste management contract appeared to be a service and would only be brought under the new rules if there is an identifiable asset being used.

Following a query from Mr Rudd, the Officer advised that the new standard did not require previous year balances to be presented..

Following discussion it was **Resolved:**

That the information given be noted and the Committee be kept informed of developments.

5 Transformation Overview - Presentation from Head of Transformation

The Committee received a presentation from the Head of Transformation which gave an overview of the Council's Transformation Programme (for copy see file of Minutes).

The presentation highlighted the following:

- Programme Objectives
- Work to Date
- Inspiring Change Projects to date and coming up
- Inspiring People Projects to date and coming up
- Inspiring Places Projects to date and coming up.

In conclusion the Officer advised that an integrated programme of change was underway with a renewed focus on Organisational Development implemented through cultural change and learning and development, and investment in new digital systems, including an increase in services available on-line. A programme of reviews of business processes were in the pipeline and proposals for the modernisation of Council premises and the new headquarters were underway.

Mr Robinson stated that from the Committee's perspective it was very important that the Programme could quantify what it was trying to achieve. He asked if this was a value for money exercise and how its success would be measured. Mr Robinson also noted that efficiencies identified in local government reorganisation in 2009 were not materialised and hoped that the Council would not be in a similar position at the end of the Transformation Programme. The Head of Transformation responded that austerity had affected the Council's ability to realise those efficiencies; savings required through austerity had outweighed the savings identified in the unitary bid by 10 to 1. The Programme's primary aim was to provide the best possible service to residents with the resources available. Local government had been dealing with austerity since 2011 and there had been a shift in focus towards how the Council used its resources. Each project was examined against a benefits assessment, and a key measure of success would be the achievement of a reduction in expenditure without a detrimental impact on service delivery.

Councillor Temple expressed concern that there was no reference to Derwentside and Teesdale within the projects outlined in the presentation. The Member was informed that the presentation intended to provide an overview of the Programme and assured the Member that how services were provided in the localities was being explored.

Councillor Bell noted proposals for the investment in digital systems including increased on-line services, and was assured that residents would continue to be able to access services by other channels.

Resolved:

That the information given be noted.

6 External Audit Progress Report - November 2018 - Report of External Auditor

The Committee received a report from the External Auditor that gave an update on progress on the External Audit report for Durham County Council (for copy see file of Minutes).

Mr Collins of Mazars informed the Committee that planning of the 2018/19 audit had commenced and that the Audit Strategy Memorandum would be presented to the next meeting.

Members were informed that work on the Council's Housing Benefit Subsidy claim had now been completed and there were no issues to bring to the Committee's attention.

In terms of national publications Mr Collins referred the Committee to Mazars Annual Regulatory and Compliance Report 2017/2018.

Resolved:

That the contents of the report be noted.

7 Local Code of Corporate Governance - Report of Corporate Director of Resources

The Committee considered a report of the Corporate Director of Resources which asked the Committee to recommend to the Council the inclusion of the Local Code of Corporate Governance into the revised Constitution following an annual review (for copy see file of Minutes).

Resolved:

That the Council be recommended to include the Local Code of Corporate Governance into the revised Council Constitution.

8 Strategic Risk Management - Progress Report for the quarter ended 30 September 2018 - Report of the Corporate Director of Resources

The Committee considered a report of the Corporate Director of Resources which highlighted the strategic risks facing the Council and which gave an insight into the work carried out by the Corporate Risk Management Group between June and September 2018 (for copy see file of Minutes).

The Risk, Insurance and Governance Manager informed the Committee that there were 26 strategic risks and highlighted the key changes in the quarter. Members were informed of new risks, and in particular 2 new risks in Children and Young People's Services which related to the impact of the volatile and high-cost, demographic demands of looked after children, and secondly, the impact of increasing demand on the Dedicated Schools Grant budget for High Needs Block special educational needs services.

Mr Rudd referred to the risk 'major interruption to IT Service Delivery' and asked if the risk of cyber attack was taken into account. Members were informed that the risk schedule contained information about key risks, and the risk of cyber attack had been assessed as low because of the levels of controls in place. For information Members were informed that the electrical upgrade works would hopefully be completed the following week.

Councillor Robinson asked if work had been carried out to assess the risk of Brexit, particularly given the recent announcement regarding a proposed 'deal'. The Member was informed that this had been identified as an emerging risk and monitored at senior level but to date there had been no tangible proposals that could be risk managed. A Working Group had now been set up and the implications of Brexit would be included in future risk management reports to the Committee.

Resolved:

That the report provides assurance that strategic risks were being effectively managed within the risk management framework across the Council.

9 Internal Audit Progress Report for the quarter ended 30 September 2018 - Report of Chief Internal Auditor and Corporate Fraud Manager

The Committee considered the report of the Chief Internal Auditor and Corporate Fraud Manager which informed Members of the work that had been carried out by Internal Audit during the period 1 April 2018 to 30 September 2018 as part of the 2018/2019 Internal Audit Plan (for copy see file of Minutes).

The Audit and Fraud Manager highlighted progress against the Plan for each Service Grouping, and informed Members of the amendments to the Plan and the unplanned audit reviews in the quarter. The report also provided a summary of progress on actions due, implemented and overdue, and finalised audits that had been issued with a limited assurance opinion. The results of a customer satisfaction survey issued during the period up to 30 September 2018 were provided.

Resolved:

That

- (i) the amendments made to the 2018/2019 Annual Internal Audit Plan be noted;
- (ii) the work undertaken by Internal Audit during the period ending 30 September 2018 be noted;
- (iii) the performance of the Internal Audit Service during the period be noted;
- (iv) the progress made by service managers in responding to the work of Internal Audit be noted.

10 Exclusion of the Public

Resolved:

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 1 of Part 1 of Schedule 12A of the Act.

11 Internal Audit Progress Report for the quarter ended 30 September 2018 - Report of Chief Internal Auditor and Corporate Fraud Manager

The Committee considered the report of the Chief Internal Auditor and Corporate Fraud Manager which presented the appendices in the Internal Audit Progress Report referred to in Part A of the Agenda (for copy see file of Minutes).

Members were advised that there were 3 audits finalised in the quarter that had been issued with a limited assurance opinion.

The Committee received an update and assurance from the Procurement Manager on outstanding actions from a follow-up audit.

Resolved:

That the content of Appendices 6 and 7 be noted, and the actions taken in respect of the overdue areas, be agreed.

12 Protecting the Public Purse - Activity Update as at 30 September 2018 - Report of Chief Internal Auditor and Corporate Fraud Manger

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager that provided an update on the Council's counter fraud activity as at 30 September 2018 (for copy see file of Minutes).

Following a question, Members were advised that the value of individual insurance frauds had not been included in previous reports to the Committee, however the feasibility of providing this information at future meetings would be explored.

The Chairman advised that the Corporate Fraud Team had been put forward for a CIPFA award to reward their success. The Chairman conveyed the Committee's appreciation to the Team for the work they carried out.

Resolved:

That the recommendations contained within the report be approved.

Audit Committee

26 February 2019

Quarter 3 2018/19 Health, Safety and Wellbeing Performance Report



Report of Resources Health, Safety and Wellbeing Strategic Group (HSWSG)

Report of Kevin Lough, Occupational Health and Safety Manager, Resources.

Electoral division(s) affected:

All electoral divisions.

Purpose of the Report

1. To provide audit committee with an update on health, safety and wellbeing (HSW) performance for quarter three of 2018/19.

Executive summary

2. Health and Safety Executive inspectors visited a number of council construction sites throughout quarter three as part of their annual focus on risks in the construction sector. There were a range of outcomes to the visits including a notification of contravention at one of the sites visited.
3. A proactive pilot continues within Direct Services aimed at reducing risks from musculoskeletal disorders, improving employee health, wellbeing and attendance.
4. Statistical data (Appendix 2) for quarter three were positive in the main with eight RIDDOR reportable over 7 day absence related incidents and only one specified injury requiring RIDDOR reporting. There was however an increase in work related psychological ill health during quarter three with 48 incidents reported internally, compared to 22 the previous quarter.
5. There has again been good levels of assurance for fire safety with 21 proactive audits undertaken at risk based premises. There was only one fire related incident also which was minor and a result of arson in the outer area of a school.
6. Collaborative working with trade union safety representatives continues with six site inspections of REAL related activities. These were further supported by in excess of 220 proactive and reactive audits and inspections by the H&S across all service groupings.

7. Water safety related forums continued to convene and undertake a range of activities and initiatives, particularly throughout the festive period.
8. A range of employee support interventions, training and awareness were undertaken in relations to mental health and wellbeing. The council also achieved the better health at work silver award during quarter three.
9. In relation to violence and aggression, an audit of all CYPs one point hubs was completed in the quarter, following on from a similar exercise undertaken within customer access points earlier in 2018.

Recommendation(s)

10. That audit committee note the contents of the HSW performance for quarter three 2018/19.

Background

11. The HSWSG has been established to ensure that suitable priority is given to the management of HSW within the council. The group monitors the development, implementation and review of the Corporate H&S Policy to ensure that it is consistently applied throughout the council and that performance standards are achieved. Key reporting topics are detailed below.

Enforcement Body Interventions & Significant Incidents

12. The Health and Safety Executive (HSE) launch an annual 'construction blitz' inspection campaign whereby HSE inspectors visit construction and refurbishment projects across the County. HSE inspectors inspected works being undertaken by the council at Citizen's House, Consett on 9 October 2018. This resulted in a notification of contravention being issued. This related to Construction (Design and Management) Regulations and specifically in relation to poor housekeeping on site (access/egress routes not clear and site not in good order). Direct services facilities management responded to the HSE Inspector directly to resolve issues raised and all actions were immediately completed. No further action is required.
13. A further visit was made to Framwellgate Primary School on 11 October 2018 from the same HSE inspectors. Some issues were raised during the visit but to date there has been no further communication received.
14. The HSE also commenced their waste and recycling campaign at the beginning of October 2018 which was to last for three months. There have been no reported visits to DCC sites to date.

Fire Safety - Fire Audits (Internal)

15. There have been 21 internal fire safety audits completed during quarter three. These were undertaken at a range of Council premises including a range of school settings, leisure centres, adult respite home, pathways, locality offices and Aycliffe secure centre. As in previous audits a number of positive outcomes were evidenced as well as some opportunities to improve fire safety standards.

Fire Incidents

16. There has been one fire related incident at Council premises or staffed premises during quarter three. This was at Middleton in Teasdale Primary School. It was reported that during the evening 3 October 2018 some youths had set fire to the forest school fire pit and seating logs within the school grounds by throwing a tyre onto it. This produced vast quantities of smoke and nearby neighbours alerted the fire service who attended and extinguished the fire. There was no property damage to the school as the fire pit is situated well away from the building. The

police were called the next day who have visited the offending youth's addresses and spoken to them and their parents and warnings have been issued.

Fire Inspections – County Durham and Darlington Fire and Rescue Service

17. There was one CDDFRS inspection of Council premises during quarter three. This was at Aycliffe secure centre. The outcome of the inspection was that the premises were broadly compliant with current fire safety legislation.

Occupational Health Service

18. The Occupational Health Service (OHS) have now introduced an electronic records management software system and all future medical records will be held on this system. The OHS is also working with ICT on a project that involves managing legacy medical records within the department in preparation for any future accommodation relocation.
19. This software also facilitates an online referral process for managers which will be available from end February 2019. This is intended to improve efficiency within the OHS, streamline the process and allow managers to track referrals.
20. During quarter three, 215 employees participated in clinical consultations with the OHS, following management referral in relation to Long Term Sickness Absence (LTSA), Short Term Sickness Absence (STSA), Management Concerns (Man Con) Reviews, and Re referral appointments. A further 22 employees did not attend their allocated appointment following management referral. This represents a 9% non-attendance rate.
21. 88 employees were assessed in OHS for LTSA of which 19% (n17) stated to the OHS that they consider the underlying cause to be due to work related factors. Of the 17 employees, 82% identified this was due to 'psychological' reasons, 6% identified as 'musculoskeletal' and 12% (n2) were categorised as 'other'.
22. Routine physiotherapy clinics run one day per week in the OHS at County Hall under contract with the OHS. The current waiting time for an initial assessment is two working days.
23. A two-year pilot project has been commenced based on early intervention and aimed at improving musculoskeletal health and wellbeing whilst reducing associated sickness absence. The project includes primary, secondary and tertiary physiotherapist led interventions and includes:
 - Delivering awareness, education, advice and treatment to employees;
 - Developing and delivering group education sessions such as back care sessions;

- Carrying out job task analysis and risk assessments and ergonomic workplace assessments providing advice on engineering controls;
 - Direct manager referrals and provision of reports on fitness to work, workplace adjustments etc.
24. It was agreed that the intervention group should be a worker type whose job role was physically demanding and for this reason two sub groups within Direct Services were chosen: Refuse & Recycling (South and East) and Clean & Green (South). This also allowed comparative control groups to be considered for evaluation purposes. The intervention group will have access to the full range of services outlined above.
25. A total of 339 employees have been allocated into the intervention group and to date 32 employees have been referred. The primary physiotherapist has also visited many workplace sites.
26. All relevant line managers have been invited to MSD awareness sessions, of the 23 identified managers 20 have attended. An interim evaluation report was presented to the project group in February 2019.
27. A total of 193 employees attended OHS appointments for routine statutory health surveillance, 183 with an OHS nurse and 10 with the Senior Occupational Health Physician. 6% (n12) employees failed to attend their appointment with the OHS in relation to statutory health surveillance.
28. Following a review of the risk assessments in 2015, it was agreed that industrial noise statutory health surveillance was required for all Refuse and Recycling Operatives. This was predominately due to the noise levels when carrying out glass recycling collections. Initial, baseline assessments were completed across all identified operatives and it was agreed to repeat this at every three years. The OHS have now ran clinics at all of the relevant depots and have completed the second phase.

Health and Safety Team Audit, Inspection and Training statistics

29. During quarter three, the H&S team have undertaken a wide range of proactive and reactive activities across the Council as detailed in the table below.

Service Area	Accident Investigations	Proactive/planned Audits	Reactive Audits/Advice
TOTAL	29	147	76

30. There were also were six joint inspections undertaken with trade unions employee safety representatives within REAL. One inspection was within technical services and five within direct services. Remedial actions were identified, implemented and monitored and discussed at the direct and technical services health and safety forums.

Health, Safety and Wellbeing Training & Awareness

31. Various H&S training and awareness activities, some of which provided direct by the H&S team, have taken place across service groupings in quarter three.
32. These included a range of health awareness sessions associated with the Better Health at Work silver award, across a number of council sites covering cancer awareness, mental health, diet, nutrition and alcohol.
33. Further training was delivered specifically related to mental health and wellbeing for extended management team.
34. More widely, training and awareness was also provided via school risk register training, Fostering and adoption training, school governor H&S training, passport to work sessions for building and facilities management and for Clean and Green operatives.

Open Water Safety Review

35. During quarter three both water safety forums were convened as scheduled which focus on city centre and countywide open water safety related risks.
36. Via the City Safety Group, the national 'don't drink and drown' open water safety campaign which is promoted via the royal lifesaving society was launched in December 2018. A press release was issued from the Safe Durham Partnership and involved DCC, Fire and rescue Services and Pub Watch. North East Live and a range of other regional media sources attended the press call and the campaign social media posts alone were viewed in excess of 4,000 times on Facebook and twitter. The campaign messages were also provided to New College Durham and Durham Sixth Form Centre for use on their social media channels.
37. The city safety group also focused on the new Riverwalk development and looked at recommendations which had been previously provided from an independent RoSPA study of the design of the new development. The Riverwalk manager was invited to the City Safety Group meeting and updated the group on safety controls measures being put in place in relation to the development design. A further arrangement was made for City Safety Group members to take a tour of the development prior to the final opening to ensure that all safety concerns have been addressed relative to water safety and the river. A presentation was also provided

to Durham Parish Council in Quarter three on the progress, role and remit of the City Safety group by the Chair, Jane Robinson and Kevin Lough, Council Occupational Health and Safety Manager.

38. From a County wide perspective, planning for the delivery of the 'dying to be cool' water safety campaign, which includes delivery of assemblies to schools, continues. A number of monitoring assessments and new open water safety risk assessments were also undertaken across the county during the quarter, some of which were in response to concerns raised by elected members and the public. There were not any significant Incidents throughout the quarter three period which is positive to report.
39. Also during quarter three a multiagency meeting was convened at Bowlees visitor centre at Middleton Teesdale to discuss safety concerns raised by a number of partners in relation to access to Low force and misuse of the listed Wynch Bridge structure. The riparian landowners were present and agreed that information and awareness should be issued to recreational groups who use the river and in particular reminding them of the Low force river code of conduct. A letter was produced during the quarter and will be issued to all known recreational groups who use the river in Quarter four.

Employee Mental Health and Wellbeing

40. The council achieved the silver standard of the better health at work award in December 2018. There is understandably an increased level of evidence required for gold award status. In addition to those activities and interventions already evidenced in bronze and silver award submissions, a number of additional requirements are expected in order to achieve gold award status and these include:
 - A minimum three-year health strategy and one-year action plan to be in place for health improvement activities and task related health issues, which should be reviewed annually;
 - Undertake a further employee health and wellbeing survey;
 - Participation in a minimum of five local, regional or national health topics one of which should be ongoing throughout the year;
 - Promotion of health topics in the wider community and to families of the workforce. In addition DCC should share good practice and encourage other businesses to participate in the award;

- Environmental management systems to be in place, for example, recycling schemes in place, waste management, travelling plans, ethical purchasing and local suppliers;
41. Work has commenced in quarter four to prepare for gold award evidence submission and in particular the arrangements for the employee health and wellbeing survey which is anticipated to be launched in early 2019.
 42. During quarter three, the Director of Resources endorsed and confirmed the Council's commitment to improving mental health via an on line vlog which coincided with world mental health day on 10 October 2018. Also to coincide with world mental health day an information event was arranged in county hall for employees, members and visitors.
 43. A range of mental health awareness training was also delivered throughout quarter 3 and this included corporate and extended management team members. It is envisaged that this training will continue throughout 2019 and be provided to all managers in order to improve response and awareness, reduce stigma and assist managers in supporting employees.
 44. Mental health first aid at work training was also delivered throughout quarter three and a total 32 employees from various work locations attended this training. This two day course enables attendees to become mental health first aiders and improve levels of early intervention. This will equip a range of employees with the skills and awareness to support employees and signpost to professional services and support if appropriate. This training will continue throughout 2019 with a view to achieving a good level of provision of mental health first aiders similar in numbers to standard first aid trained employees.

Flu Immunisation Programme

45. The council has proceeded with a flu immunisation programme in 2018. Eligible employees were defined as those who routinely provide up close and personal care to clients who are at risk of the complications of flu. Therefore the following staff were offered a vaccination:
 - Adult and Health Services Durham County Care and Support;
 - Eligible staff in the day care centres for adults with learning disabilities and complex needs;
 - Extra care homes and sheltered housing sites; and Hawthorne House. Shared lives providers;

- Children and Young People's Eligible staff in the Council day care centres, children's homes, and the Aycliffe Young People's Centre;
 - SEND learning support officers and the foster carers;
 - Care Connect telecare responder staff.
46. Two routes of vaccination were used which included onsite flu vaccinations which were provided by Occupational Health over a three week period in October. Alternatively flu vouchers where staff were either unable to attend an onsite clinic or weren't located at a staff base, a back-up voucher for a free flu vaccination at a Boots pharmacy was provided. These vouchers expired at the end of December and the number of vouchers that have been used for a vaccination will be made available in February 2019.
47. Overall results to date is that in total 127 staff members were vaccinated at the onsite clinics, and 177 vouchers were distributed. Next steps Public Health are now in the process of evaluating this programme and its effectiveness in accordance with national institute for health and care excellence guidance.

Violence and Aggression – Potentially Violent Persons Register (PVPR)

48. At the close of quarter 3 2018/19, there were 97 live entries on the PVPR register.
49. Breakdown by service of PVPR views in the last quarter is as follows:
- TAP- 4 employees viewed it 4 times
 - CYPS- 73 employees viewed it 91 times
 - AHS- 49 employees viewed it 62 times
 - ReAL- 181 employees viewed it 561 times
 - RES- 95 employees viewed it 394 times
 - Members - 5 viewed it 5 times
50. Following a request at the quarter two HSWSG, violence and aggression related audits of CYPS one point hubs was completed in quarter three. A range of findings and recommendations were produced and detailed in a report which is scheduled to be presented to CYPS H&S forum in February 2019.
51. The 'respect your workforce' violence and aggression related campaign which was launched in direct services refuse and recycling services continued to be publicised throughout quarter three. Following good coverage in the media and via the council's social media feeds, indications are that this campaign has proven popular with the public and has assisted in raising awareness and protecting operational employees.

Corporate risks that may have an impact on Health and Safety as at 15/1/2019

52. This is the current list, there were no changes during the last period.

Ref	Service	Risk	Treatment
1	CYPS	0227 - Failure to protect child from death or serious harm (where service failure is a factor or issue)	Treat
2	AHS	R0562 - A service failure of Adult Safeguarding leads to death or serious harm to a service user.	Treat
3	T&P	R0565 - Breach of duty under Civil Contingencies Act by failing to prepare for, respond to and recover from a major incident, leading to a civil emergency.	Existing controls considered adequate
4	REAL	R0490 - Serious injury or loss of life due to Safeguarding failure (Transport Service)	Existing controls considered adequate
5	RES	R0611 - Serious breach of Health and Safety Legislation	Existing controls considered adequate

Statistical Information

53. The H&S team in conjunction with service H&S providers continue to record, monitor and review work related accidents, incidents and ill health. This data is captured through internal reporting procedures and the Corporate H&S Accident Recording Database (HASARD). Appendix two provides full statistical data for quarter three 2018/19.

Main implications

Legal

54. Compliance with statutory legislative requirements reduce risks of enforcement action and/or prosecution against the council or individuals. It will also assist in

defending civil claims against the council from employees and members of the public, including service users.

Finance

55. Compliance with legislative requirements will reduce increased service delivery costs, financial penalties associated with H&S sentencing guidelines 2016 and successful civil claims against the council. Financial costs may be insured to some degree and uninsured in some cases, with poor outcomes possibly leading to increased insurance premiums. Financial implications also include staff absence associated with physical and mental ill health, staff training, retention, recruitment and productivity.

Staffing

56. In relation to impact on staffing due to employee absence from injury or ill health, attendance management, employee complaints and grievances, recruitment, selection and retention of employees.

Conclusion

57. The quarter three HSWSG report highlights some key proactive activities being undertaken, particularly in relation to key risk areas such as employee's mental health and wellbeing, water safety and violence and aggression.
58. Ongoing focus and priority on key risk locations and work activities, supported by audit and inspections by the H&S team and service managers, will enable early identification and control of risk.
59. Enforcement body scrutiny via HSE inspectors has provided additional assurance, following inspections of construction related activities and associated health related risks. Whilst there has been some areas for improvement as expected, there were no significant issues identified.

Other useful documents

60. Health, Safety and Wellbeing Strategic Group report quarter three 2018/19.
61. Health, Safety and Wellbeing statistical report quarter three 2018/19
62. Occupational Health Service quarter three report 2018/19

Appendix 1: Implications

Legal Implications - Failure to comply with statutory legislative requirements may result in enforcement action and/or prosecution against the council or individuals. There are risks from civil claims against the council from employees and members of the public, including service users.

Finance – Failure to comply with statutory legislative requirements may result in enforcement action, including prosecution against the council or individuals. These enforcement actions may result in increased service delivery costs, financial penalties associated with H&S sentencing guidelines 2016 and successful civil claims against the council. Financial costs may be insured to some degree and uninsured in some cases, with poor outcomes possibly leading to increased insurance premiums.

Consultation - Service Grouping strategic managers and operational management staff have been consulted in the preparation of this report.

Equality and Diversity / Public Sector Equality Duty - Equality Act compliance ensures consistency in what the council and its employees need to do to make their workplaces a fair environment and workplace reasonable adjustments are required.

Human Rights - The right to a safe work environment, enshrined in Article 7 of the International Covenant on Economic, Social and Cultural Rights, links with numerous human rights, including the right to physical and mental health and well-being and the right to life.

Crime and Disorder – If risks are not managed appropriately then there is a potential impact on increased crime and disorder in some communities where children are homed. This may lead to criminal charges being pursued by the police and CPS.

Staffing – Potential impact on staffing levels due to injury and ill health related absence, staff retention and replacement staff.

Accommodation – The report references H&S related risks associated with workplaces some of which may have impact on accommodation design and provision of safety systems and features.

Risk – This report considers physical and psychological risks to employees, service users and members of the public. Risks also relate to the failure to comply with statutory legislative requirements, which may result in civil action being brought against the council and enforcement action, including prosecution against the council or individuals. These enforcement actions may result in financial penalties, loss of reputation and reduction in business continuity.

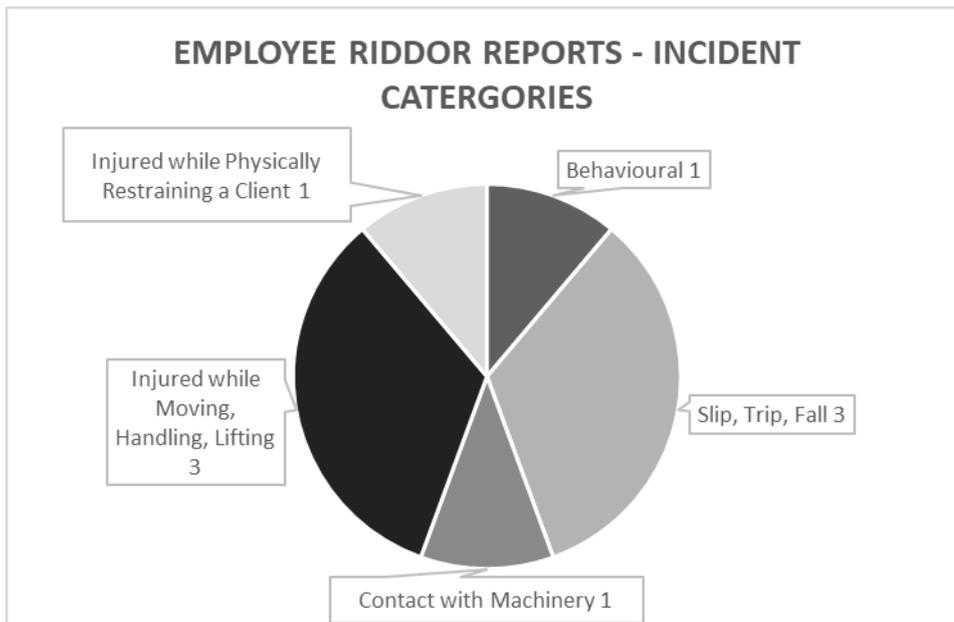
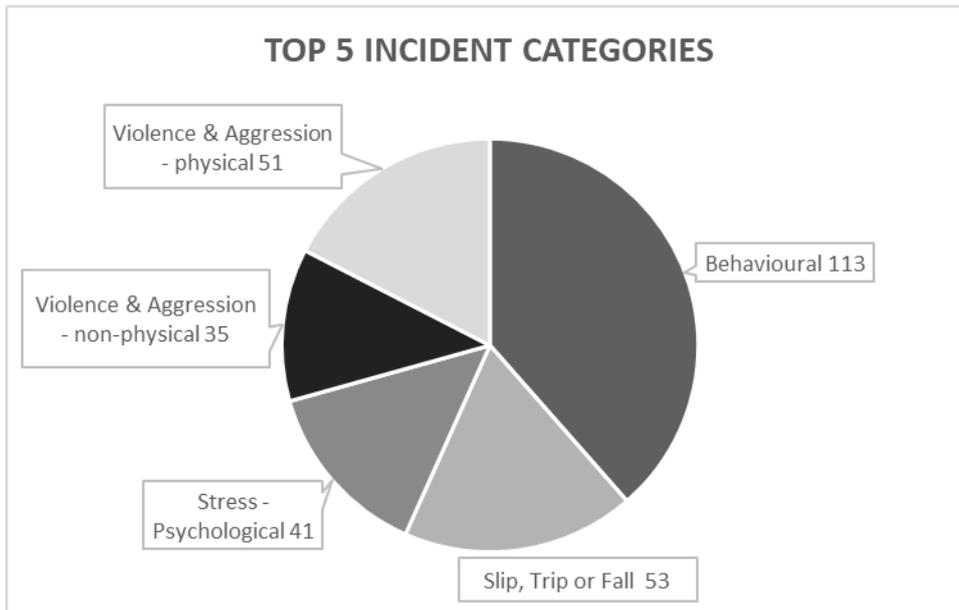
Procurement – None

Appendix 2- Work-Related Accidents to Employees

Section 1, Table 1 – shows accidents/incidents to employees by severity for the 3-year reporting period.

Section 1, Table 1 Accidents / Incidents to Employees - Severity								
Note: Figures are for all four quarters of 2016/17 and 2017/18, and quarters 1-3 of 2018/19					HSE RIDDOR Reportable			Total
Service	Year	Minor Injury	No Injury	Injury with 7 day or less absence	Over 7 Day injury	Specified Injury	Sub-Total RIDDOR Reportable	Total
Transformation and Partnerships	2016/17	0	1	1	0	0	(0)	2
	2017/18	2	1	0	0	0	(0)	3
	2018/19 Q1-3	3	1	0	0	0	(0)	4
Children and Young People's Services	2016/17	679	131	18	24	11	(35)	863
	2017/18	719	97	13	13	7	(20)	849
	2018/19 Q1-3	492	89	7	12	3	(15)	603
Adult and Health Services	2016/17	92	77	1	5	1	(6)	176
	2017/18	146	54	1	3	1	(4)	205
	2018/19 Q1-3	73	24	1	3	0	(3)	101
Regeneration and Local Services	2016/17	191	146	17	20	4	(24)	378
	2017/18	152	131	20	16	2	(18)	321
	2018/19 Q1-3	117	119	9	19	1	(20)	265
Resources	2016/17	11	25	3	2	0	(2)	41
	2017/18	15	19	0	0	0	(0)	34
	2018/19 Q1-3	6	29	0	0	0	(0)	35
Totals	2016/17	973	380	40	51	16	(67)	1460
	2017/18	1034	302	34	32	10	(42)	1412
	2018/19 Q1-3	691	262	17	34	4	(38)	1008

Top 5 categories of work related accidents/ incidents for Quarter 3 2018/19.



This page is intentionally left blank

Audit Committee

26 February 2019

**Changes to the Code of Practice for
Local Authority Accounting in the UK
for 2018/19**



John Hewitt, Corporate Director of Resources

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 The purpose of the report is to provide the Audit Committee with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code). These changes apply to the 2018/19 accounts.

Executive summary

- 2 In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK, which is based upon approved accounting standards.
- 3 The 2018/19 Statement of Accounts will be prepared in accordance with the CIPFA Code of Practice for Local Authority Accounting in the UK 2018/19. The main changes to the Code from 2017/18 to 2018/19 are outlined in Appendix 2. The two key changes are as follows:
 - (a) Adoption of IFRS 15 Revenue from Contracts with Customers – this International Financial Reporting Standard has been introduced to ensure that income is accounted for in the year in which the product / service has been provided. The impact is not anticipated to have a material impact upon our accounts.

- (b) Adoption of IFRS 9 Financial Instruments – this standard introduces changes to the way in which we classify financial instruments. It will mainly impact upon how we account for our equity holdings and for impairment.

Recommendation

- 4 Members are asked to note the changes detailed in Appendix 2.

Background

- 5 The report is presented in accordance with paragraph 4.2.3 of the Committee's operational terms of reference which requires it 'to maintain an understanding of internal and external reporting requirements'.
- 6 The Code is based on International Financial Reporting Standards (IFRS) and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.
- 7 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2018. It supersedes the 2017/18 Code.
- 8 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.
- 9 The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances.

Main implications

- 10 Appendix 2 provides a summary of the changes and their relevance to the council. The two key changes are as follows:
 - (a) Adoption of IFRS 15 Revenue from Contracts with Customers – this International Financial Reporting Standard has been introduced to ensure that income is accounted for in the year in which the product / service has been provided. The standard is more relevant to the private sector. The impact is not anticipated to have a material impact upon our accounts as we account for income and expenditure on an accruals basis. However we are in the process of reviewing the council's income from contracts in order to comply with this revised standard.

- (b) Adoption of IFRS 9 Financial Instruments – this standard introduces changes to the way in which we classify financial instruments. It will mainly impact upon how we account for our equity holdings and for impairment. Work is ongoing to determine the classification of individual financial instruments.

Other useful documents

- Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (CIPFA 2018)
- Audit Committee, 31 July 2018 – Statement of Accounts for the Year Ended 31 March 2018

Contact:	Anita Hawkins	Tel: 03000 266242
	Beverley White	Tel: 03000 261900

Appendix 1: Implications

Legal Implications

It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

Finance

There are no direct financial implications arising for the council as a result of this report, although by implementing the changes in the Code in our financial reporting we are demonstrating efficient arrangements for the proper administration of the council's financial affairs.

Consultation

None.

Equality and Diversity / Public Sector Equality Duty

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

This report requires no decision and so a risk assessment has not been carried out.

Procurement

None.

Appendix 2: Changes to the Code of Practice for Local Authority Accounting in the UK for 2018/19

The table below provides a summary of the changes in the 2018/19 CIPFA Code and their applicability to Durham County Council.

	Change	Relevant to Durham County Council
1	Additional guidance on the principles of revenue recognition in section 2.1 (Concepts)	Yes
2	<p>A completely revised section 2.7 (Revenue from Contracts with Service Recipients) following the adoption of IFRS 15 Revenue from Contracts with Customers. There are also consequential amendments to sections:</p> <ul style="list-style-type: none"> – 5.1 (Inventories), to reflect the changes to the measurement of work in progress – 5.2 (Work in Progress (Construction Contracts)) has been withdrawn as a result of the withdrawal of IAS 11 Construction Contracts – 5.2 (Debtors), to reflect the new definition of income, and – 8.1 (Creditors), again to reflect the new definition of income as a result of the adoption of IFRS 15. 	Yes

	Change	Relevant to Durham County Council
3	Amendments to section 3.4 (Presentation of Financial Statements) to reflect the disclosure requirements under IAS 7 Statement of Cash Flows (Disclosure Initiative)	Yes
4	An augmented section 3.4 to clarify the reporting requirements for debtors and creditors following removal of the disclosure requirements for the analysis of debtors and creditors across public sector organisations	Yes
5	Amendments to section 3.4 to clarify the segmental reporting arrangements under the Code	Yes
6	Amendments to section 4.1 (Property, Plant and Equipment) to reflect changes as a result of The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017	No – this relates to housing
7	Amendments to the new section 5.2 of the Code to introduce the incurred loss model for the impairment of non-contractual debts including relevant disclosure requirements as a consequence of the expected credit loss model for impairment being introduced by the adoption of IFRS 9	Yes
8	Amendments to section 5.2 (Debtors) to remove the requirement to disclose the analysis of debtors across public sector bodies	Yes
9	A fully revised chapter seven (Financial Instruments) to reflect the Code's adoption of IFRS 9 Financial Instruments. There have also been consequential amendments to section 3.4 to reflect the amendments to the Comprehensive Income and Expenditure Statement as a result of the adoption of the standard	Yes

	Change	Relevant to Durham County Council
10	Amendments to section 8.1 (Creditors) to remove the requirement to disclose the analysis of creditors across public sector bodies	Yes

Audit Committee

26 February 2019

**Agreement of Accounting Policies for
Application in the 2018/19 Financial
Statements**



John Hewitt, Corporate Director of Resources

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To update the Audit Committee on the County Council's accounting policies to be applied in the preparation of the 2018/19 Statement of Accounts and to seek confirmation from the Audit Committee that appropriate policies are being applied.

Executive summary

- 2 The majority of accounting policies which were agreed by the Audit Committee at its meeting in February 2018 and applied in the preparation of the 2017/18 Statement of Accounts remain appropriate for the preparation of 2018/19 Statement of Accounts.
- 3 However, in order to comply with CIPFA Code of Practice for Local Authority Accounting in the UK (the Code) 2018/19, two accounting policies require updating this year; paragraph 11 provides details of those policies which need amending.
- 4 The full list of accounting policies the council proposes to disclose in its Statement of Accounts notes are detailed in Appendix 2.

Recommendation

- 5 The Committee is recommended to:
 - (a) review the accounting policies;
 - (b) approve their use in the preparation of the 2018/19 financial statements;

- (c) authorise the Corporate Director of Resources to review the accounting policies as necessary, and report changes to the Audit Committee.

Background

- 6 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
- 7 Accounting policies are defined in the Code as “the specific principles bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements”.
- 8 Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as it applies to omissions and misstatements:
- Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.*
- 9 Appendix 2 provides a summary of all changes to be applied in preparing the 2018/19 Statement of Accounts.
- 10 Objective 2 of the Audit Committee’s Terms of Reference requires it to provide ‘Independent assurance over the financial reporting of the Council’s Statement of Accounts ensuring that any issues arising from the process of drawing up, auditing and certifying the Council’s annual accounts are dealt with properly to maintain an understanding of accounting policies and internal and external reporting requirements’.

Main implications

New and Amended Accounting Policies

- 11 The proposed accounting policies are in line with those used in the preparation of the 2017/18 accounts, with the exception of:
- (a) 1.2. Accruals of Income and Expenditure – amended due to the adoption of IFRS 15 Revenues from Contracts with Customers, as identified in the Changes to the Code of Practice for Local Authority Accounting in the UK for 2018/19 report.
 - (b) 1.10. Financial Instruments – amended due to the adoption of IFRS 9 Financial Instruments, as identified in the Changes to the Code of Practice for Local Authority Accounting in the UK for 2018/19 report. Work is ongoing to determine the classification of individual financial instruments.

- 12 Minor changes have been made to the wording of some policies, to improve understanding.
- 13 There are no new accounting policies.
- 14 The full list of accounting policies the council proposes to disclose in its Statement of Accounts notes are detailed in Appendix 2.

Other useful documents

- Audit Committee 13 March 2018 - Agreement of Accounting Policies for Application in the 2017/18 Financial Statements
- Audit Committee 31 July 2018 – Statement of Accounts for the Year Ended 31 March 2018

Contact:	Anita Hawkins	Tel: 03000 266242
	Beverley White	Tel: 03000 261900

Appendix 1: Implications

Legal Implications

It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

Finance

The report considers the Accounting Policies for the County Council's Statement of Accounts for 2018/19.

Consultation

None.

Equality and Diversity / Public Sector Equality Duty

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

None.

Procurement

None.

Appendix 2: Accounting Policies 2018/19

Accounting Policy	New policy	Amended policy	No change	In line with Code
1.1. General Principles			✓	✓
1.2. Accruals of Income and Expenditure		✓		✓
1.3. Business Improvement District Schemes			✓	✓
1.4. Cash and Cash Equivalents			✓	✓
1.5. Exceptional Items			✓	✓
1.6. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors			✓	✓
1.7. Charges to Revenue for Non-Current Assets			✓	✓
1.8. Employee Benefits			✓	✓
1.9. Events After the Reporting Period			✓	✓
1.10. Financial Instruments		✓		✓
1.11. Foreign Currency Translation			✓	✓
1.12. Government Grants and Contributions			✓	✓
1.13. Heritage Assets			✓	✓
1.14. Intangible Assets			✓	✓

Accounting Policy	New policy	Amended policy	No change	In line with Code
1.15. Interests in Companies and Other Entities			✓	✓
1.16. Inventories and Long Term Contracts			✓	✓
1.17. Investment Property			✓	✓
1.18. Joint Operations			✓	✓
1.19. Leases			✓	✓
1.20. Overheads and Support Services			✓	✓
1.21. Property, Plant and Equipment			✓	✓
1.22. Service Concession Arrangements (Private Finance Initiative (PFI) and Similar Contracts)			✓	✓
1.23. Provisions			✓	✓
1.24. Carbon Reduction Commitment Allowances			✓	✓
1.25. Contingent Liabilities			✓	✓
1.26. Contingent Assets			✓	✓
1.27. Reserves			✓	✓
1.28. Revenue Expenditure Funded from Capital under Statute (REFCUS)			✓	✓
1.29. Value Added Tax (VAT)			✓	✓
1.30. Schools			✓	✓
1.31. Collection Fund Statement			✓	✓

Accounting Policies

1.1. General Principles

The Statement of Accounts summarises the council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The council is required by the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts. In line with the Regulations, the Statement of Accounts is prepared in accordance with proper accounting practices.

Those practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and the Service Reporting Code of Practice 2018/19 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Code requires that a local authority's Statement of Accounts is prepared on a 'going concern' basis, that is, the accounts are based on the assumption that the council will continue in operational existence for the foreseeable future.

1.2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £10,000, other than in exceptional circumstances.

1.3. Business Improvement District Schemes

A Business Improvement District (BID) scheme applies across Durham City centre. The scheme is funded by a BID levy paid by city centre non-domestic ratepayers. The council acts as the billing authority for the scheme (collecting and distributing the levy income). The BID levy income is revenue due to The Durham BID Company Limited (the BID body) and as such the council has nothing to show in its Comprehensive Income and Expenditure Statement, since it is collecting the BID levy income as an agent on behalf of the BID body.

1.4. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

1.5. Exceptional Items

When exceptional items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the Notes to the Accounts, depending on how significant the items are to an understanding of the council's financial performance.

1.6. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.7. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance. This annual contribution is known as the Minimum Revenue Provision.

Therefore, so Council Tax funds only what is required the charges to the accounts (Depreciation, revaluation and impairment losses and amortisations) are replaced by the Minimum Revenue Provision), with the difference being transferred to the Capital Adjustment Account in the balance sheet.

1.8. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. These are recognised as an expense for services in the year in which employees render service to the council.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. These benefits are charged on an accruals basis to the Comprehensive Income and Expenditure Statement at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits. These are replaced with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end.

Post-Employment Benefits

Employees of the council are members of three separate pension schemes:

- The Local Government Pension Scheme, administered by Durham County Council.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by the NHS Business Services Authority.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council. However, the arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

The Children and Young People's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Adult and Health Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension scheme in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Durham County Council Pension Fund attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate provided by the actuary.

- The assets of Durham County Council Pension Fund attributable to the council are included in the Balance Sheet at their fair value:
 1. Quoted securities – current bid price.
 2. Unquoted securities – professional estimate.
 3. Unitised securities – current bid price.
 4. Property – market value

The change in the net pensions liability is analysed into the following components:

- Service cost, comprising:
 - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.
 - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
 - Gains or losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.

- Remeasurements, comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - Contributions paid to the Durham County Council Pension Fund – cash paid as employer’s contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.9. Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.10. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified using an approach that is based on the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The council's business model for most of its investments is to hold them to collect contractual cash flows. Financial assets are therefore classified as amortised cost. There are some exceptions, where the council holds strategic investments to help it meet other policy objectives, such as the support of economic development in the county. This means that some investments are ones where contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The council has not given any loans to external or voluntary organisations, nor provided guarantees against loans they have received from financial institutions. However, the council does have deferred payment policies where individuals are allowed to defer payment against an invoice raised by the council, for example where the council holds a legal charge against a property that enable sums to be reimbursed from sale proceeds at a later date. These are similar to loans at less than market rates and are referred to as soft loans. If any the lost interest against the soft loan was significant then adjustments

would be made to the relevant service revenue account and Balance Sheet. However the impact on the council's revenue account of soft loans and lost interest is not financially significant and the accounts have not been adjusted to reflect these requirements.

Expected Credit Loss Model

The council recognises expected credit losses on all of its financial assets held at amortised cost or FVOCI, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

An equity instrument can be elected into a FVOCI treatment rather than a FVPL treatment if it is not held for trading. The council has reviewed its assets that would be measured at FVPL on the basis of the business model and has elected to classify instruments as either FVPL or FVOCI on an instrument-by-instrument basis based on the assessed benefit to the council from the chosen classification.

1.11. Foreign Currency Translation

Where the council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.12. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the council when there is reasonable assurance that:

- the council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific

Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.13. Heritage Assets

Tangible and Intangible Heritage Assets

A tangible heritage asset is defined as a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

An intangible heritage asset is defined as an intangible asset with cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events. At present, the council has no assets of this nature to be recognised in the Balance Sheet.

A key feature of heritage assets is that they have cultural, environmental or historical associations that make their preservation for future generations important. Heritage assets are maintained principally for their contribution to knowledge and culture. Where an asset meets the definition of a heritage asset but is used for operational purposes, it is not classified as a heritage asset. For example, a historic building used as a museum is classified within land and buildings, as this is its primary purpose, but the exhibits within it may be classified as heritage assets.

Recognition and measurement

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets and the council's approach is as follows:

- Heritage assets' valuations are based on insurance values, where available, as this is the most appropriate and relevant basis. In some cases, these values are supported by professional valuations, for example by auction houses.
- Insurance values are reviewed regularly and assets will be revalued where a change is deemed to be significant.
- In the absence of insurance values, for example where an asset is either not insured or is self-insured, the asset's most recent valuation before reclassification is used. This is usually historic cost but some buildings and monuments were measured on an Existing Use Value (EUV) basis prior to reclassification.
- Where no appropriate valuation, or cost information is available, heritage assets are not recognised on the Balance Sheet, however they are disclosed in the narrative notes to the financial statements.

Items are recognised on the balance sheet where they are held by the council on long-term loan or where the council has the risks and rewards of ownership, as evidenced by the need to insure them. Similarly, items that the council has lent out long-term are not recognised. Items held on short-term loan, for example for temporary exhibitions, are not recognised.

The council is custodian or guardian of a number of monuments or sites. These are considered to be heritage assets; however they do not usually have any appropriate valuation so they are not recognised on the Balance Sheet.

The council's collections of heritage assets are accounted for as follows:

Museum Collections and Artefacts

This includes museum exhibits and items such as books of remembrance and miners' banners. Some items in this collection are reported in the Balance Sheet at insurance value, others at the amount at which they have been valued by professional valuers.

Artwork, including Public Art and Sculptures

This includes paintings, sculptures and outdoor public art installations around the county. Some items in this collection are reported at insurance value, others at cost and some at the amount at which they have been valued by professional valuers. There are a number for which no value is available so they are not reported on the Balance Sheet.

The distinction between sculptures, monuments and statues can be subjective. However for the purposes of classification, the council has determined that sculptures are generally modern, commissioned pieces of art, monuments can be modern or historic and are usually dedicated to people or events and statues are usually historical structures. Monuments and statues are included under the heading “Monuments, Statues and Historic Buildings” below.

Monuments, Statues and Historic Buildings

This includes war and colliery memorials, statues and non-operational historic buildings around the county. Some items in this collection are reported at insurance value, some at existing use value and some at cost. There are a number for which no value is available and they are not reported on the balance sheet.

Civic Regalia and Silverware

This includes civic chains, badges of office and silverware used for civic purposes, and are recorded at insurance value, or the amount at which they have been valued by professional valuers.

Geophysical / Archaeological

This includes pit wheel sites and Roman archaeological sites. No appropriate or relevant valuations are available for these assets so they are not recognised on the Balance Sheet.

Depreciation

Depreciation is not charged on heritage assets which have indefinite lives.

Impairment

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the council’s general policies on impairment.

Disposal

Heritage assets are rarely disposed of. However, in such cases, disposal proceeds are accounted for in accordance with the council’s general

provisions relating to the disposal of property, plant and equipment. Proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

If you would like more information about Durham County Council's heritage assets, contact details can be found on the front page of this document.

1.14. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the council can be determined by reference to an active market. In practice, no intangible asset held by the council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

1.15. Interests in Companies and Other Entities

The Code requires local authorities to produce group accounts to reflect significant activities provided to Council Tax payers by other organisations in which an authority has an interest. The council has reviewed its interests in companies and other entities that have the nature of subsidiaries, associates and joint arrangements against the criteria for group accounts, as set out in the Code, and has concluded that there are no such material interests that require the preparation of group accounts. In the council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

1.16. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

1.17. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

1.18. Joint Operations

Joint operations are arrangements where contractual agreements are in place under which the council and one or more other parties share control. The joint venturers have rights to assets and obligations in relation to liabilities. The council accounts only for its share of the assets, liabilities, revenue and expenses of the arrangement.

1.19. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The County Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. This annual contribution is known as the Minimum Revenue Provision. Therefore, so Council Tax funds only what is required the charges to the accounts (Depreciation, revaluation and impairment losses and amortisations) are replaced by the Minimum Revenue Provision), with the difference being transferred to the Capital Adjustment Account in the balance sheet. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Where there is a material cost or benefit at the start or end of the lease (e.g. a rent free period at the start of the lease) then charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

The County Council as Lessor

Finance Leases

Where the council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the

asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

Operating Leases

Where the council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Where there is a material cost in addition

to the regular payments (e.g. there is a premium paid at the commencement of the lease or there are costs of negotiating and arranging the lease), then credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

1.20. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2018/19 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of Corporate Costs. These are costs relating to the council's status as a multifunctional, democratic organisation, the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

1.21. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the council.

Donated assets are measured initially at current value. The difference between current value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

For non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

All valuations have been undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). The effective date for valuations is 1 April of the financial year and assets are revalued on a five-year rolling programme. All valuations undertaken in 2018/19 were carried out by council staff. In addition to this rolling programme, assets which have been subject to potentially material change as a result of transactions in any given year will be revalued as and when such changes occur.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired or revalued. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment or revaluation loss is recognised for the shortfall.

Where impairment or revaluation losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment or revaluation loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer up to a maximum of 50 years.
- Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer, mainly up to a maximum of 10 years, however, some specialised items are depreciated over up to 25 years.
- Infrastructure – straight-line allocation over 40 years.
- Surplus Assets – Buildings up to 50 years, Land not depreciated

Where an item of Property, Plant and Equipment has a value greater than £5m and major components greater than 20% of the value of the asset, the components are depreciated separately at rates representative of their useful life.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to Non-current Assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Assets Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is

payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current Assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

1.22. Service Concession Arrangements (Private Finance Initiative (PFI) and Similar Contracts)

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current Assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council. The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge of 10.15% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment

Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Payment towards liability – applied to write down the Balance Sheet liability (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

1.23. Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For example, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the council settles the obligation.

1.24. Carbon Reduction Commitment Allowances

The council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its second phase, which ends on 31 March 2019. The council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the

basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the council is recognised and reported in the costs of the council's services and is apportioned to services on the basis of energy consumption.

1.25. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.26. Contingent Assets

A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.27. Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund

balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the council - these reserves are explained in the relevant policies.

1.28. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

1.29. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income.

1.30. Schools

In line with accounting standards on group accounts and consolidation, all maintained schools in the County are now considered to be entities controlled by the council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the council's single entity accounts. The council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation/Foundation Trust

Schools Non-Current Assets are recognised on the Balance Sheet where the council directly owns the assets, where the council holds the balance of

control of the assets or where the school or the school Governing Body own the assets or have had rights to use the assets transferred to them.

Community schools are owned by the council and are, therefore, recognised on the Balance Sheet.

The council's Voluntary Aided and Controlled schools are owned by the respective Diocese with no formal rights to use the assets through licence arrangements passed to the School or Governing Bodies and as a result these schools are not recognised on the Balance Sheet.

The ownership of the council's Foundation Schools is with the school or the schools' Governing Body and as a result the school is recognised on the council's Balance Sheet.

1.31. Collection Fund Statement

Council Tax Income

Council Tax income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. The difference between the accrued income for the year and the amount required by regulation to be credited to the General Fund will be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund balance Movement in Reserves Statement. Any balances owed to or from each preceptor will be shown as a creditor or debtor in the council's accounts.

Business Rates Income

Business Rates income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. The difference between the accrued income for the year and the amount required by regulation to be credited to the General Fund will be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund balance Movement in Reserves Statement. Any balances owed to or from each preceptor or central government will be shown as a creditor or debtor in the council's accounts.

Audit Committee

26 February 2019

**Final Accounts Timetable for the year
ended 31 March 2019**



John Hewitt, Corporate Director of Resources

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 The purpose of the report is to provide Members with information regarding the Final Accounts timetable for 2018/19. This timetable details the target dates for key actions in order to complete the Statement of Accounts in line with statutory deadlines.

Executive summary

- 2 It is the responsibility of the Director of Corporate Resources to sign and certify the unaudited Statement of Accounts 2018/19 by no later than 31 May 2019. It is the responsibility of the Audit Committee to approve the final, or audited, set of accounts on or before 31 July 2019.
- 3 The final accounts timetable is the means of communicating and gaining ownership of the deadlines for completing tasks by all involved in the closure of accounts process and serves as a tool for monitoring progress against those target dates.

Recommendation

- 4 Members are asked to note the key dates in the Final Accounts timetable for 2018/19 detailed in Appendix 2.

Background

- 5 The report is presented in accordance with paragraph 4.2.3 of the Committee's operational terms of reference which requires it 'to maintain an understanding of internal and external reporting requirements'.
- 6 The Accounts and Audit Regulations 2015 require that the responsible financial officer, by no later than 31 May, signs and certifies that the Statement of Accounts presents a true and fair view of the financial position of the County Council for the year to 31 March previous, subject to the views of the External Auditor.
- 7 The Regulations then require that on or before 31 July, approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take into account the views of the External Auditor.

Main implications

- 8 The Final Accounts timetable is a tool for the effective management and monitoring of the process of closing the accounts.
- 9 Each year the timetable is compiled in Strategic Finance with input from services to ensure that deadlines are achievable and will lead to completion of a Statement of Accounts for signing by the Section 151 Officer (the responsible financial officer) by the statutory deadline. New and amended processes are considered for the impact on the achievement of dates, as well as reference to the previous year's problems and meeting of deadlines.
- 10 Strategic Finance closely monitors the achievement of the dates in the timetable throughout the final accounts period, sending prompts for upcoming deadlines and following up delays and missed deadlines. This helps to ensure that the overall timetable will be achieved, and to identify improvements that can be made to the next year end process.
- 11 Meetings are also held to ensure that practitioners apply accounting procedures consistently; best practice is shared; there is a shared understanding of any difficulties or delays being encountered, and to disseminate updated information quickly and consistently.
- 12 The key dates included in the detailed Final Accounts timetable are attached at Appendix 2 for your information.

Other useful documents

- Audit Committee 31 July 2018 – Statement of Accounts for the Year Ended 31 March 2018

Contact:	Anita Hawkins	Tel: 03000 266242
	Beverley White	Tel: 03000 261900

Appendix 1: Implications

Legal Implications

The Accounts and Audit Regulations 2015 require that the responsible financial officer, by no later than 31 May, signs and certifies that the Statement of Accounts presents a true and fair view of the financial position of the County Council for the year to 31 March previous, subject to the views of the External Auditor.

Finance

There are no direct financial implications arising for the council as a result of this report, although by implementing the timetable, we are demonstrating efficient arrangements for the proper administration of the County Council's financial affairs and will meet the statutory deadline for the production of the Statement of Accounts.

Consultation

None.

Equality and Diversity / Public Sector Equality Duty

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

This report requires no decision and so a risk assessment has not been carried out.

Procurement

None.

Appendix 2: Key Dates from the Final Accounts Timetable

Task	Responsibility	Timetabled date 2017/18	Proposed completion date 2018/19
Sending out of Related Party Declarations for Members and Senior Officers	Resources – Democratic Services	Thu 1 Mar 2018	Fri 1 Mar 2019
Details of Related Party Declarations for Members and Senior Officers to be returned to Democratic Services	Members / Senior Officers	Fri 16 Mar 2018	Fri 15 Mar 2019
Final Postings by Benefits Section	Financial Services – Revenues and Benefits	Thu 29 Mar 2018	Fri 29 Mar 2019
Last creditors paysheet for 2018/19	Financial Services – Revenues and Benefits (Creditors)	Thu 29 Mar 2018	Fri 29 Mar 2019
All stock checks completed at 31 March	Services	Sat 31 Mar 2018	Sun 31 Mar 2019
All cash posted up to and including 31 March	Financial Services – Revenues and Benefits	Sun 1 Apr 2018	Mon 1 Apr 2019
Last Monthly Salaries and Wages information for 2018/19 processed into ledger	Payroll / Strategic Finance	Tue 3 Apr 2018	Mon 1 Apr 2019
All Bank Reconciliations to 31 March completed	Strategic Finance	Tue 24 Apr 2018	Tue 23 Apr 2019

Task	Responsibility	Timetabled date 2017/18	Proposed completion date 2018/19
Service Ledgers finalised and final reports produced and net revenue outturn for each Service Grouping notified to Strategic Finance	Financial Services / Strategic Finance	Wed 25 Apr 2018	Fri 26 Apr 2019
Draft Statement of Accounts to External Audit for Technical Review	Strategic Finance	Fri 25 May 2018	Fri 24 May 2019
Chief Financial Officer to sign the Statement of Accounts	Strategic Finance / Corporate Director of Resources	Thu 31 May 2018	Fri 31 May 2019
Statement of Accounts to External Audit	Strategic Finance	Fri 1 Jun 2018	Mon 3 Jun 2019
Start of Statement of Accounts Audit	External Audit	Fri 1 Jun 2018	Mon 3 Jun 2019
Start of Inspection Period (provisional)	Strategic Finance	Fri 1 Jun 2018	Mon 3 Jun 2019
Unaudited Whole of Government Accounts (WGA) return to External Audit and HM Treasury (provisional)	Strategic Finance	Thu 14 Jun 2018	Fri 14 Jun 2019
Cabinet – Overall Outturn Report considered (provisional)	Strategic Finance	Wed 11 Jul 2018	Wed 10 Jul 2019
End of Inspection Period (provisional)	Strategic Finance	Thu 12 Jul 2018	Fri 12 Jul 2019
Audit Committee meeting – approval of Statement of Accounts	Strategic Finance	Tue 31 Jul 2018	Wed 31 Jul 2019
Publication of Accounts	Strategic Finance	Tue 31 Jul 2018	Wed 31 Jul 2019

Task	Responsibility	Timetabled date 2017/18	Proposed completion date 2018/19
Audited WGA return to HM Treasury (provisional)	Strategic Finance	Fri 31 Aug 2018	Fri 30 Aug 2019

This page is intentionally left blank

Audit Committee

26 February 2019

**External Audit – Audit Strategy
Memorandum – February 2019**



Report of the External Auditor

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To inform the Audit Committee of the external auditor's strategy for the year ended 31 March 2019.

Executive Summary

- 2 The Audit Strategy Memorandum at Appendix 2 sets out the audit plan in respect of the audit of Durham County Council for the year ending 31 March 2019.
- 3 The report details:
 - The scope and approach to the auditors work.
 - The significant risks and key management judgements identified and the proposed work to address these risks.
 - The timing of the auditors work and when the outcomes of this work will be communicated to the Audit Committee.
 - The approach to the value for money conclusion. This includes details of the auditors initial risk assessment and proposed work.
 - The fees and the audit team.

Recommendation(s)

- 4 Audit Committee is requested to note the external auditor's strategy for the year ended 31 March 2019.

Contact: James Collins

Tel: 03000 267452

Appendix 1: Implications

Legal Implications

None

Finance

There are no direct financial implications associated with this report.

Consultation

Corporate Director of Resources

Equality and Diversity / Public Sector Equality Duty

None

Human Rights

None

Crime and Disorder

None

Staffing

There are no staffing implications.

Accommodation

There are no accommodation implications.

Risk

There are no reportable risks associated with the report.

Procurement

None

Audit Strategy Memorandum

Durham County Council

Year ending 31 March 2019





CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Value for money
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

This document is to be regarded as confidential to Durham County Council. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance . No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit Committee
Durham County Council
County Hall
Durham
DH1 5UQ

February 2019

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2019

We are pleased to present our Audit Strategy Memorandum for Durham County Council for the year ending 31 March 2019

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Durham County Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6300.

Yours faithfully

Signed: 
MJ Kirkham (Feb 14, 2019)

Mark Kirkham
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Durham County Council (the Council) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

Value for money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach in section 5 of this report.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

2. YOUR AUDIT ENGAGEMENT TEAM



- Mark Kirkham, Partner
- mark.Kirkham@mazars.co.uk
- 0191 383 6300



- James Collins, Senior Manager
- james.collins@mazars.co.uk
- 0191 383 6331



- Joanne Greener, Assistant Manager
- joanne.greener@mazars.co.uk
- 0191 383 6300

In accordance with our internal policies for audit quality and risk management, we consider the audit of the Council to be a 'major audit'. As a result, and in line with the requirements of International Standards on Quality Control (ISQC) 1, the firm's Risk Management Partner has appointed an Engagement Quality Control Reviewer (EQCR) to the Council's audit who will bring an additional level of quality control to the engagement team.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

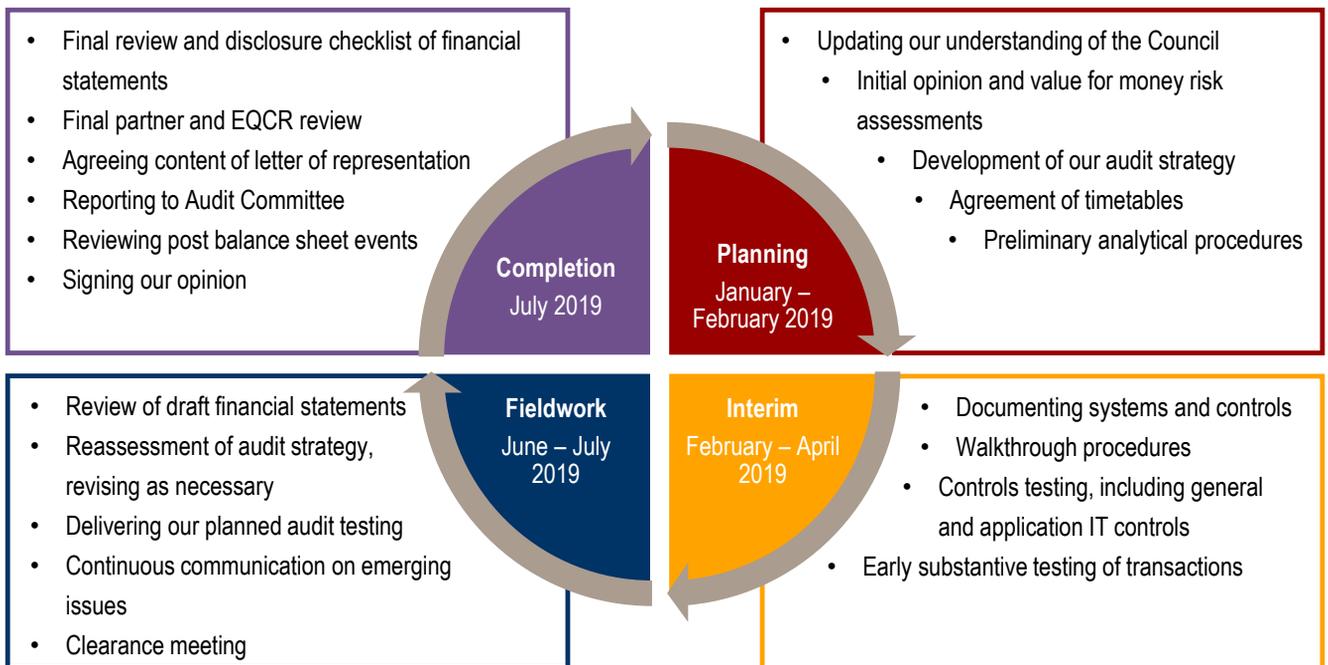
Audit approach

Our audit approach is risk-based and primarily driven by the issues that lead to in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Actuary (Aon Hewitt)	Consulting actuary (PWC) appointed on our behalf by the NAO.
Property, plant and equipment valuation	In-house Valuer	We will take into account any relevant information which is available from third parties.
Financial instrument disclosures	Link Asset Services (formerly Capita)	
Business rates provision	Analyse Local	

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. We have not identified any relevant service organisations.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

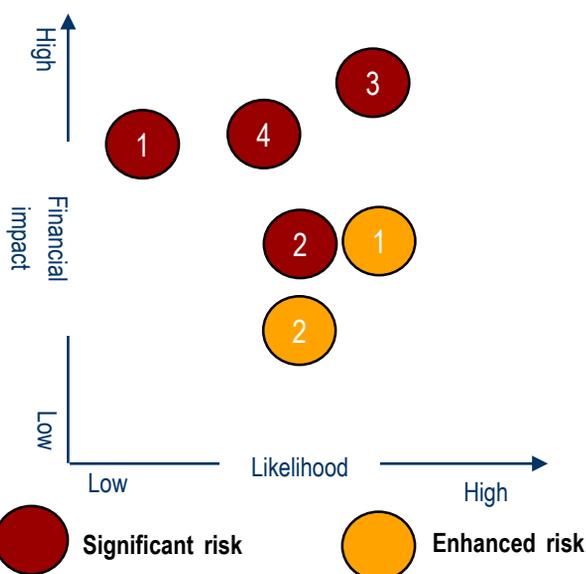
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



Significant Risk	
1	Management override of control
2	Revenue recognition
3	Property, plant and equipment valuation
4	Defined benefit liability valuation
Enhanced risk	
1	Unquoted equity investment valuations
2	Debtors impairment allowance

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>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 there is a risk of material misstatement due to fraud on all audits.</p>	<p>We plan to address this risk by performing work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates affecting amounts included in the financial statements; • significant transactions outside the normal course of business; • the selection and application of accounting policies; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
2	<p>Revenue recognition</p> <p>In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal for all income streams in 2018/19. We have identified income from fees and charges as the key areas for audit testing.</p> <p>This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>We plan to address this risk through a range of substantive procedures including:</p> <ul style="list-style-type: none"> • testing revenue items recorded around year end to ensure they have been recognised in the appropriate year; • testing year end receivables; • testing adjustment journals; and • obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.
3	<p>Property, plant and equipment valuation</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE.</p> <p>Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.</p>	<p>We plan to address this risk through the following procedures:</p> <ul style="list-style-type: none"> • consider the Council's arrangements for ensuring that PPE values are reasonable; • challenge the reasonableness of the valuations provided by the Council's Valuer using other sources of data; • assess the competence, skills and experience of the Valuer and the instructions issued to the Valuer; and • where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
4	<p>Defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and • consider the reasonableness of the Actuary's assumptions that underpin the relevant entries made in your financial statements, through the use of an expert commissioned by the National Audit Office.

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
1	<p>Unquoted equity investment valuations</p> <p>The Council has to make judgements in respect of the fair value measurements of unquoted equity investments it holds, including those in Newcastle Airport and several others.</p> <p>The underlying accounting requirements are subject to change in 2018/19, which increases the risk in respect of these valuation judgements, therefore they have been assessed as enhanced risks.</p>	<p>We plan to address this judgement by :</p> <ul style="list-style-type: none"> •critically reviewing the basis of valuation for the Council's unquoted equity investments; and •assessing whether disclosures are in line with the Code of Practice on Local Authority Accounting
2	<p>Debtors impairment allowance</p> <p>The Council has disclosed its impairment of debtors allowance as an area of estimation uncertainty.</p> <p>The underlying accounting requirements are subject to change in 2018/19, which increases the risk in respect of the assumptions and uncertainties relevant to this area, therefore they have been assessed as enhanced risks.</p>	<p>We will:</p> <ul style="list-style-type: none"> •critically review the Council's calculation of its impairment of debtors allowance; and •assess whether disclosures are in line with the Code of Practice on Local Authority Accounting, including any exemptions relevant to non-contractual debt

5. VALUE FOR MONEY CONCLUSION

Our approach

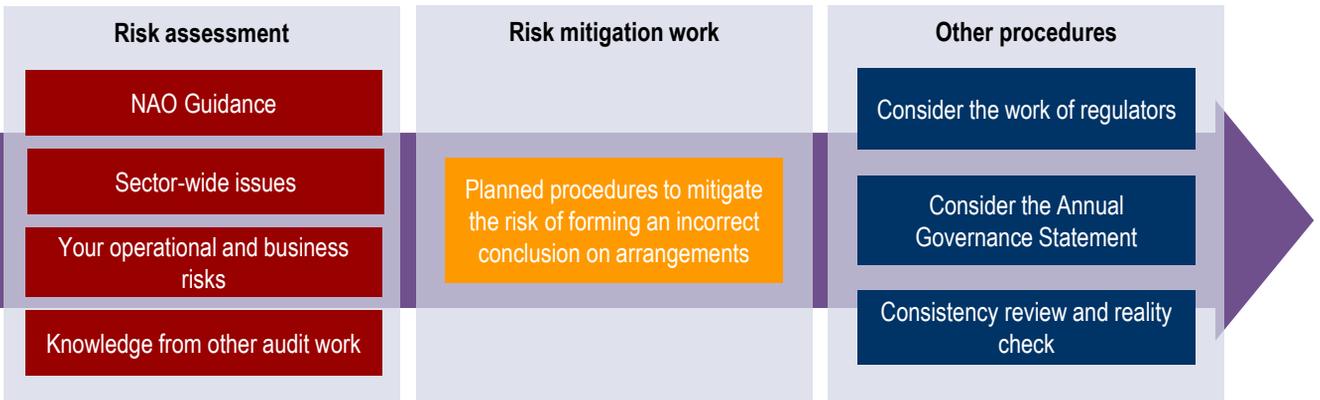
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria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

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

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

A summary of the work we undertake to reach our conclusion is provided below:



Significant audit risks

The NAO's guidance requires us to identify whether or not a value for money (VFM) audit risk exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In reaching our conclusion we draw on our understanding of the Council and its partners, the local and national economy and our wider knowledge of the public sector.

For the 2018/19 financial year we have identified the following significant audit risk:

Description of significant risk	Planned response
<p>Sustainable resource deployment</p> <p>The Council has a good track record of delivering to budget. Reduced funding means the Council continues to require significant levels of savings in the coming years. The medium term financial plan (MTFP) is in place to meet these pressures. To ensure our conclusion is correct we need to update our understanding of the Council's MTFP arrangements and how it monitors the planned delivery of savings.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review arrangements for developing the MTFP; • consider the delivery of 2018/19 savings against plans; • review the arrangements for future savings, including review of robustness of identified plans for 2019/20 and beyond; and • review the arrangements for the Transformation Programme.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 29 March 2018.

Service	2017/18 fee	2018/19 fee
Code audit work	£250,688	£193,030

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Service	2017/18 fee	2018/19 fee
Other services: Housing Benefits Subsidy Assurance	£20,062	£16,500
Other services: Teachers' Pensions	£4,900	TBC*
Other services: Skills Funding Agency Review of Subcontracting arrangements	£2,500	TBC*

* Subject to us being engaged to again carry out this work for 2018/19.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Kirkham in the first instance.

Prior to the provision of any non-audit services Mark Kirkham will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Principal threats to our independence and identified associated safeguards are set out below.

Area	Perceived threat	Safeguards and procedures
Mazars renting office space at Salvus House, Durham	Self Review	The transaction does not result in the auditor providing accounting services to the Council. The transaction does not have a material impact on the financial statements
	Self interest	The amount paid to the Council in rent is neither significant to Mazars LLP or the Council. Other office space is available to the auditor were they required to move from the premises. Safeguards to mitigate the risk include: <ul style="list-style-type: none"> • None of the audit team, including the Engagement Lead, were involved in the negotiation of the office lease. The overall decision to rent space in the property was taken by the firm's UK Executive. • The lease is managed by the firm's estates team who are independent of the audit team. • The lease was negotiated on normal commercial terms. There are no favourable treatment or incentives being provided to the auditor by the Council or by Business Durham (who are managing the property). • Like any commercial deal the lease includes break clauses allowing Mazars to move without having to incur costs for the full lease term.
	Management	No threat identified as this business transaction does not see the auditor making decisions on behalf of the Council.
	Advocacy	The transaction does not involve Mazars advocating a position for the client. A threat may exist if the auditor, as tenant of the Council, is asked to take part in any commercial activities undertaken by the Council to encourage new tenants into the building. Safeguards to mitigate the risk include: <ul style="list-style-type: none"> • Mazars will refrain from any marketing activities on behalf of the Council.

7. OUR COMMITMENT TO INDEPENDENCE

Area	Perceived threat	Safeguards and procedures
Mazars renting office space at Salvus House, Durham (continued)	Familiarity	<p>The nature of the transaction does not increase the familiarity threat as the building is one of many owned by the Council and Mazars will be one of many tenants.</p> <p>Safeguards to mitigate the risk would include:</p> <ul style="list-style-type: none"> The negotiation and management of the lease is independent of the audit team. The final decision to rent the office was taken by the firm's UK Executive.
	Intimidation	<p>It could be feasible that the Council use the rent or lease as a means to intimidate the auditor.</p> <p>Safeguards to mitigate the risk would include:</p> <ul style="list-style-type: none"> The lease is negotiated on a commercial basis by officers independent of the audit team. Terms of the lease will give the auditor and the Council rights which are expected in any commercial lease and will therefore reduce the risk of the client using the lease as a threat to the auditor. There is other office accommodation available in the area so the auditor is not restricted to this office location if a threat were to be made. The lease is managed by a separate team within the Council to those responsible for the Council accounts. The auditor has direct access to the Audit Committee as those charged with governance if any threats were to appear.

Area	Perceived threat	Safeguards and procedures
Assurance services: Housing Benefits Subsidy Assurance	Self Review	No threat identified. None of the engagements result in the auditor providing accounting services to the Council.
	Self interest	No threat identified. The fees for each of the engagements is neither significant to Mazars LLP nor the Council. Safeguards include clear rules set by PSAA which limit additional services an external auditor can provide.
Skills Funding Agency Review of Subcontracting arrangements and Teachers' Pension return (if engaged)	Management	No threat identified as none of the engagements require the auditor to make decisions on behalf of the Council.
	Advocacy	No threat identified as none of the engagements require the auditor advocating a position on behalf of the Council.
	Familiarity	No threat identified. Safeguards include firm policies and procedures detailed on previous page.
	Intimidation	No threat identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s)
Overall materiality	£26,071
Performance materiality	£19,553
Trivial threshold for errors to be reported to the Audit Committee	£782

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set on a benchmark of the 2017/18 gross expenditure at the surplus/deficit on provision of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that that gross expenditure at the surplus/deficit on provision of services is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of the surplus/deficit on provision of services.

Based on last years audited accounts we anticipate the overall materiality for the year ending 31 March 2019 to be in the region of £26.071m (£24.246 m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £0.782m based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Kirkham.

Reporting to the Audit Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised cost.

For Councils that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local authorities.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21	<p>We anticipate that the new leasing standard will be adopted by the Code for the 2020/21 financial year.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council (and its schools) are party to.</p>

Audit Committee

26 February 2019

**External Audit – Pension Fund Audit
Strategy Memorandum – February 2019**



Report of the External Auditor

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To inform the Audit Committee of the external auditor's strategy for the year ended 31 March 2019.

Executive Summary

- 2 The Audit Strategy Memorandum at Appendix 2 sets out the audit plan in respect of the audit of Durham County Council Pension Fund for the year ending 31 March 2019.
- 3 The report details:
 - The scope and approach to the auditors work.
 - The significant risks and key management judgements identified and the proposed work to address these risks.
 - The timing of the auditors work and when the outcomes of this work will be communicated to the Audit Committee.
 - The approach to the value for money conclusion. This includes details of the auditors initial risk assessment and proposed work.
 - The fees and the audit team.

Recommendation(s)

- 4 Audit Committee is requested to note the external auditor's strategy for the year ended 31 March 2019.

Contact: Sharon Liddle

Tel: 0191 383 6311

Appendix 1: Implications

Legal Implications

None

Finance

There are no direct financial implications associated with this report.

Consultation

Corporate Director of Resources

Equality and Diversity / Public Sector Equality Duty

None

Human Rights

None

Crime and Disorder

None

Staffing

There are no staffing implications.

Accommodation

There are no accommodation implications.

Risk

There are no reportable risks associated with the report.

Procurement

None

Audit Strategy Memorandum

Durham County Council Pension Fund

Year ending 31 March 2019





CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Fees for audit and other services
6. Our commitment to independence
7. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

This document is to be regarded as confidential to Durham County Council Pension Fund. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit Committee
Durham County Council
County Hall
Durham
DH1 5UQ

February 2019

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2019

We are pleased to present our Audit Strategy Memorandum for Durham County Council Pension Fund (the Fund) for the year ending 31 March 2019

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 6 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6300.

Yours faithfully

Signed: { {_es_:signer1:signature } }

Mark Kirkham

³ Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of the Fund) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Fund for the year.

Consistency report

We are required to form and express an opinion on the consistency of the financial statements within the Fund's annual report and the Fund's financial statements included in the Statement of Accounts of Durham County Council.

Electors' rights

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 Durham County Council and consider any objection made to the accounts. This would include an objection made to the accounts of the Fund included in the administering authority's financial statements. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Our audit, however, should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Fund is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

2. YOUR AUDIT ENGAGEMENT TEAM



- Mark Kirkham, Engagement Partner
- mark.kirkham@mazars.co.uk
- 0191 383 6300



- Sharon Liddle, Engagement Manager
- sharon.liddle@mazars.co.uk
- 0191 383 6311



- Daniel Reay, Engagement Team Leader
- daniel.reay@mazars.co.uk
- 0191 383 6346

In addition as outlined in our engagement pack an engagement quality control reviewer has been appointed for this engagement.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

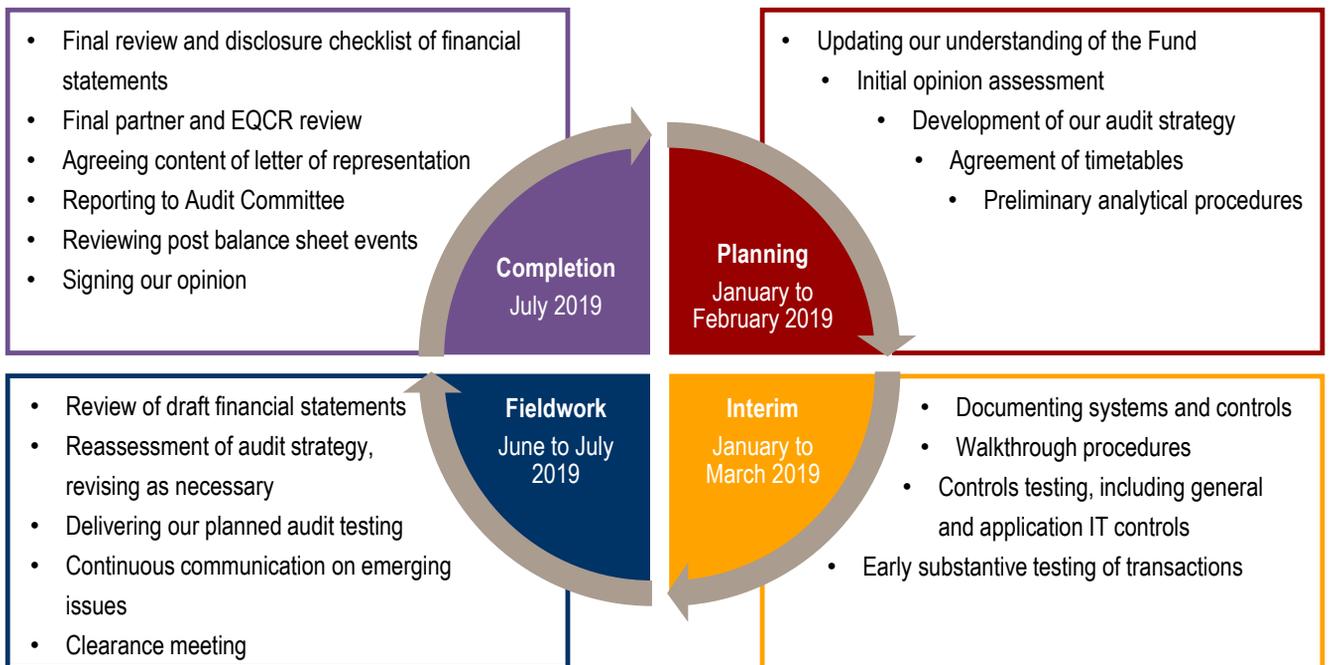
Audit approach

Our audit approach is risk-based and primarily driven by the issues we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 7.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Fund's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits.	Aon Hewitt	NAO Consulting actuary PWC
Financial instrument disclosures	Mercer Limited	None
Unquoted investments	CBRE	None

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Fund and our planned audit approach.

Items of account	Service organisation	Audit approach
Investment valuations and related disclosures	Investment managers	Substantive testing of in year transactions and valuations applied to investments at the year end.
Investment income and related disclosures	Custodian	

Internal control deficiencies

The Pension Fund Committee terms of reference state that the Committee will review and monitor the Pension Fund risk register annually. Although officers review the risks on a regular basis, they have not taken the register to Committee since December 2016. Officers had intended to report an updated risk register to the Committee meeting in March 2018, but this was overlooked when the agenda was compiled. We have received assurance that the risk register is under review and will be included on the agenda for the Committee meeting on 14th March 2019.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

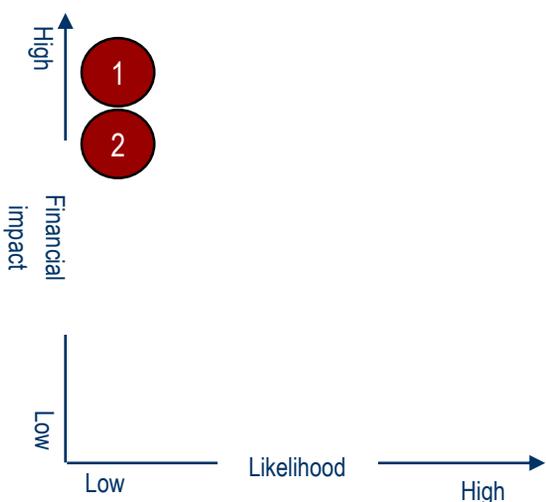
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Valuation of unquoted investments

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>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 there is a risk of material misstatement due to fraud on all audits.</p>	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>
2	<p>Valuation of unquoted investments for which a market price is not readily available</p> <p>As at 31 March 2018 the fair value of investments which were not quoted on an active market was £158.0m, which accounted for 5.6 per cent of net investment assets. The values included in the accounts are those provided by fund managers which are based on Net Asset Value statements. This results in an increased risk of material misstatement.</p>	<p>We plan to address this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"> • agree holdings from fund manager reports to the global custodian's report; • agree the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation; • agree the investment manager valuation to audited accounts or other independent supporting documentation, where available; and • where audited accounts are available, check that they are supported by an unmodified opinion.

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. We have not identified any such judgements.

5. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Fund's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 29 March 2018.

Service	2017/18 fee	2018/19 fee
Code audit work	£25,918	£19,957

Fees for non-PSAA work

We have not been engaged by the Fund to carry out additional work.

6. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Kirkham in the first instance.

Prior to the provision of any non-audit services Mark will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

7. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s)
Overall materiality	28,859
Performance materiality	23,088
Specific materiality: Fund Account	12,132
Performance materiality: Fund Account	9,706
Trivial threshold for errors to be reported to the Audit Committee	866

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We consider that net assets remains the key focus of users of the financial statements and, as such, we base our overall materiality on this benchmark. We expect to set a materiality threshold at 1% of net assets. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.



7. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on investments reported to the Pension Fund Committee as at 30 September 2018, we anticipate the overall materiality for the year ending 31 March 2019 to be in the region of £28,859k (£28,017k in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £866k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Kirkham.

Reporting to the Audit Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the financial instruments, particularly financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is unlikely that this will have a significant implications for most local government pension funds as most material financial instruments are already carried at fair value through profit and loss, and this is expected to continue under the new standard..

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local government pension funds.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21	<p>We anticipate that the new leasing standard will be adopted by the Code for the 2020/21 financial year.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>Although the number of leases that the fund is party to is expected to be low, it is important that work is undertaken to identify and assess all leases, particularly any implicit within a service contract.</p>

This page is intentionally left blank

Audit Committee

26 February 2019

**External Audit – Progress Report –
February 2019**



Report of the External Auditor

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To present to the Committee the external auditor's progress report on the external audit of Durham County Council to date.

Executive Summary

- 2 The report sets out an update of the work completed by Mazars (external auditor).
- 3 The report details:
 - Progress to date on the 2018/2019 external audit.
 - International Auditing Standards require auditors to enquire about arrangements the entity has put in place in regard to fraud, laws and regulations and going concern. The report lists a number of questions that require a response from the Audit Committee at its next meeting.
 - National Publications and other updates that members of the Audit Committee may find useful.
 - The grants letter for 2017/18, Mazars as the Council's appointed auditor, act as an agent of the Public Sector Audit Appointments (PSAA) who have responsibilities to make certification arrangements for specified claims and returns. For 2017/18 the only claim or return within this regime was the Housing Benefit Subsidy return. This letter reports the findings from this work.

Recommendation(s)

- 4 Audit Committee is requested to note the contents of the external auditor's progress report.

Contact: James Collins

Tel: 03000 267452

Appendix 1: Implications

Legal Implications

None

Finance

There are no direct financial implications associated with this report.

Consultation

Corporate Director of Resources

Equality and Diversity / Public Sector Equality Duty

None

Human Rights

None

Crime and Disorder

None

Staffing

There are no staffing implications.

Accommodation

There are no accommodation implications.

Risk

There are no reportable risks associated with the report.

Procurement

None

This page is intentionally left blank

Audit progress report

Durham County Council

February 2019





CONTENTS

- 1. Audit progress**
- 2. Request for information**
- 3. National publications**
- 4. Grant Letter**

This document is to be regarded as confidential to Durham County Council. It has been prepared for the sole use of the Audit Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

1. AUDIT PROGRESS

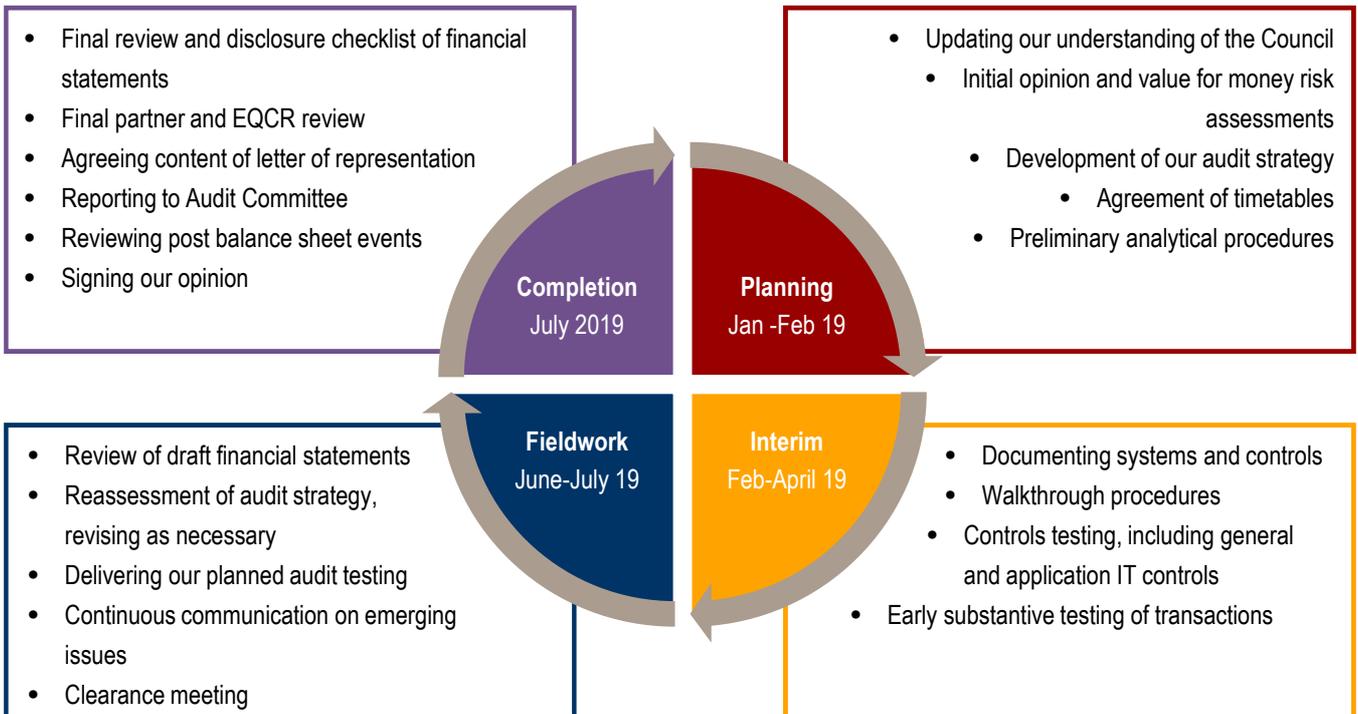
Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

Our key audit stages are summarised in the diagram shown below and our Audit Strategy Memorandum is being presented to the Audit Committee for discussion at this meeting.

We are in the process of completing our planning at the time of writing this report; if there are any issues arising to report to this Committee, we will include these in our next audit progress report.



Grant certification

As Members will be aware, the Council is required by funding bodies to arrange independent certification of a range of grant claims and returns. We have completed our work on the Council's Housing Benefit Subsidy claim. The findings from this work is detailed in section 4 to this report.



2. REQUEST FOR INFORMATION

International Auditing Standards require auditors to enquire about arrangements the entity has put in place. We list a number of questions below and would be grateful if the Committee could provide a response for the next Audit Committee.

The auditor's responsibility to consider fraud in an audit of financial statements

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities if we are to properly discharge our responsibilities under ISA240. We are therefore making requests from the Audit Committee and management on the following, or similar, issues:

- 1) How does the Audit Committee oversee management's processes to identify and respond to the risk of fraud and possible breaches of internal control? In particular how the Committee oversees managements:
 - Assessment of the risk that the financial statements may be materially misstated due to fraud or error;
 - Processes for identifying and responding to risks of fraud in the organisation. This includes any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
 - Processes for communicating to employees the views on business practice and ethical behaviour. For example updating, communicating and monitoring against the Council's code of conduct; and
 - Processes for communicating to those charged with governance the arrangements for identifying and responding to fraud or error
- 2) Has the Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2018– 31 March 2019?
- 3) Has the Audit Committee identified any specific fraud risks within the organisation? For example does it have any concerns that specific areas within the organisation are at greater risk of fraud?
- 4) Is the Audit Committee aware of any significant breaches of internal control during 2018/19?
- 5) Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively? If 'yes', please provide details of these controls. If not:
 - Where are the risk areas?
 - What other controls are in place to prevent, deter or detect fraud?
- 6) Is the Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud?
- 7) How does the Audit Committee mitigate the fraud risks associated with related party relationships and transactions?
- 8) Is the Audit Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading? In particular:
 - Are there particular balances where fraud is more likely to occur?
 - Is the Audit Committee aware of any assets, liabilities or transactions that it believes were improperly included or omitted from the accounts of the organisation?
 - Are there any external fraud risk factors which create a high risk of fraud?
- 9) Is the Audit Committee aware of any organisational, or management pressure to meet financial or operating targets?
- 10) Is the Audit Committee aware of any inappropriate organisational or management pressure being applied, or incentives offered, to employees to meet financial or operating targets?

Consideration of laws and regulations in an audit of financial statements

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA250. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:

- 1) How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with. In particular:
 - Is the Committee aware of the process management has in place for identifying and responding to changes in laws and regulations? Please provide details.
 - What arrangements are in place for the Committee to oversee this process?
 - Is the Committee aware of the arrangements management have in place, for communicating with employees, non-executive directors, partners and stakeholders regarding the relevant laws and regulations that need to be followed?
- 2) Does the Committee have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with? If it is, what actions are management taking to address non-compliance?

Specific consideration of the potential for, and actual, litigation and claims affecting the financial statements

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA 501. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:

- Is the Audit Committee aware of any actual or potential litigation and claims involving the Council that would impact on the financial statements?

Consideration of the going concern assumption in an audit of financial statements

We are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements if we are to properly discharge our responsibilities under ISA 570. We are therefore making the following request from the Audit Committee:

- 1) How has the Audit Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?
- 2) Has the Audit Committee identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?

Consideration of related parties

The auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

Therefore we are making the following request from the Audit Committee:

- 1) What controls are in place to: identify, authorise, approve, account for and disclose related party transactions and relationships?
- 2) Confirmation that the Audit Committee have:
 - disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and
 - appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.

3. NATIONAL PUBLICATIONS

	Publication/update	Key points
National Audit Office (NAO)		
1.	Local auditor reporting in England 2018	Main findings reported by auditors in 2017/18.
2.	Local authorities - governance	Consideration of VfM and financial sustainability in local authorities.
3.	NHS financial sustainability	Current picture not sustainable and yet to be seen whether spending plans will deliver the change required.
4.	A review of the role and costs of clinical commissioning groups	Organisational stability needed.
Public Sector Audit Appointments Ltd (PSAA)		
5.	Local quality audit forum	December 18 forum slides available online.
6.	Oversight of audit quality, quarterly compliance reports	No significant issues.
Chartered Institute of Public Finance and Accountancy (CIPFA)		
7.	Scrutinising Public Accounts: A Guide to Government Accounts	Online publication resource available.
8.	CIPFA Fraud and Corruption Tracker 2017/18	Annual report. Increase in fraud detected or prevented.
Mazars		
9.	Summary of NHS long-term plan	Views on the deliverability of the plan will vary.

1. Audit progress

2. Request for information

3. National publications

4. Grant letter

3. NATIONAL PUBLICATIONS

1. Local auditor reporting in England 2018, NAO, January 2019

Since 2015, the Comptroller and Auditor General (C&AG) has been responsible for setting the standards for local public audit, through maintaining a Code of Audit Practice and issuing associated guidance to local auditors.

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the C&AG took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors. The report highlights a number of points as summarised below.

- Auditors gave unqualified opinions on financial statements in 2015-16, 2016-17 and 2017-18. This provides assurance that local public bodies are complying with financial reporting requirements. As at 17 December 2018, auditors had yet to issue 16 opinions on financial statements, so this does not yet represent the full picture for 2017-18.
- Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. Again, as at 17 December 2018, auditors had yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18. This level of qualifications reinforces the need to ensure that local auditors' reporting informs as much as possible relevant departments' understanding of the issues facing local public bodies.
- Auditors qualified their conclusions at 40 (8%) of local government bodies. The proportion of qualifications was highest for single-tier local authorities and county councils where auditors qualified 27 (18%) of their value for money arrangements conclusions. The qualifications were for weaknesses in governance arrangements, often also highlighted by inspectorates' ratings of services as inadequate.
- More local NHS bodies received qualified conclusions on arrangements to secure VfM than local government bodies. In 2017-18, auditors qualified 168 (38%) of local NHS bodies' conclusions; up from 130 (29%) in 2015-16, mainly because of not meeting financial targets such as keeping spending within annual limits set by Parliament; not delivering savings to balance the body's budget; or because of inadequate plans to achieve financial balance. The increase between 2015-16 and 2017-18 is particularly steep at clinical commissioning groups, with qualifications for poor financial performance increasing from 21 (10%) in 2015-16 to 67 (32%) in 2017-18.
- Local auditors are using their additional reporting powers, but infrequently. Since April 2015, local auditors have issued only three Public Interest Reports, and made only seven Statutory Recommendations. These Public Interest Reports have drawn attention to issues such as unlawful use of parking income, governance failings in the oversight of a council-owned company, management of major projects or members' conduct. Auditors have made Statutory Recommendations in relation to failing to deliver planned cost savings, poor processes for producing the annual financial statements and failure to address weaknesses highlighted by independent reviews.
- A significant proportion of local bodies may not fully understand the main purpose of the auditor's conclusion on arrangements to secure value for money and the importance of addressing those issues. 102 local public bodies were contacted where auditors had reported concerns about their arrangements to ensure value for money:
 - half of the bodies (51) said that the auditor's report identified issues that they already knew about;
 - fifty-seven (95%) of those responding said they had plans in place to address their weaknesses but only three were able to say that they had fully implemented their plans; and
 - twenty-six (25%) did not respond at all to the NAO's request.
- The extent to which central government departments responsible for the oversight of local bodies have formal arrangements in place to draw on the findings from local auditor reports varies. Processes in the relevant central government departments differ. The Department of Health & Social Care, NHS Improvement and NHS England have arrangements in place to monitor the in-year financial performance of local NHS bodies, and use information from local auditor reports to confirm their understanding of risks in the system. The Home Office and Ministry of Housing, Communities & Local Government consider the output from local auditors' reports to obtain a broad overview of the issues local auditors are raising, but there is a risk that these two departments may be unaware of all relevant local issues.

1. Audit progress

2. Request for information

3. National publications

4. Grant letter

3. NATIONAL PUBLICATIONS

1. Local auditor reporting in England 2018, NAO, January 2019 (continued)

- Under the current local audit and performance framework, there is no direct consequence of receiving a non-standard report from the local auditor. Before 2010, a qualified value for money arrangements conclusion would have a direct impact on the scored assessments for all local public bodies published by the Audit Commission at that time. While departments may intervene in connection with the issues giving rise to a qualification, such as failure to meet expenditure limits, there are no formal processes in place, other than the local audit framework, that report publicly whether local bodies are addressing the weaknesses that local auditors are reporting.

A list of all local bodies that received a non-standard local auditor report for 2017-18 was published alongside the report.

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

2. Local authorities - governance, NAO, January 2019

The NAO has recently published a report on local authority governance, which examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

The report finds that local authorities have faced significant challenges since 2010. For example, they have seen a real-terms reduction in spending power of 29% and a 15% increase in the number of children in care. These pressures raise the risk of authorities' failing to remain financially sustainable and deliver services.

The way authorities have responded to these challenges have tested local governance arrangements. Many authorities have pursued large-scale transformations or commercial investments that carry a risk of failure or under-performance and add greater complexity to governance arrangements. Spending by authorities on resources to support governance also fell by 34% in real terms between 2010-11 and 2017-18, potentially increasing the risks faced by local bodies.

In 2017-18, auditors issued qualified VFM arrangements conclusions for around one in five single tier and county councils. A survey, carried out by the NAO, of external auditors indicates that several authorities did not take appropriate steps to address these issues.

Some external auditors have raised concerns about the effectiveness of the internal checks and balances at the local authorities they audit, such as risk management, internal audit and scrutiny and overview. For example, 27% of auditors surveyed by the NAO do not agree that their authority's audit committees provided sufficient assurance about the authorities' governance arrangements. Auditors felt that many authorities are struggling in more than one aspect of governance, demonstrating the stress on governance at a local level.

Some authorities have begun to question the contribution of external audit to providing assurance on their governance arrangements. 51% of chief finance officers from single tier and county councils responding to our survey indicated that there are aspects of external audit they would like to change. This includes a greater focus on the value for money element of the audit (26%). External auditors recognise this demand within certain local authorities. However, their work must conform to the auditing standards they are assessed against and any additional activity may have implications for the fee needed for the audit.

The report also finds that MHCLG does not systematically collect data on governance, meaning it can't rigorously assess whether issues are isolated incidents or symptomatic of failings in aspects of the system. MHCLG recognises that it needs to be more active in leading co-ordinated change across the local governance system. The report recommends that MHCLG works with local authorities and other stakeholders to assess the implications of, and possible responses to, the various governance issues identified. It should examine ways of introducing greater transparency and openness to its formal and informal interventions in local authorities and should adopt a stronger leadership role in overseeing the network of organisations managing key aspects of the governance framework.

<https://www.nao.org.uk/report/local-authority-governance-2/>

1. Audit progress

2. Request for information

3. National publications

4. Grant letter

3. NATIONAL PUBLICATIONS

3. NHS financial sustainability, NAO, January 2019

This is the NAO's seventh report on the financial sustainability of the NHS. In its recent reports, in December 2015, November 2016 and January 2018, the NAO concluded that financial problems in the NHS were endemic and that extra in-year cash injections to trusts had been spent on coping with current pressures rather than the transformation required to put the health system on a sustainable footing. To address this, local partnerships of clinical commissioning groups (CCGs), NHS trusts and NHS foundation trusts (trusts) and local authorities were set up to develop long-term strategic plans and transform the way services are provided more quickly.

In June 2018, the Prime Minister announced a long-term funding settlement for the NHS, which will see NHS England's budget rise by an extra £20.5 billion by 2023-24. Between 2019-20 and 2023-24, this equates to an average annual real-terms increase of 3.4%. The government asked NHS England to produce a 10-year plan that aims to ensure that this additional funding is well spent. In return for this extra funding, the government has set the NHS five financial tests to show how the NHS will do its part to put the service onto a more sustainable footing.

This report covers 2017-18, so the NAO first concludes on financial sustainability for that year. The NAO considers that the growth in waiting lists and slippage in waiting times, and the existence of substantial deficits in some parts of the system, offset by surpluses elsewhere do not add up to a picture that can be described as sustainable. Recently, the long-term plan for the NHS has been published, and government has committed to longer-term stable growth in funding for NHS England.

In the NAO's view these developments are positive, and the planning approach seen so far looks prudent. The NAO further states that it will really be able to judge whether the funding package will be enough to achieve the NHS' ambitions when we know the level of settlement for other key areas of health spending that emerges from the Spending Review later in the year. This will help inform whether there is enough to deal with the embedded problems from the last few years and move the health system forward.

<https://www.nao.org.uk/report/nhs-financial-sustainability/>

4. A review of the role and costs of clinical commissioning groups, NAO, December 2018

Clinical commissioning groups (CCGs) are clinically-led statutory bodies that have a legal duty to plan and commission most of the hospital and community NHS services in the local areas for which they are responsible. CCGs are led by a Governing Body made up of GPs, other clinicians including a nurse and a secondary care consultant, and lay members. They were established as part of the Health and Social Care Act in 2012 and replaced primary care trusts on 1 April 2013. Since their formation, there have been eight formal mergers of CCGs, which have reduced their number from 211 to 195 as at April 2018. The smallest CCG (Corby) covers a population of 78,000, while the largest (Birmingham and Solihull) covers a population of 1.3 million.

Since commissioning was introduced into the NHS in the early 1990s, there have been frequent changes to the structure of commissioning organisations. This looks set to continue, with the role of CCGs evolving as the NHS pursues a more integrated system across commissioners and providers. Consequently, there are likely to be more CCG mergers and increased collaborative working between CCGs and their stakeholders, for example healthcare providers and local authorities

This review sets out:

- changes to the commissioning landscape before CCGs were established;
- the role, running costs and performance of CCGs; and
- the changing commissioning landscape and the future role of CCGs.

CCGs were created from the reorganisation in how healthcare services are commissioned in the NHS. They were designed to give more responsibility to clinicians to commission healthcare services for their communities and were given resources to do this. NHS England's assessment of CCGs' performance shows a mixed picture. Over half of CCGs were rated either 'outstanding' or 'good', but 42% (87 of 207) are rated either 'requires improvement' or 'inadequate', with 24 deemed to be failing, or at risk of failing. Many CCGs are struggling to operate within their planned expenditure limits despite remaining within their separate running cost allowance. Attracting and retaining high-quality leadership is an ongoing issue.

1. Audit progress

2. Request for information

3. National publications

4. Grant letter

3. NATIONAL PUBLICATIONS

4. A review of the role and costs of clinical commissioning groups, NAO, December 2018 (continued)

There has been a phase of CCG restructuring with increased joint working and some CCGs merging. If current trends continue, this seems likely to result in fewer CCGs covering larger populations based around STP footprints. This larger scale is intended to help with planning, integrating services and consolidating CCGs' leadership capability. However, there is a risk that commissioning across a larger population will make it more difficult for CCGs to design local health services that are responsive to patients' needs, one of the original objectives of CCGs.

CCGs have the opportunity to take the lead in determining their new structures. NHS England is expected to set out its vision for NHS commissioning in its long-term plan for the NHS to be published in December 2018. NHS England has said it will step in where CCGs diverge from its vision of effective commissioning. However, it has not set out fully the criteria it will use to determine when to step in.

The NAO's previous work on the NHS reforms brought in under the Health and Social Care Act 2012 highlighted the significant upheaval caused by major organisational restructuring. It is therefore important that the current restructuring of CCGs creates stable and effective organisations that support the long-term aims of the NHS. Following almost three decades of change, NHS commissioning needs a prolonged period of organisational stability. This would allow organisations to focus on transforming and integrating health and care services rather than on reorganising themselves. It would be a huge waste of resources and opportunity if, in five years' time, NHS commissioning is going full circle and undergoing yet another cycle of restructuring.

<https://www.nao.org.uk/report/a-review-of-the-role-and-costs-of-clinical-commissioning-groups/>

5. Local Audit Quality Forum, Public Sector Audit Appointments, December 2018

The Local Audit Quality Forum (LAQF) is a forum within which representatives of relevant audit bodies can work together and collaborate with others to share good practice and strive to enable improvements in the quality, efficiency and effectiveness of audit arrangements and practices in principal local authorities and police bodies in England. PSAA wants to develop a momentum and a passion for continuous improvement in audit arrangements throughout the entities and sectors for which PSAA has a mandate.

Slides of the Manchester December 2018 event are available on the PSAA website as per the link below.

The theme of the Manchester event was financial resilience and sustainability, a major challenge for all local authorities and police bodies in the current climate and a key strategic concern as bodies prepare 2019/20 budgets and update medium term plans. The event explored:

- the nature and scale of the sustainability challenges facing local bodies;
- the strategies and disciplines which can help to address them successfully; and
- the roles and responsibilities of Chief Finance Officers and auditors in helping to maintain resilience and sustainability.

<https://www.psa.co.uk/local-audit-quality-forum3/local-audit-quality-forum/>

6. Oversight of audit quality, quarterly compliance reports 2017/18, Public Sector Audit Appointments Ltd

There are no significant issues arising in the latest quarterly compliance report issued by PSAA.

<https://www.psa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/>

3. NATIONAL PUBLICATIONS

7. Scrutinising Public Accounts: A Guide To Government Finances, CIPFA, November 2018

This guide provides an overview of the different processes for budgeting and performance reporting in central and local government, health bodies and includes key questions to ask when scrutinising government financial statements using examples based on UK public sector accounts.

This publication is only available online.

<https://www.cipfa.org/policy-and-guidance/publications/s/scrutinising-public-accounts-a-guide-to-government-finances>

8. CIPFA Fraud and Corruption Tracker 2017/18, CIPFA, October 2018

The CIPFA Fraud and Corruption Tracker (CFaCT) survey gives a national picture of fraud, bribery and corruption across UK local authorities and the actions being taken to prevent it. It aims to:

- help organisations understand where fraud losses could be occurring;
- provide a guide to the value of detected and prevented fraud loss;
- help senior leaders understand the value of anti-fraud activity; and
- assist operational staff to develop pro-active anti-fraud plans.

The 2017/18 report shows that fraud continues to pose a major financial threat to local authorities, with £302m detected or prevented by councils in 2017/18. While this was £34m less than last year's total, the report revealed an overall increase in the number of frauds detected or prevented – up to 80,000, from the 75,000 cases found in 2016/17. Among these cases there are reminders of some of the challenges being faced by local authorities, with the number of serious or organised crime cases doubling to 56, and a significant increase in the amount lost to business rates fraud, which jumped to £10.4m in 2017/18 from £4.3m in 2016/17.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/local-councils-detect-or-prevent-£302m-in-fraud-in-2017-18>

9. Summary of NHS long-term plan, Mazars, January 2019

The NHS Long Term Plan was published on 7 January 2019. It sets out the priorities for the new funding settlement announced in June 2018 – a real terms increase of £20.5bn by 2023/24 representing an average increase of revenue funding of 3.4% per annum, compared to an average of 2.2% in recent years.

Views on the deliverability of the plan will vary, particularly as some aspects of implementation will depend on spending review decisions later this year and the direction of travel for social care. The plan recognises existing financial pressures and workforce challenges and takes some steps to manage these risks whilst accepting that further nationally-led work is necessary to alleviate these constraints.

<https://www.mazars.co.uk/Home/Industries/Public-Services/Health/NHS-Long-Term-Plan-summary>

1. Audit progress

2. Request for information

3. National publications

4. Grant letter

4. GRANT LETTER

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

Members of the Audit Committee
Durham County Council
County Hall
Durham
DH1 5UL

4 February 2019

Dear Members

Results of certification work 2017-18

As the Council's appointed auditor, we acted as an agent of Public Sector Audit Appointments (PSAA) who have responsibilities to make certification arrangements for specified claims and returns. For 2017/18 the only claim or return within this regime was the Housing Benefit Subsidy return. This letter reports the findings from this work.

In 2017/18 the prescribed tests for our Housing Benefits work were set out in the HBCOUNT module and BEN01 Certification Instructions issued by PSAA. For the Housing Benefit Subsidy return, on completion of the specified work we issue a certificate. The certificate states whether the claim has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter. Where we issue a qualification letter or the claim or return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

The 2017/18 Housing Benefits return was subject to a qualification letter. Detailed findings, including the extrapolation of errors identified, were reported in our qualification letter to the Department for Work and Pensions (DWP) dated 27 November 2018. The table below details our findings.

Claim or return	Value of claim or return	Amended	Qualified (1)
Housing Benefit Subsidy	£180,968,245	No	Yes

1. Qualification issues

Where an error was identified in sample testing and it was not possible to quantify the error the matter was reported as an extrapolated error in a qualification letter to the Department.

Our sample testing is split between initial testing and additional testing. Initial testing tests a random sample of 20 cases from each headline cell on the subsidy claim form for each of the benefit types (non-HRA rent rebates and rent allowances). We identified the following errors in our 2017/18 initial testing and as a consequence a further sample of cases specific to the error identified were tested:

- One case where the self-employed income figure used in the benefit entitlement calculation of rent rebate was incorrect. The error identified did not impact on the benefit paid to the claimant. Given the error could have resulted in an overpayment of benefit the Council tested all rent rebate claims where self-employed income was used in the benefit entitlement calculation. This additional testing identified a total of 6 fails. Of these 4 cases resulted in underpayment of benefit, 1 case had no impact and 1 case there was an overpayment and underpayment in the year. The value of the overpayment was £2,295. We are not required to report the impact of errors resulting in underpayment of benefit.

1. Audit progress

2. Request for information

3. National publications

4. Grant letter

3. GRANT LETTER

- One case where benefit had been underpaid as the weekly eligible rent figure used in the benefit entitlement calculation was incorrect for rent allowance. Because the error could have led to an overpayment of benefit, testing of a further 40 cases was undertaken. This additional testing identified no further fails.
- One case where earned income used in the benefit entitlement calculation for rent allowance was incorrect. This error had no impact on benefit awarded but per BEN01 guidance a further 40 cases were tested. This identified 7 further fails. Of these, 4 cases were understated and 1 case was overstated. A further 2 cases had both an underpayment and overpayment. We reported in our qualification letter the extrapolated impact of errors resulting in overpayments (error rate of population tested 0.04%). We are not required to extrapolate errors which result in the underpayment of benefits.

Certification Instruction BEN01 and the associated HBCOUNT approach instructs where initial testing does not match with cumulative audit knowledge and experience (CAKE) then additional testing must be completed. As in previous years, additional testing was completed by the Council testing a further 40 cases looking at specific issues which arose in the prior year. We then carried out our own re-performance of a sample of these cases. This additional testing identified errors in 2017/18 relating to:

- Incorrect self-employed client information used in the calculation of rent allowance. Errors resulted in both under and over payment of benefit. We reported in our qualification letter the extrapolated impact of errors resulting in overpayments (error rate of population tested 0.76%). We are not required to extrapolate errors which result in the underpayment of benefits.
- Errors in recording claimant’s capital in rent allowance calculations. The errors either had no impact on benefit paid, resulted in underpayment of benefit or resulted in an overpayment of benefit. We reported in our qualification letter the extrapolated impact of errors resulting in overpayments (error rate of population tested 0.02%). We are not required to extrapolate errors which result in the underpayment of benefits.
- Incorrect housing association rent used in a rent allowance calculation. The errors identified resulted in under and over payment of benefit. We reported in our qualification letter the extrapolated impact of errors resulting in overpayments (error rate of population tested 0.06%). We are not required to extrapolate on errors which result in the underpayment of benefit.

Where underpayments were identified the Council ensured those claims affected were amended and the entitled benefit was awarded to the claimant. A total of 26 claims with a value of £1,976 were identified as being underpaid. Remedial actions have been taken by officers to prevent similar errors occurring in the future.

I would like to express my thanks for the assistance of the Council’s Housing Benefits team during the certification work.

Fees

PSAA set an indicative fee for our work. This indicative fee, and the final fee charged for 2016/17, is detailed in the table below:

Claim or return	2017/18 indicative fee	2017/18 final fee	2016/17 final fee
Housing Benefit Subsidy	£20,062	£20,062	£24,158

Yours faithfully



Mark Kirkham
Partner, Mazars LLP

Mazars LLP – Salvus House - Aykley Heads - Durham - DH1 5TS
Tel: +44 (0) 191 383 6300 – Fax: +44 (0) 191 383 6350 – www.mazars.co.uk

This letter is prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of Durham County Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

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



CONTACT

Partner: Mark Kirkham

Phone: 0191 383 6300

Mobile: 07747 764529

Email: mark.kirkham@mazars.co.uk

Senior Manager: James Collins

Phone: 0191 383 6331

Mobile: 0788 1283527

Email: james.collins@mazars.co.uk

Audit Committee

26 February 2019

**Corporate Governance Review 2018/19
– Key Dates**



Report of John Hewitt, Corporate Director of Resources

Councillor Alan Napier, Deputy Leader Portfolio Holder for Finance

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To inform Audit Committee of the key dates for the corporate governance review for the 2018/19 financial year.

Recommendation(s)

- 2 Audit Committee is requested to note the contents of this report.

Background

- 3 The Accounts and Audit Regulations 2015 require the chief financial officer to have published, approved and audited accounts by 31 July. Prior to this, the pre-audited accounts must be made available for public inspection for a period of 30 working days. Effectively, the 2018/19 closure of accounts will need to be achieved by 31 May to achieve the necessary timetable for approval.
- 4 The Regulations also require the Council to prepare an Annual Governance Statement, which is to accompany the Statement of Accounts. For this reason, the approval processes for the two statements needs to be aligned.

Key Dates

- 5 The key dates for the 2018/19 corporate governance review are in Appendix 2 of this report.

Contact:	David Marshall	Tel: 03000 269648
	Kevin Roberts	Tel: 03000 269657

Appendix 1: Implications

Legal Implications

None

Finance

There are no financial implications associated with this report. However, financial planning and management is a key component of effective corporate governance.

Consultation

Engaging local communities meets a core principle of the CIPFA/ SOLACE guidance.

Equality and Diversity / Public Sector Equality Duty

Engaging local communities including hard to reach groups meets a core principle of the CIPFA/ SOLACE guidance.

Human Rights

None

Crime and Disorder

None

Staffing

There are no impacts on staff, but ensuring the adequate capability of staff meets a core principle of the CIPFA/ SOLACE guidance.

Accommodation

There are no accommodation implications, but asset management is a key component of effective corporate governance.

Risk

There are no reportable risks associated with the report, but the assessment of corporate risk is a key component of the Council's governance arrangements.

Procurement

None

Appendix 2: Corporate Governance Review 2018/19 Key Dates

<u>Action</u>	<u>Date</u>
Draft Annual Governance Statement to Resources Management Team for consultation.	26/3/19
Draft Annual Governance Statement to Transformation and Partnerships Management Team for consultation.	2/4/19
Produce Directors Assurance Statements, approved by Directors.	5/4/19
Corporate Director of Resources to approve draft Annual Governance Statement.	9/4/19
Draft Annual Governance Statement to CMT for approval.	1/5/19
Draft Annual Governance Statement to Audit Committee for approval, along with the annual audit opinion, as part of the final accounts process.	31/5/19
Final Annual Governance Statement to Audit Committee for approval and adoption.	31/7/19

Audit Committee

26 February 2019

**Strategic Risk Management Progress
Report for 2018/19
Review 3: 1 October – 31 December
2018**



Report of Corporate Management Team

John Hewitt, Corporate Director Resources

**Councillor Alan Napier, Deputy Leader and Portfolio Holder for
Finance**

Purpose of the Report

- 1 The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group between October and December 2018.

Executive summary

- 2 This report supports a key role of the Audit Committee, which is to monitor the effective development and operation of risk management and overall corporate governance in the Council.
- 3 One new risk (Equal Value Claims) has been added to the strategic risk register and one risk (Major Interruption to IT Service Delivery) has been removed, following the implementation of control improvements.
- 4 On 31 December 2018, there were 26 risks on the corporate strategic risk register.
- 5 There are four key risks (Government Funding Cuts, MTFP Slippage, Child Safeguarding and Vulnerable Adults), for which key mitigating actions have been identified.

- 6 A Brexit Working Task & Finish Group has been established, chaired by the Director of Transformation and Partnerships with representatives from all service groupings, and reports to Corporate Management Team. The Group is working with key partners including the Local Resilience Forum, as well as key suppliers and service providers, to identify and minimise the impacts on council services and service users.

Recommendation(s)

- 7 Audit Committee is requested to confirm that this report provides assurance that strategic risks are being effectively managed within the risk management framework across the Council.

Background

- 8 The Cabinet and the Corporate Management Team have designated the Cabinet Portfolio Holder for the Deputy Leader and Finance and the Corporate Director, Resources as Member and Officer Risk Champions respectively. They are jointly responsible for embedding risk management throughout the Council, and are supported by the Chief Internal Auditor and Corporate Fraud Manager, the lead officer responsible for risk management, as well as the Risk, Insurance and Governance Manager.
- 9 Each service grouping has a designated service risk manager to lead on risk management at a service grouping level, and act as a first point of contact for staff who require any advice or guidance on risk management. The Corporate Risk Management Group, which comprises the risk champions, service risk managers and the Risk and Governance Manager, monitors the progress of risk management across the Council, advises on strategic risk issues, identifies and monitors corporate cross-cutting risks, and agrees arrangements for reporting and awareness training.
- 10 A key role of the Audit Committee is to monitor the effective development and operation of risk management and overall corporate governance in the Council.

- 11 The Corporate Directors and the Director of Transformation and Partnerships are responsible for developing and maintaining the internal control framework to ensure that their service resources are properly applied in the manner and to the activities intended. In this context, heads of service are responsible for identifying and managing the key risks which may impact on their respective service, and providing assurance that adequate controls are in place, and working effectively to manage these risks where appropriate. In addition, independent assurance of the risk management process, and of the risks and controls of specific areas, is provided by Internal Audit. Reviews by external bodies, such as the Audit Commission, Ofsted and Care Quality Commission, may also provide some independent assurance of the controls in place.
- 12 Risks are assessed in a logical and straightforward process, which involves the risk owner (within the service) assessing both the impact on finance, service delivery or stakeholders if the risk materialises, and also the likelihood that the risk will occur over a given period. The assessment is confirmed by the Service Management Team.
- 13 An assurance mapping framework is being developed to demonstrate where and how the Council receives assurance that its business is run efficiently and effectively, highlighting any gaps or duplication that may indicate where further assurance is required or could be achieved more effectively.
- 14 The Council is also jointly responsible for responding to civil emergencies (such as severe weather events, network power losses and flu epidemics) through the County Durham and Darlington Local Resilience Forum. An explanation of the arrangements for managing the risk of such events and a copy of the latest Community Risk Register can be found on the web page of the County Durham and Darlington [Local Resilience Forum](#).
- 15 Throughout this report, the terms 'net risk', 'net impact' and 'net likelihood' represent the level of exposure to risk after taking account of mitigating controls that have been implemented.

Current status of the risks to the Council

- 16 As at 31 December 2018, there were 26 risks on the corporate strategic risk register, the same number as at 30 September 2018. During this period, one risk was added, and one was removed.

- 17 In summary, the key risks to the Council are:
- (a) If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.
 - (b) Government funding cuts, which will continue into 2019/20, will have an increasing major impact on all Council services. In addition, the outcome of the Fair Funding review is unknown and could also have a significant impact of the level of funding available to the council.
 - (c) Failure to protect child from death or serious harm (where service failure is a factor or issue).
 - (d) Failure to protect a vulnerable adult from death or serious harm (where service failure is a factor or issue).

Progress on addressing these key risks is detailed in **appendix 2**.

- 18 A list of all of the Council's strategic risks as at 31 December 2018 is included in **appendix 3**.
- 19 Management has identified and assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.
- 20 An update on the emerging risk of a "no-deal Brexit" is included in **appendix 4**.
- 21 To provide assurance that strategic risks are being effectively managed and that officers and members are appropriately skilled in risk management, performance against key indicators is set out in **appendix 5**.

Contact: Kevin Roberts

Tel: 03000 269657

Appendix 1: Implications

Legal Implications

There are no direct implications, but effective risk management helps to ensure compliance with legal and regulatory obligations.

Finance

There are no direct financial implications, but effective risk management helps to avoid or minimise financial loss.

Consultation

None

Equality and Diversity / Public Sector Equality Duty

None

Human Rights

None

Crime and Disorder

None

Staffing

Staff training needs are addressed in the risk management training plan.

Accommodation

None

Risk

This report supports the delivery of the objectives of the Council's Risk Management Strategy.

Procurement

None

Appendix 2: Progress on management of the Council’s Strategic Risks

Risks are assessed at two levels:

- Gross impact and likelihood are based on an assessment of the risk without any controls in place;
- Net impact and likelihood are based on the assessment of the current level of risk, taking account of the existing controls/ mitigation in place.

As at 31 December 2018, there were 26 risks on the corporate strategic risk register, the same number as at 30 September 2018. During this period, one risk was added and one was removed

The following matrix profiles the strategic risks according to their net risk evaluation as at 31 December. To highlight changes in each category during the last period, the number of risks as at 30 September 2018 is shown in brackets.

Overall number of Strategic Risks as at 31 December 2018

Impact					
Critical	1 (1)		3 (4)		1 (1)
Major		5 (5)	4 (4)		
Moderate			9 (8)	2 (2)	
Minor				1 (1)	
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

In the above matrix, the risk assessed as Critical/Highly Probable is, “Government funding cuts, which will continue into 2019/20, will have an increasing major impact on all Council services.”

The key risks are reported in more detail below. In summary, key points to draw to your attention are:

New Risks

- 1 “Potential significant size and scope of the liabilities of equal value claims” (appendix 3, risk 8).

This was previously listed as an emerging risk. However, as the scope of potential liabilities becomes clearer, the financial risk to the Council could be significant. Claims have been lodged since 2005 by over 1000 staff in relation to equal value claims. The claims are based upon the comparison of the pay of one job with another. Claims have been investigated and the numbers have reduced as a result of work undertaken by HR Operations and Data and Finance. The net risk has been evaluated as moderate impact with a possible likelihood of occurrence. **(RES)**

Increased Risks

- 2 Apart from the removed risk below, no risks had their net evaluation reduced during the period.

Removed Risks

- 3 “Major Interruption to IT Service Delivery”.

Following completion of the electrical upgrade works at the Council’s main data centre, the likelihood of this risk has been downgraded to remote and it has now been removed from the risk register. **(RES)**

Key Risks

4 The Council's key risks are shown in the following table.

Key Risks Matrix

Net Impact					
Critical			Risk 1 MTFP Slippage Risk 3 Child Safeguarding Risk 4 Vulnerable Adults		Risk 2 Government funding cuts
Major					
Moderate					
Minor					
Insignificant					
Net Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

In this matrix, the key risks have been arranged according to the net impact and net likelihood evaluations to illustrate their relative severity. The full title of each risk is shown in the Key Risks Schedule on the following pages.

Key Risks Schedule

The schedule below contains information about how the key risks are being managed, including proposed key actions. Where there have been changes to the risk assessment during the last quarter, these are highlighted in the column headed 'Direction of Travel'. The final column states when it is anticipated that the risk will have been reduced to an acceptable level.

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	RES Risk Owner: Jeff Garfoot	Altogether Better Council	If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.	Critical	Possible	The Delivery plan implementation will be monitored by CMT and Cabinet.		This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage.
2	RES Risk Owner: Jeff Garfoot	Altogether Better Council	Government funding cuts which, will continue into 2019/20, will have an increasing major impact on all Council services. In addition, the outcome of the Fair Funding review is unknown and could also have a significant impact of the level of funding available to the Council.	Critical	Highly Probable	Sound financial forecasting is in place based on thorough examination of the Government's "red book" plans.		This will be a significant risk for at least the next 4 years.

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
3	CYPS Risk Owner: Helen Fergusson	Altogether Better for Children and Young People	Failure to protect child from death or serious harm (where service failure is a factor or issue)	Critical	Possible	Actions are taken forward from Serious Case Reviews and reported to the Local Safeguarding Children Board. Lessons learned are fed into training for front line staff and regular staff supervision takes place. Procedures are reviewed on a regular basis.		Nationally there has been a statutory change to when Serious Case Reviews are undertaken. This risk is long term.
4	AHS Risk Owner: Lee Alexander	Altogether Safer	Failure to protect a vulnerable adult from death or serious harm (where service failure is a factor or issue).	Critical	Possible	As the statutory body, the multi-agency Safeguarding Adults Board has a Business Plan in place for taking forward actions to safeguard vulnerable adults including a comprehensive training programme for staff and regular supervision takes place. Procedures are reviewed on a regular basis.		Nationally there has been an increased awareness of potential vulnerabilities relating to adults with care and support needs and concern about the pressure to discharge some service users under the Transforming Care programme without agreement on necessary resourcing to meet their multiple complex needs.

Appendix 3: List of all Strategic Risks (per Corporate Theme)

Based on the **Net** risk assessment as at 31 December 2018, the following tables highlight the risks for each Corporate Theme.

Corporate Theme – Altogether Better Council

Ref	Service	Risk
1	RES	If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.
2	RES	Ongoing Government funding cuts, which will continue into 2019/20, will have an increasing major impact on all Council services.
3	T&P	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
4	T&P	Risk that the Council does not respond to the Government's changes to Welfare Reform
5	T&P	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation
6	REAL	Potential adverse financial and operational impacts of the Homelessness Reduction Act 2017 on the Housing Solutions service.
7	RES	Serious breach of Health and Safety Legislation
8	RES	Potential significant size and scope of the liabilities of equal value claims.
9	T&P	The Council may be unable to effectively deliver essential services during the period of recovery following a cyber-attack.
10	T&P	Potential breach of the EU General Data Protection Regulations
11	T&P	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation
12	RES	Due to the current economic climate and amount of change occurring across the Council, there is potential for increases in fraud and corruption.
13	T&P	Failure to prepare for, respond to and recover from a disruptive event, leading to a major interruption to the provision of essential services by the Council.

Altogether Better for Children and Young People

Ref	Service	Risk
14	CYPS	Failure to protect child from death or serious harm (where service failure is a factor or issue)
15	CYPS	Inability to recruit and retain children's social workers and social work managers may seriously inhibit the delivery of services.
16	CYPS	Volatile and high-cost, demographic demands of looked after children on the Children's Services budget in 2018/19 may result in adverse impacts on finance and service delivery.
17	CYPS	Government moves towards a National Funding Formula threaten the viability of some schools.
18	CYPS	Increasing demand on the Dedicated Schools Grant budget for High Needs Block special educational needs services may result in adverse impacts on finance and service delivery.

Altogether Greener

No significant strategic risks have been identified under this theme.

Altogether Healthier

	Service	Risk
19	AHS	Pressures nationally across residential, nursing and domiciliary care providers, could affect the availability, delivery, continuity, quality, sustainability and capacity of care provision within County Durham.
20	AHS	Risk that the Council breaches it's Adult Care – Residential Care Charging Policy and Deferred Payment Policy and is subject to legal challenge by Providers.

Altogether Safer

	Service	Risk
21	AHS	Failure to protect a vulnerable adult from death or serious harm (where service failure is a factor or issue).
22	T&P	Breach of duty under Civil Contingencies Act by failing to prepare for, respond to and recover from a major incident, leading to a civil emergency.
23	REAL	Damage to Highways assets as a result of a severe weather event.
24	REAL	Serious injury or loss of life due to Safeguarding failure (Transport Service)

Altogether Wealthier

	Service	Risk
25	REAL	Future strategic direction of the Council and the County will be adversely impacted if the County Durham Plan is not adopted.
26	REAL	Progressive land slippage near the A690 may develop to an extent where a major road closure is necessary for repairs to be undertaken.

Appendix 4: Emerging Strategic Risks

In this context, **emerging risks** are newly developing or changing risks which are difficult to quantify, but which may have a major impact on the Council if they materialise in the future.

Ref	Emerging Risk	Description	Risk Owner	Update and Actions
1	'No deal Brexit'	Following the referendum in June 2016, in which the United Kingdom (UK) voted to leave the European Union (EU), the government has yet to secure a withdrawal agreement with the EU. This has significantly increased the risk of the UK leaving the EU without an agreement setting out the future EU/UK relationship in terms of trade, cooperation and the movement of people, goods and services. This has the potential to adversely affect the economy, safety and welfare of the county from 29 March 2019.	Lorraine O'Donnell	<p>A Brexit Working Task & Finish Group has been established, chaired by the Director of Transformation and Partnerships with representatives from all service groupings, and reports to Corporate Management Team.</p> <p>Taking account of a range of guidance from the government and professional bodies, the Group is working with key partners including the Local Resilience Forum, as well as key suppliers and service providers, to identify and minimise the impacts on council services and service users.</p>

Appendix 5: Performance of Risk Management

Performance Indicators - Tangible Measures

Objective: To demonstrate that risks are being effectively managed				
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Last Period	This Period
All risks are reviewed on a continual cycle	Service Risk Review completed each quarter	100% (Quarterly)	100%	100%
Risk mitigation is being implemented as planned	Risk actions on high-scoring risks implemented within target date	Target N/A (Quarterly)	No outstanding actions	No outstanding actions
Risks are being effectively managed	Number of current risks where Net risk scores have reduced over the quarter	Target N/A (Quarterly)	None	One risk
Contributing to effective corporate governance	Meeting CIPFA governance principles and objectives on risk management	Confirmed in the annual review of the effectiveness of corporate governance (Annual)	The draft Annual Governance Statement was approved by Audit Committee on 1 June 2018.	An updated Local Code of Corporate Governance was approved by Audit Committee on 29 November 2018.
Objective: To ensure that Officers and Members are appropriately skilled in risk management				
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Last Period	This Period
Appropriate staff are adequately skilled in risk management	Number of officers attending risk management training course	Target N/A (Quarterly)	No training provided in this period.	No training provided in this period. However, the Council's insurer, Zurich Municipal, will delivering a major programme of training for managers in during 2019.
Members are adequately skilled in risk management	New Members attending risk management training course within 6 months of being elected (for co-opted members, within 6 months of being appointed)	75% (Quarterly)	No training provided in this period.	No training provided in this period.

Approvals trail: to be removed before Cabinet/Committee

Name	Title	Response or approval date
Contributors:		
Kevin Roberts	Principal Risk and Governance Officer	
David Marshall	Risk, Insurance & Governance Manager	
Approvers:		
Corporate Risk Management Group		15 January 2019
Corporate Management Team		6 February 2019

This page is intentionally left blank

Audit Committee

26 February 2019

**Audit Committees: Practical Guidance
for Local Authorities and Police 2018****Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud
Manager****Electoral division(s) affected:**

Countywide.

Purpose of the Report

- 1 The purpose of this report is to advise members of the publication of the Chartered Institute of Public Finance and Accountancy's (CIPFA) guidance on the function and operation of audit committees in local authorities in the UK and for police audit committees in England and Wales. The guidance also sets out CIPFA's view on the role and function of audit committees.

Executive Summary

- 2 The CIPFA Publication – Practical Guidance for Local Authorities and Police 2018 Edition sets out its guidance on the function and operation of audit committees in local authorities and police bodies and represents CIPFA's view of best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales.
- 3 Audit Committees are a key component of an authority's governance framework and provide an independent and high-level resource to support governance and strong public financial management.
- 4 All Members of the Committee have been provided with a complete copy of the guidelines for reference with selected extracts referenced within this report. The guidance covers:
 - The Core Functions of an Audit Committee
 - Possible Wider Functions of an Audit Committee
 - Independence and Accountability
 - Membership and Effectiveness

Recommendation

- 5 Members are asked to review the guidance and identify any areas where further development of the arrangements operating at Durham County Council might be required.
- 6 Members are asked to agree that the Committees Terms of Reference are updated to include the relevant changes detailed in the guidance.
- 7 Members are asked to accept that the high level review checklist and self-assessment are completed and discussed at the Committee's next meeting in May.

Background

- 9 The Audit Committee has reviewed its arrangements against previous iterations of CIPFA audit committee guidance, with the most recent assessment taking place in 2013 (at the last release of CIPFA guidance). It is therefore timely that a further self-assessment against the 2018 edition is undertaken.
- 10 The current terms of reference of the committee are attached at Appendix 2 for information.

CIPFA 2018 Publication

- 11 The publication incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018) ("the position statement") which sets out CIPFA's view of the role and functions of an audit committee and replaces the previous 2013 Position Statement.
- 12 Audit Committees are a key component of an authority's governance framework and provide an independent and high level resource to support good governance and strong public financial management.
- 13 As a key component of an organisation's governance arrangements, the audit committee has the potential to be a valuable resource to the whole authority. Where they operate effectively, audit committees can add value by supporting improvements across a range of objectives including:
 - Promoting the principle of good governance and their application to decision making;
 - Raising awareness of the need for sound internal control as well as contributing to the development of an effective control environment;
 - Supporting the establishment of arrangements for the governance and the management of risk;
 - Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively;
 - Reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions;
 - Supporting the development of robust arrangements for ensuring value for money; and

- Helping the authority to implement the values of ethical governance including the effective arrangements for countering the risks of fraud and corruption.

Key Changes

14 The revised and updated 2018 edition takes into account the development of audit committees since the original edition as well as incorporating the legislative changes that have affected the sector since 2013. It includes additional guidance and resources to support those acting as audit committee members in local authorities and those working with and supporting the committee's development. The key changes contained within CIPFA's latest guidance relate to the following areas:

- Inclusion of an independent member on the Committee;
- Additional guidance on how the Committee can oversee independence, objectivity and performance of Internal Audit and support the effectiveness of the internal audit process;
- Additional guidance on how the committee can support independence of the external auditor and monitor the external audit process.

15 CIPFA's latest guidance has also made some additions to the suggested Terms of Reference for Audit Committees. These relate to the role of the Committee in relation to:

- Reviewing the governance and assurance arrangements for significant partnerships or collaborations;
- Considering any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit and to approve and periodically review safeguards to limit such impairments;
- Providing free and unfettered access to the Audit Committee chair for the Head of Internal Audit, including the opportunity for a private meeting with the Committee;
- Supporting the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate; and
- Publishing an annual report on the work of the Committee.

- 14 CIPFA states that a good standard of performance against recommended practice together with a knowledgeable and experienced membership are essential requirements for delivering effectiveness. To this effect, CIPFA has provided a high level checklist that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police. The latest guidance includes some additional good practice questions to the previous CIPFA checklist (2013 edition). This checklist can be used to undertake a regular self-assessment to support the planning of Audit Committee work programmes and training plans.
- 15 The self-assessment has previously been carried out against the key requirements of the previous CIPFA checklists (2013 edition). The following good practice questions have since been added to the checklist:
- *Functions of the Committee* – does the Committee's terms of reference explicitly address the area of 'supporting the ethical framework'?
 - *Membership and Support* – Have independent members appointed to the Committee been recruited in an open and transparent way and approved by the Full Council as appropriate for the organisation?
 - *Effectiveness of the Committee* –
 - Are meetings effective with a good level of discussion and engagement from all members?
 - Does the Committee engage with a wide range of leaders and managers, including discussion of audit findings, risk and action plans with the responsible officers?
 - Does the Committee make recommendations for the improvement of governance, risk and control and are these acted upon?
 - Does the Committee publish an annual report to account for its performance and explain its work?

Background papers

- Audit Committee – Practical Guidance for Local Authorities and Police (2013 Edition)

Other useful documents

- None

Contact: Paul Bradley

Tel: 03000 269645

Appendix 1: Implications

Legal Implications

There are no specific legal implications associated with this report. The Audit Committee contributes to the effective governance of the Council and provide relevant and appropriate challenge and oversight where necessary.

Finance

There are no specific financial implications associated with this report. The Audit Committee has a clear terms of reference and directly effects and assists in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational and strategic risks.

Consultation

Chair of the Audit Committee and Corporate Director of Resources

Equality and Diversity / Public Sector Equality Duty

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

The key risk is that the Audit Committee continues to comply with relevant and up to date guidance and that its Terms of Reference are appropriate in order to fulfil its role. To mitigate this risk, relevant updates are presented to the Committee as appropriate.

Procurement

None.

This page is intentionally left blank

Audit Committee Operational Terms of Reference

1 Objectives

- 1.1 The Audit Committee will provide independent assurance to Cabinet and Full Council over the:
- Adequacy and effectiveness of the Council's governance arrangements, including the effectiveness of the risk management framework and the associated control environment.
 - Financial reporting of the Council's Statement of Accounts ensuring that any issues arising from the process of drawing up, auditing and certifying the Council's annual accounts are dealt with properly.

2 Authority

- 2.1 The Audit Committee reports to full Council on audit and governance issues. It has delegated authority to approve the annual statement of accounts. It also has delegated authority to approve the Annual Governance Statement. The Committee has access to other Committees e.g. Overview and Scrutiny, from which it can gain assurance on the adequacy and effectiveness of the Council's governance arrangements. It also has a reporting line to Cabinet and the Constitution Working group and makes recommendations on improvements required to the Council's Corporate Governance arrangements. The Chair reports on the work undertaken by the Committee to Full Council.
- 2.2 The role of the Audit Committee in relation to the Council's assurance framework is illustrated in the assurance map attached as an Appendix.
- 2.3 To help maintain its independence, the Committee has the right to meet privately with the External Auditor and the Head of Internal Audit as considered necessary.

3 Composition

- 3.1 The membership of the Audit Committee shall comprise nine Members of the Council and two co-opted non-voting members.
- 3.2 A quorum of three elected members (including the Chair or Vice Chair) is required for decisions of the Committee to be ratified.
- 3.3 The Chair of the Committee will be independent of the Executive and will not be a chair of a Scrutiny Committee or the Standards Committee.

4 Terms of Reference

4.1 Objective 1 - Independent assurance over the adequacy and effectiveness of the Council's governance arrangements, including the effectiveness of the risk management framework and the associated control environment

Governance Arrangements – General

- To review and endorse the Council's Local Code of Corporate Governance prior to consideration by the Constitution Working Group and approval by Full Council as part of the Council's Constitution.
- To review how the Audit Committee's work integrates with the wider performance management framework and standards compliance by consideration of the Council's assurance framework.
- To understand the role of overview and scrutiny committee in relation to the review of performance and the assurance it provides on the effectiveness of the Council's governance arrangements.
- To approve proposals for the production of the Annual Governance Statement as proposed by the Corporate Director of Resources.
- To review the effectiveness of internal audit each year as required by the Accounts and Audit (England) Regulations 2011.
- To approve the draft annual governance statement prior to its inclusion in the draft Annual Statement of Accounts.
- To approve the final annual governance statement as part of the approval of the final Annual Statement of Accounts process.
- To approve and monitor the implementation of improvements required to the Council's Corporate Governance Arrangements as highlighted in the Annual Governance Statement.

Risk Management

- To review and endorse the Council's risk management strategy and policy prior to approval by Cabinet.
- To maintain an understanding of the risk management process and the key risks facing the Council.
- To review regular reports from the Corporate Risk Management Group to gain assurance that the Council is monitoring and managing its risks effectively.
- To seek further assurance from service managers that risks are being effectively managed as considered necessary.

- To seek assurance on the effectiveness of the operation of the risk management framework.

Control Environment

- To maintain an understanding of key council policies and procedures which seek to provide effective control over the conduct of Council business, the safeguarding of assets and the timely production of accurate and complete financial information and to seek assurance that there are adequate arrangements in place to ensure that these are being adhered to. This should include procedures set out in the Council's Constitution in respect of Contract Procedure Rules, Financial Procedures Rules, (and supporting Financial Management Standards), Scheme of Delegation, and Codes of Conduct for Members and Officers.
- To maintain an understanding of the Council's performance management framework.
- To review the effectiveness of the Council's Counter Fraud and Corruption Strategy and recommend any material changes required to the Strategy to Cabinet.
- To review the effectiveness of the Council's Anti Money Laundering Policy and recommend any material changes required to the policy to Cabinet.
- To review the effectiveness of the Council's Whistle-Blowing Policy and recommend any material changes required to the policy to Cabinet.
- To approve the Council's Internal Audit Charter setting out the Internal Audit Strategy and Terms of Reference.
- To maintain an understanding of the Internal Audit process and how this relates to risk management.
- To endorse and provide challenge to proposed Annual Internal Plans ensuring that Internal Audit work is planned with due regard to risk, materiality and coverage.
- To review the effectiveness of Internal Audit by reviewing and monitoring regular progress reports on its work and performance.
- To review the effectiveness of External Audit, including consideration of any potential conflicts of interest.

- To review the Head of Internal Audit's annual report, summary of Internal Audit work and the overall assurance opinion that the service can provide on the effectiveness of the Council's internal control environment that will inform the annual governance statement.
- To maintain an understanding of the role of External Audit and its relationship with Internal Audit.
- To maintain an understanding of the role of other key providers of assurance identified in the Council's assurance framework, both external and internal and ensure adequate arrangements are in place for reviewing the reliability and effectiveness of those assurance providers and for addressing any control weaknesses or improvements that they may identify.
- To review External Audit reports and the Annual Audit Letter and ensure that there are appropriate arrangements in place to address any areas of improvement identified and to inform the operation of Council's current or future audit requirements.
- To monitor progress made by management in response to both internal and external audit findings and recommendations.
- To review the scope and depth of External Audit work as set out in their annual plans.
- Within available resources, to be able to request specific pieces of work from Internal and External Audit.

4.2 Objective 2 - Independent assurance over the financial reporting of the Council's Statement of Accounts ensuring that any issues arising from the process of drawing up, auditing and certifying the Council's annual accounts are dealt with properly.

- To maintain an understanding of the Budget and Policy Framework as set out in the Council's Constitution.
- To maintain an understanding of the budget procedures as set out in Finance Procedure Rules and Financial Management Standards.
- To maintain an understanding of internal and external reporting requirements.
- To approve accounting policies, the approach to accounting estimates and the 'going concern' assertion
- To review the draft un-audited statements of accounts as certified by the S151 Officer. This review should include ensuring that issues raised in previous financial years have been addressed.

- To review the Annual Outturn Report and consider how this might impact on the draft accounts.
- To approve the Final Audited Statements of Accounts, and any material amendment to the draft accounts required as set out in the External Auditor's report on issues arising from the audit of the accounts. and seek assurance that appropriate action has been taken relating to any issue that may impact on the current years accounts. In addition the Committee will consider, with the exception of any matter which may result in the accounts being qualified, any response to the Council's external auditors where it is not considered appropriate to make the amendments recommended.

5 Meetings

- 5.1 The Audit Committee will meet at least four times a year. Meetings will be open to the public, but they may be excluded where information of an exempt or confidential nature is being discussed.
- 5.2 To help maintain independence, the Head of Internal Audit is the nominated lead officer for the Committee and will hold pre-agenda meetings with the Chair and Vice Chair and will attend every meeting (or arrange deputy).
- 5.3 The S151 Officer and the Monitoring Officer are key corporate governance officers and they or their nominated deputies will attend each meeting.
- 5.4 The External Auditor has the right to attend any audit committee meeting.
- 5.5 Other officers will be invited to attend to present reports and /or answer any questions the Committee may have as considered appropriate to these terms of reference.
- 5.6 Each report presented to Committee will make reference to the relevant paragraph in these terms of reference to clearly demonstrate how the Committee fulfils its role.
- 5.7 A standard item will be added to each committee agenda for the Committee to be given the opportunity to discuss any exceptional items in private at the end of the meeting with Internal/External Audit.

6 Programme of Work

- 6.1 An annual programme of work, cross referenced to these terms of reference, will be agreed annually by the Audit Committee showing expected documents and reports to be presented and any training requirements.

7 Performance and Review

- 7.1 The Audit Committee will carry out an annual self-assessment, including a review of these terms of reference, to evaluate its own performance and determine any action required to improve its effectiveness. The outcomes will be reported to Full Council.

Audit Committee

26 February 2019

Emergent Internal Audit Plan 2019/2020**Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager****Electoral division(s) affected:**

Countywide.

Purpose of the Report

- 1 This report provides the Committee with details of the emergent Internal Audit Plan for 2019/2020 (attached as Appendix 2).
- 2 The purpose of this report is to update and engage Members of the Audit Committee in the development of the 2019/2020 Internal Audit Plan.

Executive Summary

- 3 This report sets out the first formal iteration of the Internal Audit Plan for 2019/2020 and describes:
 - (a) The basis of the plan.
 - (b) The approach taken to develop the plan.
 - (c) The key characteristics which include:
 - The scale and pace of change
 - The structure of the plan
 - The content of the plan
 - The scale of the plan
- 4 As described this is the first formal iteration of the Internal Audit Plan for 2019/2020 with the final version to be approved by the Audit Committee at its meeting 31 May 2019 and will be monitored throughout the year.

Recommendation

- 5 Members are requested to comment on the proposed direction and process for the development of the emergent Internal Audit Plan attached at Appendix 2, which will be brought back for formal approval on 31 May 2019.

Background

- 6 From April 2013, CIPFA and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector. The PSIAS set out the standards for Internal Audit and have been adopted by the service in Durham.
- 7 The principles in the PSIAS are consistent with the previous CIPFA Code for Internal Audit that applied across Local Government. They include the need for 'risk based plans' to be developed for Internal Audit and for plans to receive input from management. This process also includes the development of an emergent Internal Audit Plan designed to invite comment from management and the Audit Committee.

Basis for the Plan

- 8 The PSIAS (section 2000) states that the 'Chief Audit Executive' must 'establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisations goals'. They refer to the need for the plan to reflect the assurance framework, risk management arrangements and input from management. These principles have been applied in the development of the 2019/2020 Internal Audit plan as follows:

A. Annual Internal Audit Opinion (PSIAS 2010)

- The Chief Internal Auditor and Corporate Fraud Manager forms an annual assurance opinion based on the annual programme of audit work as well as assurance obtained by other means. The current audit approach contains five main types of audit. It is not considered cost effective or necessary to obtain coverage of all strategies, business units and risks so these are reviewed on a risk basis each year.
- In addition to audit the Chief Internal Auditor and Corporate Fraud Manager considers any issues identified through fraud and corruption or developing systems work insofar as they impact on the effective operation of governance, risk management or internal control within the Council.
- The service provides advice and consultancy to all services and partnerships where appropriate. This is an increasing area of focus given the amount of change ongoing across the Council and our partners. Time is also allocated to support developing systems and a range of emerging projects, ensuring early engagement and audit support across the Council.

- The Chief Internal Auditor and Corporate Fraud Manager also seeks to place reliance on assurance mechanisms within the Council as well as the findings of other auditors and inspectors in reaching an annual opinion.
- The plan is flexible and is reviewed and adjusted throughout the year, as necessary, in response to changes in policies, systems, processes, risks and controls across the Council.

B. Based on a Risk Assessment (PSIAS 2010.A1)

- The Internal Audit Section works closely with the Council's Risk Management and Governance Team. The Audit and Fraud Managers liaise formally and informally with the Risk and Governance Manager and Auditors work with the Risk and Governance section to share intelligence, information and issues of concern. Internal Audit also regularly engages with Corporate Directors and Heads of Service, as well as colleagues across Human Resources, Legal, Performance, Finance and ICT, to ensure that known and emerging unregistered risks are considered in annual audit planning.
- Audit planning considers key risks and the focus of audit work is tailored accordingly to ensure that local and national issues and risks are addressed.
- The Chief Internal Auditor and Corporate Fraud Manager ensures a culture of risk awareness is maintained within the service so that all members of the team are aware of local, regional and national risks in the performance of their duties.
- Through regular liaison and the sharing of Internal Audit Plans with colleagues across the North East and County Chief Auditors Network, Internal Audit ensures that it is aware of emerging risks in other Council's and considers these as part of the audit planning.

C. Informed by Expectations (PSIAS 2010.A2)

- The Internal Audit Service is aligned to service and service grouping structures, ensuring teams engage positively with Corporate Directors and their teams.
- The annual plan is based on consultation and discussion with management teams and key officers to ensure it is focused on key risks, core systems and areas where Internal Audit can effectively contribute to the effectiveness and efficiency of governance, risk management and control processes.

- An emergent plan is produced to help ensure early engagement with Members represented on the Council's Audit Committee.

Audit Planning

- 9 The approach to audit planning in the Council for 2019/2020 has been based largely, but not exclusively, on the following:
- Review of the Strategic Risk Register
 - Review of the assurance map compiled during the year taking into account the work of other assurance providers.
 - Cumulative audit knowledge and experience.
 - Findings and outcomes from audit and investigation work in 2018/2019 and earlier years.
 - Engagement with Heads of Service and their management teams.
 - Engagement with audit colleagues across the North East and County Chief Auditor Network.
 - Engagement with the Risk, Insurance and Governance teams within the Audit and Risk Management Division.
- 10 On this basis, an emergent plan of areas for audit coverage has been developed. Areas have been considered on a risk basis and a plan for consultation has been produced. This has initially been presented to Corporate Directorate management teams for comment, to ensure that the risks identified are consistent with their understanding and assessment.

Key Characteristics of the Annual Plan

Scale and Pace of Change

- 11 Austerity continues to be top of the agenda for local government. 2018/2019 has seen the first financially failing Councils, some issuing section 114 notice, others providing only statutory services and auditors issuing warnings on the financial management of others. With a £16bn reduction of government funding to councils this decade and Public Sector Executive warning of a £8bn funding black hole by 2025.
- 12 In order to manage austerity, to meet changing and increasing demand pressures and to keep pace with demographic and technological changes, local government continues to undergo fundamental change.

- 13 The National Audit Office 'Financial sustainability of local authorities 2018' report quantifies and details taken by local authorities, which have included a reduction of non-statutory and discretionary services, greater income generation and a greater use of reserves. Furthermore, the report identifies there has also been a desire to better leverage savings or efficiencies through greater or better use of technology.
- 14 The national context is important to consider whilst assessing the local issues as Durham County Council continues to go through a period of continuous change. Since the beginning of austerity in 2010 there has been a significant reduction in the workforce and this may continue for the foreseeable future. Changes are taking place in the design, commissioning and delivery of services, with ongoing activity to deliver savings across all areas of the Council. The implementation of changes and public service reform, with a reduced workforce whilst delivering business as usual and achieving key priorities remains a key challenge for the Council during 2019/2020 and must be reflected in the Internal Audit Plan.
- 15 Internal audit planning therefore must take into account the above changes, while also considering that:
- Austerity is a driver for change – where there is change, there is risk.
 - With workforce cuts and re-organisations, there is a risk of dissatisfied staff and a loss of experience.
 - Cutting costs can also lead to cutting of control; and
 - The organisation needs to be more inventive, which needs to be taken into account when conducting audits.
- 16 The Internal Audit Plan must continue to be sufficiently flexible to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified. This is particularly relevant for 2019/2020 as changes are agreed with more detailed work ongoing to confirm how these will be delivered. As such there are areas where Internal Audit work cannot be fully defined at this stage but where allocation of resource are required to help support good governance, risk management and control. Whilst Internal Audit adds value and provides assurance in these areas, the detailed areas for focus are the subject of ongoing discussions with the business. Rather than define specific audits and then change them, the plan includes allocations of work which will be applied to specific aspects of audit activity throughout the year. There will be similar allocations in other areas with details of

specific audit activities reported to Corporate Directors, Heads of Service and the Audit Committee throughout the year.

- 17 Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (hazards). The reduction in workforce for example provides opportunity for breakdown in control as well as an opportunity to consider new, more efficient ways of organising people, systems and processes without impacting adversely on internal control. The PSIAS have recently been amended to reflect more the need for a modern, professional Internal Audit Service to actively engage with the organisation and be seen to add value. To reflect this risk the audit plan will continue to allocate time for advice and consultancy and developing systems support to officers to support and challenge them in the establishment and development of their systems of governance, risk management and internal control. We will also deliver work on the core financial systems and a number of proactive counter fraud, irregularity and probity audits to provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error.
- 18 The continued pace of change across the Council requires assurance that is prioritised and timely. The Internal Audit Plan must provide for this assurance, to enable remedial actions or controls to be implemented on a timely basis. Based on experience and feedback from Service Grouping Management Teams there is a continued need for shorter, more focused and practical audits in areas of emerging risk.
- 19 The characteristics of the plan: flexible, supportive, challenging, prioritised and timely are not new however, it remains critical that these principals are maintained if Internal Audit is to help the Council to continue to respond effectively to the scale of change during 2019/2020 and beyond.
- 20 Based on the above the Chief Internal Auditor and Corporate Fraud Manager considers that assurance is best obtained through a combination of different audits and other sources of assurance. This is not an uncommon approach but it has been tailored to reflect the specific needs of the Council. It is consistent with the approach taken in the development and delivery of the 2018/2019 Internal Audit Plan. With the greater need to add value it is the intention for the service to increase its advice and consultancy work whilst still balancing the need for assurance.

Plan Structure

- 21 There are five different types of audit activity in the plan.
- Assurance Review
 - Advice and Consultancy
 - Key System
 - Grant Certification
 - Investigation
- 22 This approach of using different types of audits and other work is considered the most effective way to deliver the strategy for Internal Audit.

Plan Content

- 23 In summary, there is focus on risk based audits and providing assurance over key systems. This reflects the need to focus on the management of emerging risks and ensure the continued operations of controls within the Council's overall governance arrangements, its systems and its processes.
- 24 There is time allocated to developing systems and supporting service groupings with new initiatives and any changes in service delivery.
- 25 The need for continued investment of time in anti-fraud, irregularity and probity work continues.
- 26 The emergent plan has been compiled to reflect the Corporate Management Team and Service Grouping structure in the Council as follows:
- Adult and Health Services (AHS)
 - Children and Young People Service (CYPS)
 - Regeneration and Local Services (REAL)
 - Resources (RES)
 - Transformation and Partnerships (TAP)
- 27 To help ensure that the plan is flexible and the service is able to respond to any key risks in the year, the emergent plan includes a block of contingency time from which specific audits can be delivered in the year. Further details will be provided to the Audit Committee in the finalised plan in May and throughout the year.

Scale of the Plan

- 28 The annual internal audit plan needs to be deliverable within available resources. The Internal Audit Team has an approved establishment of 18 employees, equivalent to 16.35 FTE. The Corporate Fraud Team, which consists of six employees (5.31 FTE) will deliver a range of proactive and reactive counter fraud work across the year. In addition, there are also two apprentice Corporate Fraud Investigators within the service.
- 29 As a result of this planning, the latest forecast of available resources to be allocated to the management and delivery of the audit plan is 4,741 days. 505 days of this relate to work for external clients. The detail of this allocation is shown in the table below.

Estimated Gross Days Available (23.66 FTE)	6,127
Non – Productive Time (Annual Leave, Sickness, Office Duties etc.)	1,386
Productive Time – not allocable to services, e.g. Audit and Fraud Planning, Supporting Audit Committee, Quality Assurance and Contingency	1,494
Productive Time - Fraud	917
Productive Days 2019 / 2020	
Audit days required to complete and close audit reports relating to 2018/19	358
Adult and Health Services (AHS)	230
Children and Young People Service (CYPS)	248
Regeneration and Local Services (REAL)	257
Resources (RES)	299
Transformation and Partnerships (TAP)	63
Schools	370
Durham Police and Crime Commissioner / Durham Constabulary	158
Durham and Darlington Fire & Rescue Authority	71
Pension Fund	45
Durham Joint Crematorium	19
Mountsett Joint Crematorium	19
Peterlee Town Council	26
Spennymoor Town Council	20
Durham City Parish Council	2
Monk Hesledon Parish Council	2
Shotton Parish Council	1.5
Horden Parish Council	15
Trimdon Parish Council	2.5
Durham City Charter	6
Association of North East Councils	20
Livin – Counter Fraud	39
Karbon Homes – Counter Fraud	20
County Durham Housing Group – Counter Fraud	39
TOTAL GROSS DAYS REQUIRED	6,127

Emergent Plan Content

- 30 Within this framework an emergent work programme of potential work has been developed. This is based on an assessment of risk.
- 31 Consultation is ongoing with Corporate Directorate Management Teams and Corporate Directors. It is likely that elements of the plan will be changed as part of this overall process of engagement and reconciling proposed audit work with available resources.

Background papers

- Public Sector Internal Audit Standards
- Strategic Internal Audit Plan

Other useful documents

- None

Contact:	Paul Bradley	Tel: 03000 269645
	Paul Monaghan	Tel: 03000 269662

Appendix 1: Implications

Legal Implications

There are no specific legal implications associated with this report. Internal Audit contribute to the effective governance of the Council and provide relevant and appropriate challenge and oversight where necessary.

Finance

There are no specific financial implications associated with this report. Internal Audit work has clear and direct effects, through recommendations made, to assist in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

Consultation

All Corporate Directors, the Director of Transformation and Partnerships and all Heads of Service.

Equality and Diversity / Public Sector Equality Duty

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Audit Committee. Where progress has not been made, further action is agreed and overseen by the Audit Committee to ensure action is taken.

Procurement

None.

This page is intentionally left blank

EMERGENT INTERNAL AUDIT PLAN - SERVICE GROUPING BREAKDOWN

Service Grouping	Service	Audit Title	Estimated Days
Adult and Health Services	Adult Care	Direct Payments (support in relation to 'to be' processes)	20
Adult and Health Services	Adult & Health Services	Integration of Health and Care Plan for County Durham	4
Adult and Health Services	Adult Care	Direct Payment Cards	10
Adult and Health Services	Adult Care	SSID Replacement - Project Board	5
Adult and Health Services	Adult Care	SSID Replacement - Workstream / Process Mapping	40
Adult and Health Services	Adult Care	Transition Arrangements between Childrens and Adult Services	20
Adult and Health Services	Commissioning	Personalisation – Delivery of Services via the use of virtual budgets and through traditionally commissioning services	15
Adult and Health Services	Commissioning	Commissioning of Learning Disability Services	20
Adult and Health Services	Commissioning	Commissioning of Learning Disability Services - Advice	5
Adult and Health Services	Commissioning	Post Contract Arrangements	20
Adult and Health Services	Commissioning	Commissioning of Mental Health Services	20
Adult and Health Services	Commissioning	Commissioning of Residential & Domicilliary Care	20
Adult and Health Services	Public Health	Drug and Alcohol Treatment Services	10
Adult and Health Services	Public Health	Support to the DPH - Health Protection	5
Adult and Health Services	Public Health	Pharmoutcomes - Data Matching	1
Adult and Health Services	Public Health	Suicide Early Alert	15
TOTAL ESTIMATED DAYS FOR ADULTS AND HEALTH SERVICES			230
Children and Young People's Services	CYPS	MTFP Arrangements	10
Children and Young People's Services	CYPS	Regional Adoption Agency Governance	5
Children and Young People's Services	CYPS	Liquidlogic - Board Meetings	2
Children and Young People's Services	CYPS	Liquidlogic: Phase 1 Implementation	20
Children and Young People's Services	CYPS	Liquidlogic: Phase 2 Implementation	20
Children and Young People's Services	Children's Social Care	Contract Monitoring Arrangements - External Foster Carer Payments	20
Children and Young People's Services	Children's Social Care	Supervised Spend - Leaving Care Service	20
Children and Young People's Services	Children's Social Care	First Contact Service	15
Children and Young People's Services	Children's Social Care	Home to School Transport Arrangements	20
Children and Young People's Services	Children's Social Care	Special Guardianships and Child Arrangement Orders	10
Children and Young People's Services	Children's Social Care	Children's Homes	8
Children and Young People's Services	Children's Social Care	Children's Centres and Hubs	8
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Troubled Families Programme	8
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Section 17 Payments	15
Children and Young People's Services	Education	School Attendance Enforcement	5
Children and Young People's Services	Education	Academy Transfer Arrangements	5
Children and Young People's Services	Education	Durham Works	10
Children and Young People's Services	Education	Adult Learning Services	10
Children and Young People's Services	Education - Schools	SFVS	10
Children and Young People's Services	Education - Schools	Governor Training	6
Children and Young People's Services	Education - Schools	HT/SBM Training	3
Children and Young People's Services	Education - Schools	Headteacher Group	1
Children and Young People's Services	Education - Schools	School User Provider Group	1
Children and Young People's Services	Education - Schools	Developing Financial Management Standards in Durham Schools	3
Children and Young People's Services	Locality and Operational Support	Caldicott Compliance	10
Children and Young People's Services	Locality and Operational Support	Caldicott Group	3
TOTAL ESTIMATED DAYS FOR CHILDREN AND YOUNG PEOPLE'S SERVICE			248
Regeneration and Local Services	Planning & Assets / Technical Services	Capital Programme Management (including School Capital Programme)	15
Regeneration and Local Services	Planning & Assets	Carbon Reduction Commitment	4

EMERGENT INTERNAL AUDIT PLAN - SERVICE GROUPING BREAKDOWN

APPENDIX 2

Page 1

Service Grouping	Service	Audit Title	Estimated Days
Regeneration and Local Services	Planning & Assets	Utility Bills - Contract Management	10
Regeneration and Local Services	Planning & Assets	LoCarbo	5
Regeneration and Local Services	Planning & Assets	Rebus	5
Regeneration and Local Services	Planning & Assets	Atlantic Geoparks	5
Regeneration and Local Services	Planning & Assets	Carbon Connects	5
Regeneration and Local Services	Economic Development & Housing	Stephanie	5
Regeneration and Local Services	Economic Development & Housing	Housing Solutions	10
Regeneration and Local Services	Economic Development & Housing	Disabled Facilities Grant	6
Regeneration and Local Services	Environment, Health and Consumer Protection	Online Licence Applications	7
Regeneration and Local Services	Environment, Health and Consumer Protection	Fair Trading - Consumer Complaints	7
Regeneration and Local Services	Environment, Health and Consumer Protection	Fees and Charges	7
Regeneration and Local Services	Transport and Contract Services	Local Transport Capital Block Funding	5
Regeneration and Local Services	Transport and Contract Services	Bus Subsidy Ring Fenced Grant	4
Regeneration and Local Services	Transport and Contract Services	Road Safety Capital Grant	5
Regeneration and Local Services	Transport and Contract Services	Park and Ride	10
Regeneration and Local Services	Transport and Contract Services	Concessionary Fares	10
Regeneration and Local Services	Direct Services	Public Health Funerals	10
Regeneration and Local Services	Direct Services	Neighbourhood Wardens - Enforcement and Education	10
Regeneration and Local Services	Direct Services	Fuel Stocks and Stores	20
Regeneration and Local Services	Culture and Sport	Rolling Programme of Leisure Centres (Abbey, Meadowfield and Riverside)	35
Regeneration and Local Services	Culture and Sport	Compliance with new Leisure Centre procedures on holidays and TOIL	8
Regeneration and Local Services	Culture and Sport	New system for 'Learn to Swim'	5
Regeneration and Local Services	Culture and Sport	Competition Line UK Income Share Agreement	5
Regeneration and Local Services	Culture and Sport	Stanley Bowls	1
Regeneration and Local Services	Technical Services	CDM Compliance - Review of Self Assessment	5
Regeneration and Local Services	Technical Services	Charging Arrangements	10
Regeneration and Local Services	Technical Services	Local Highways Maintenance Funding - Incentive Element	8
Regeneration and Local Services	Technical Services	Local Transport Capital Block Funding for NECA	5
Regeneration and Local Services	Technical Services	Stores Management	10
TOTAL ESTIMATED DAYS FOR REGENERATION AND LOCAL SERVICES			257

EMERGENT INTERNAL AUDIT PLAN - SERVICE GROUPING BREAKDOWN

Service Grouping	Service	Audit Title	Estimated Days
Resources	Legal & Democratic Services	Members Expenses	10
Resources	Legal & Democratic Services	RIPA Officers Group	1
Resources	Legal & Democratic Services	Scheme of Delegation	10
Resources	Legal & Democratic Services	Tender Opening Arrangements	5
Resources	Corporate Finance and Commercial Services	Capital Accounting	10
Resources	Corporate Finance and Commercial Services	Property Investment Fund	5
Resources	Corporate Finance and Commercial Services	Contract Management	15
Resources	Corporate Finance and Commercial Services	Off Contract Spend	15
Resources	Corporate Finance and Commercial Services	Electrical Components Contract	7
Resources	Corporate Finance and Commercial Services	Oracle Programme Board	2
Resources	People and Talent Management	Disciplinary Policy	5
Resources	Finance and Transactional Services	Service Level Agreements Board	3
Resources	Finance and Transactional Services	Section 256 Agreements	10
Resources	Finance and Transactional Services	Creditors	1
Resources	Finance and Transactional Services	Creditors - National Fraud Initiative	10
Resources	Finance and Transactional Services	Creditors - Invoice and PO authorisation	10
Resources	Finance and Transactional Services	Creditors - Receipting of Goods	10
Resources	Finance and Transactional Services	Procurement Cards	10
Resources	Finance and Transactional Services	Work Stream on Petty Cash and Payment Cards	10
Resources	Finance and Transactional Services	P2P Performance and Improvement Project	4
Resources	Finance and Transactional Services	Better Care Fund and Improved Better Care Fund (Section 75)	5
Resources	Finance and Transactional Services	Payroll	20
Resources	Finance and Transactional Services	Payroll - System Implementation	10
Resources	Finance and Transactional Services	Cash Management	10
Resources	Finance and Transactional Services	Debtors	20
Resources	Finance and Transactional Services	Debtors Working Group	2
Resources	Finance and Transactional Services	Financial Deputies	10
Resources	Finance and Transactional Services	Deputies and Appointees - Working Group	5
Resources	Finance and Transactional Services	Deputies and Appointees - Personal Allowance Payments	15
Resources	Digital and Customer Services	Change Management	8
Resources	Digital and Customer Services	Problem Management	8
Resources	Digital and Customer Services	Office 365	10
Resources	Digital and Customer Services	IT Governance	8
Resources	Digital and Customer Services	ICT Purchasing	8
Resources	Digital and Customer Services	Process Reviews	5
Resources	Digital and Customer Services	Digital Durham	2
TOTAL ESTIMATED DAYS FOR RESOURCES			299
Transformation and Partnerships	Communications and Marketing	Policy on Advertising and Sponsorship	3
Transformation and Partnerships	Communications and Marketing	Social Media Strategy	3
Transformation and Partnerships	Strategy	Data Quality - System Process Review	15
Transformation and Partnerships	Partnerships and Community Engagement	Community Grants Sample	6
Transformation and Partnerships	Partnerships and Community Engagement	Community Grants - Monitoring Arrangements	8
Transformation and Partnerships	Transformation	Transformation	5
Transformation and Partnerships	Transformation	Business Support Review	3
Transformation and Partnerships	Transformation	GDPR compliance	10
Transformation and Partnerships	Transformation	Freedom of Information (FOI)	7

Service Grouping	Service	Audit Title	Estimated Days
Transformation and Partnerships	Transformation	Information Governance Group	3
TOTAL ESTIMATED DAYS FOR TRANSFORMATION AND PARTNERSHIPS			63

Audit Committee

26 February 2019

**Internal Audit Progress Report Period
Ended 31 December 2018**



**Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud
Manager**

Electoral division(s) affected:

Countywide.

Purpose of the Report

- 1 To inform Members of the work that has been carried out by Internal Audit during the period 1 April 2018 to 31 December 2018 as part of the 2018/2019 Internal Audit Plan.

Executive Summary

- 2 The report provides Members with the progress that has been made in achieving the Internal Audit Plan for 2018/2019 up to 31 December 2018 and aims to:
 - (a) Provide a high level of assurance, or otherwise, on internal controls operating across the Council that have been subject to an Internal Audit of systems and processes;
 - (b) Advise of issues where controls need to be improved in order to effectively manage risks;
 - (c) Advise of other types of audit work carried out such as grant certification or consultancy reviews where an assurance opinion on the control environment may not be applicable;
 - (d) Advise of amendments to the Internal Audit Plan;
 - (e) Track the progress of responses to Internal Audit reports and the implementation of agreed audit recommendations;
 - (f) Advise of any changes to the audit process;
 - (g) Provide an update on the performance indicators comparing actual performance against planned

- 3 The appendices attached to this report are summarised below. Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3).
- (a) Appendix 2 – Progress against the Internal Audit Plan;
 - (b) Appendix 3 – Final reports issued in the quarter ended 30 September 2018;
 - (c) Appendix 4 – The number of high and medium priority actions raised and implemented;
 - (d) Appendix 5 – Internal Audit performance indicators;
 - (e) Appendix 6* – Overdue Actions;
 - (f) Appendix 7* – Limited Assurance Audit Opinions.

Recommendations

- 4 Members are asked to note:
- (a) The amendments made to the 2018/19 Annual Internal Audit Plan;
 - (b) The work undertaken by Internal Audit during the period ending 31 December 2018;
 - (c) The performance of the Internal Audit Service during the period;
 - (d) The progress made by service managers in responding to the work of Internal Audit.

Background

- 5 As an independent consultancy service, the Council's Internal Audit Team strives to continue to add value and improve the organisation's operations as well as providing objective assurance to service managers and the Council.
- 6 The Internal Audit Strategy and Annual Internal Audit Plan, covering the period 1 April 2018 to 31 March 2019, was approved by the Audit Committee on 01 June 2018.

Progress against the Internal Audit Plan

- 7 A summary of the approved Internal Audit Plan for each Service Grouping, updated to include work in progress and any audits brought forward from last year's plan, is attached at Appendix 2. The appendix illustrates the status of each audit as at 31 December 2018 and, where applicable, also gives the resultant assurance opinion.
- 8 A summary of the status of audits in 2018/19 is illustrated in the table below:

Service Grouping	Not Started	Planning and Preparation	In Progress	Draft Report	Final Report / Complete
Adult and Health Services (AHS)	6	3	6	0	7
Children and Young People's Services (CYPS) *Excluding Schools	4	10	8	0	15
Regeneration and Local Services (REAL)	10	12	5	2	26
Resources (RES)	14	21	25	3	47
Schools	2	16	5	6	65
Transformation and Partnerships (TAP)	2	0	4	0	4
TOTAL	38	62	53	11	164

- 9 A summary of the final internal audit reports issued in this quarter is presented in Appendix 3.
- 10 The total number of productive Internal Audit days required to deliver the plan is 4,367. As at 31 December 2018, the service had delivered 3,215 productive days, representing 74% of the total plan. The target at the end of the quarter was for 67.5% to be delivered, therefore performance has achieved the target.

Internal Audit activity in the quarter

Amendments to the Approved 2018/2019 Internal Audit Plan

- 11 The following 21 reviews were removed from the approved Internal Audit Plan in the quarter, following agreement between Corporate Directors and the Chief Internal Auditor and Corporate Fraud Manager.

Service Grouping	Audit	Audit Type	Reason
Adult and Health Services (AHS)	Commissioning of Learning Disability Services	Advice and Consultancy and Assurance	A number of recommendations raised within the Commissioning of Learning Disabilities report have not yet been implemented and as such it has been agreed that both reviews be deferred until 2019/20.
Adult and Health Services (AHS)	Approval and Payment of Commissioned Services within SEND	Assurance	Scope of two intended reviews of SEND to consider the Approval and Payment of Commissioned Services and Arrangements for the allocation of SEN funding and its application in schools (CYPS Plan) were widened to consider High Needs Budget further to a reported overspend in this area.
Children and Young People's Services (CYPS)	Special Guardianship and Child Arrangement Orders	Assurance	Social Care practices are to be reviewed by the Service's own Improvement Team in June 2019. Internal Audit work will follow and will review the financial areas of the same cases previously selected by the Improvement Team.
Children and Young People's Services (CYPS)	SEND	Assurance	Scope of two intended reviews of SEND to consider the Approval and Payment of Commissioned Services and Arrangements for the allocation of SEN funding and its application in schools were widened to consider High Needs Budget further to a reported overspend in this area
Children and Young People's Services (CYPS)	Section 17 Payments	Assurance	Follow up review of previous Limited Assurance currently being undertaken. Liquidlogic is to go live and 'to be' processes are to be developed.
Children and Young People's Services (CYPS)	Children's Homes	Assurance	Financial procedures were reviewed and updated. Financial training was provided to Homes staff.

Service Grouping	Audit	Audit Type	Reason
Children and Young People's Services (CYPS)	Adult Learning Service	Assurance	Days reallocated to support review of Learning Working Earning Grant and Apprenticeship Programme.
Children and Young People's Services (CYPS)	Petty Cash Arrangements across CYPS Locality Offices	Assurance	Corporate review of petty cash arrangements is being undertaken. Service Admin Support Officers currently implementing Liquidlogic agreed review be deferred until 2019/20.
Children and Young People's Services (CYPS)	Children's Centres and Hubs Establishment Review	Assurance	Corporate review of petty cash arrangements is being undertaken. Service Admin Support Officers currently implementing Liquidlogic agreed review be deferred until 2019/20.
Regeneration and Local Services (REAL)	Licensing Arrangements for Houses in Multiple Occupations	Advice and consultancy	Service request to cancel review, as no longer required.
Regeneration and Local Services (REAL)	Catering	Advice and consultancy	Service request to cancel review, as no longer required.
Regeneration and Local Services (REAL)	Car Parking	Assurance	Service request to cancel, as scope of review included in other audits.
Regeneration and Local Services (REAL)	Library system	Advice and consultancy	Service request to cancel review, as new library system not yet implemented.
Regeneration and Local Services (REAL)	Online Booking	Assurance	Service request to cancel review, as scope of work included in a separate audit.
Resources (RES)	Council Tax/Business Rates/Housing and Council Tax Benefit – Quality Assurance and Appeals	Assurance	Cancelled, with the agreement of the Service, due to a reprioritisation of audits.

Service Grouping	Audit	Audit Type	Reason
Resources (RES)	Housing and Council Tax Benefit - Payments	Assurance	Cancelled, with the agreement of the Service, due to a reprioritisation of audits.
Resources (RES)	Revenues and Benefits Reconciliations.	Assurance	Cancelled, with the agreement of the Service, due to a reprioritisation of audits.
Resources (RES)	Creditors – invoices paid with no PO as an exception.	Assurance	Replaced with a review of 'Creditors - Oracle Requisition Approver Hierarchy'.

- 12 Seven unplanned reviews were added to the Internal Audit Plan in the quarter. These reviews, which are detailed below, were sourced from the service contingency provision within the Internal Audit Plan.

Service Grouping	Audit	Audit Type	Reason
Adult and Health Services (AHS)	Suicide Early Alert System	Advice and Consultancy	Service request to add review.
Adult and Health Services (AHS)	High Needs Budget	Assurance	SEND scope extended as described above.
Children and Young People's Services (CYPS)	Learning Working Earning Grant	Advice and Consultancy	Review of delivery partner grant award and monitoring arrangements.
Children and Young People's Services (CYPS)	Adult Learning Service Apprenticeship Programme	Advice and Consultancy	Request for support to be provided in relation to the Apprenticeship Programme.
Resources (RES)	ResourceLink Mileage	Advice and consultancy	Review added at the request of the ResourceLink Programme Board.
Resources (RES)	Oracle Requisition Approver Hierarchy	Advice and consultancy	Replaces review of 'Creditors – invoices paid with no PO as an exception'.
Transformation and Partnerships (TAP)	Business Support Review	Advice and consultancy	Review added to support the work of the project team.

Outstanding Management Responses to Draft Internal Audit Reports

- 13 There are no draft internal audit reports overdue at the time of writing.

Survey Response Rate

- 14 The table below sets out the response rate and average score, by Service Grouping, for the customer satisfaction surveys issued during the period up to 31 December 2018.

Service Grouping	Surveys issued	Surveys returned	% returned	Av. score
Adult and Health Services (AHS)	2	2	100	4.3
Children and Young People's Services (CYPS) *Excluding Schools	5	5	100	4.6
Regeneration and Local Services (REAL)	13	12	92	4.6
Resources (RES)	45	42	93	4.6
Schools	51	37	73	4.7
Transformation and Partnerships (TAP)	4	3	75	4.5
TOTAL	120	101	84	4.6

Responses to Internal Audit Findings and Recommendations

- 15 Details of the numbers of High and Medium priority ranked recommendations that have been raised and those that are overdue, by Service Grouping, are presented in Appendix 4.
- 16 A summary of progress on the actions due, implemented and overdue, as at 31 December 2018, is given in the table below.

Service Grouping	No. of Actions Due	No. of Actions Implemented	No. Overdue by Original Target Date	No. with Revised Target Date	No. Overdue by Revised Target Date
Adult and Health Services (AHS)	105	99	6 (6%)	6	0
Children and Young People's Services (CYPS) [Excluding Schools]	174	168	6 (3%)	6	0
Regeneration and Local Services (REAL)	435	422	13 (3%)	13	0
Resources (RES)	302	290	12 (4%)	12	0
Transformation and Partnerships (TAP)	39	38	1 (3%)	1	0
TOTAL	1,055	1,017*	38 (4%)	38	0

* Includes 10 high priority actions to be confirmed as implemented.

- 17 It is encouraging to note that, of the 1,055 actions due to be implemented, 1,017 (96%) have been implemented.
- 18 Details of the actions that are overdue, following their agreed original target dates, are included at Appendix 6.

Limited Assurance Audit Opinions

- 19 There has been one audit, finalised in this quarter, that has been issued with a 'limited assurance' opinion. This is summarised in the table below.

Service Grouping	Service Area	Audit
Adult and Health Services (AHS)	County Durham Care and Support	Supported Housing: Household Accounts

- 20 Further detail of the findings from this audit is included within Appendix 7.

Performance Indicators

- 21 A summary of actual performance, as at the end of December 2018, compared with our agreed targets, is detailed in Appendix 5.

Background papers

- Specific Internal Audit reports issued and working papers.

Other useful documents

- Previous Committee reports

Contact:	Paul Bradley	Tel: 03000 269645
	Paul Monaghan	Tel: 03000 269662

Appendix 1: Implications

Legal Implications

There are no specific legal implications associated with this report. Internal Audit contribute to the effective governance of the Council and provide relevant and appropriate challenge and oversight where necessary.

Finance

There are no specific financial implications associated with this report. Internal Audit work has clear and direct effects, through recommendations made, to assist in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

Consultation

All Corporate Directors, the Director of Transformation and Partnerships and all Heads of Service.

Equality and Diversity / Public Sector Equality Duty

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Audit Committee. Where progress has not been made, further action is agreed and overseen by the Audit Committee to ensure action is taken.

Procurement

None.

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2018

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
2017 / 2018 Internal Audit Plan - Audits Brought Forward					
Adult and Health Services	Adult Care	Notification of Service – Impact of Financial Assessment on Income Collection (RES)	Advice & Consultancy	Not Yet Started	
Adult and Health Services	Adult Care	Continuing Health Care - Joint Funding Arrangements and Free Nursing Care	Assurance	Not Yet Started	
Adult and Health Services	Adult Care	County Durham Care & Support Review	Advice & Consultancy	Complete	N/A
Adult and Health Services	Adult Care	Review of Operational Procedures in relation to Trinity Keys	Advice & Consultancy	Complete	N/A
Adult and Health Services	Commissioning	Creditors - Supplier Masterfile Commissioning - SSID Independent Sector Suppliers	Assurance	Planning and Preparation	
Adult and Health Services	Commissioning	Creditors - Supplier Masterfile Commissioning - SSID Independent Sector Suppliers	Advice & Consultancy	Final	N/A
Adult and Health Services	Commissioning	Approval and Payment of Commissioned Services within SEND (Approval and Payment	Assurance	Cancelled	
Children and Young People's Services	Early Help, Assessment and Safeguarding	Review of the Petty Cash Arrangements across CYPS Locality Offices, One Point Hubs	Assurance	Final	Limited
Children and Young People's Services	Early Help, Assessment and Safeguarding	Special Guardianship and Child Arrangement Orders	Assurance	Defer to 2019/20	
Children and Young People's Services	Early Help, Assessment and Safeguarding	Ferryhill Hub - (Establishment Core Financial Audit)	Assurance	Final	Moderate
Children and Young People's Services	Early Help, Assessment and Safeguarding	Section 17 Payments - Support to Service Workstream in Response to	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Early Help, Assessment and Safeguarding	Supervised Spend - Support to Service in Response to Recommendations	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education Services	Youth Employment Initiative - Durham Works Participants Claim	Advice & Consultancy	Final	Substantial
Children and Young People's Services	Education Services	Approval and Payment of Commissioned Services within SEND	Assurance	Cancelled	
Children and Young People's Services	Education Services	Schools Financial Value Standard (SFVS)	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education Services	Schools - Safe Recruitment and Selection	Assurance	Planning and Preparation	
Children and Young People's Services	Education Services	Award of additional pay in Schools	Assurance	Planning and Preparation	
Children and Young People's Services	Education Services	Arrangements for the allocation of SEN funding and its application in schools	Assurance	Cancelled	
Children and Young People's Services	Education Services	Arrangements for the allocation of Pupil Premium Funding and its application in schools	Assurance	Planning and Preparation	
Children and Young People's Services	Looked After Children and Care Leavers	Foster Carer Payments (Follow Up)	Assurance	In Progress	
Children and Young People's Services	Looked After Children and Care Leavers	Adoption Services	Assurance	Defer to 2019/20	N/A
Children and Young People's Services	Looked After Children and Care Leavers	West Rainton Children's Home (Establishment Audit)	Assurance	Final	Moderate
Children and Young People's Services	Looked After Children and Care Leavers	Park House (Establishment Audit)	Assurance	Final	Moderate
Children and Young People's Services	Looked After Children and Care Leavers	Aycliffe Secure Services Centre - Support in Service Response to Recommendations	Advice & Consultancy	Complete	N/A
Regeneration and Local Services	Planning & Assets	North Pennines AONB Partnership - Atlantic Geoparks 1	Grant	In Progress	
Regeneration and Local Services	Planning & Assets	Land Sales	Advice & Consultancy	Final	N/A
Regeneration and Local Services	Planning & Assets	Planning Applications	Assurance	Final	Substantial
Regeneration and Local Services	Planning & Assets	Asset Management - Final Accounts	Assurance	Final	Moderate
Regeneration and Local Services	Economic Development & Housing	Disabled Facilities Grant - VFM Review	Advice & Consultancy	Final	N/A
Regeneration and Local Services	Economic Development & Housing	New Homes Bonus - Affordable Homes	Advice & Consultancy	Final	N/A
Regeneration and Local Services	Economic Development & Housing	Choice Based Lettings	Assurance	Final	Substantial
Regeneration and Local Services	EHCP	Licensing Arrangements for Houses in Multiple occupations	Advice & Consultancy	Cancelled	
Regeneration and Local Services	Transport and Contract Services	Local Growth Fund - Forest Park	Grant	Planning and Preparation	
Regeneration and Local Services	Transport and Contract Services	Local Growth Fund - Bishop Auckland Market Place	Grant	Planning and Preparation	
Regeneration and Local Services	Transport and Contract Services	Transport Follow up	Assurance	Final	Moderate
Regeneration and Local Services	Direct Services	Fly Tipping	Assurance	Draft	
Regeneration and Local Services	Direct Services	Fleet Management	Assurance	Final	Substantial
Regeneration and Local Services	Direct Services	Waste Transfer Station (Thornley) - Financial Procedures	Advice & Consultancy	In Progress	
Regeneration and Local Services	Direct Services	Durham Crematorium	Assurance	Final	Substantial
Regeneration and Local Services	Direct Services	Mountsett Crematorium	Assurance	Final	Substantial
Regeneration and Local Services	Direct Services	Bulky Goods Collections Service	Assurance	Final	Substantial
Regeneration and Local Services	Culture and Sport	Catering	Advice & Consultancy	Cancelled	
Regeneration and Local Services	Culture and Sport	Stanley Bowls	Advice & Consultancy	Final	N/A
Regeneration and Local Services	Culture and Sport	Leisureworks	Advice & Consultancy	In Progress	
Resources	Legal & Democratic Services	Electoral Services	Assurance	Final	Substantial
Resources	Legal & Democratic Services	Use of Social Media in Covert Investigations	Assurance	Final	Moderate
Resources	Corporate Finance and Commercial Services	Contract Register	Assurance	Final	Moderate
Resources	Corporate Finance and Commercial Services	Contract Management	Assurance	Final	Moderate
Resources	Corporate Finance and Commercial Services	Off Contract Spend	Assurance	Final	Moderate
Resources	Corporate Finance and Commercial Services	Procurement Cards (Follow Up)	Assurance	Final	Limited
Resources	Corporate Finance and Commercial Services	Treasury Management	Key System	Final	Substantial
Resources	Corporate Finance and Commercial Services	General Ledger	Key System	Final	Substantial
Resources	Corporate Finance and Commercial Services	Medium Term Financial Plan	Key System	Planning and Preparation	
Resources	Corporate Finance and Commercial Services	VAT	Key System	Planning and Preparation	
Resources	Corporate Finance and Commercial Services	Health and Safety Training Requirements (Follow Up)	Assurance	Final	N/A

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2018

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	People and Talent Management	Flexible Working - Variations to Contracts	Assurance	Final	Moderate
Resources	Finance and Transactional Services	Review of SLAs	Advice & Consultancy	In Progress	
Resources	Finance and Transactional Services	Council Tax	Key System	Final	Substantial
Resources	Finance and Transactional Services	Council Tax: Liability - Disabled Band Relief & Class U - Mental Impairments	Key System	Final	Substantial
Resources	Finance and Transactional Services	Council Tax: Refunds	Key System	Final	Substantial
Resources	Finance and Transactional Services	Council Tax: System Access	Key System	Final	Substantial
Resources	Finance and Transactional Services	Business Rates	Key System	Final	Substantial
Resources	Finance and Transactional Services	Business Rates - Valuation	Key System	Final	Substantial
Resources	Finance and Transactional Services	Business Rates - Liability inc reliefs & exemptions	Key System	Final	Substantial
Resources	Finance and Transactional Services	Business Rates - Refunds	Key System	Final	Substantial
Resources	Finance and Transactional Services	Business Rates - System Access	Key System	Final	Substantial
Resources	Finance and Transactional Services	Housing Benefits and Council Tax Reduction	Key System	Final	Substantial
Resources	Finance and Transactional Services	Housing and Council Tax Benefits: Assessment - New Claims & Change in	Key System	Final	Substantial
Resources	Finance and Transactional Services	Housing and Council Tax Benefits: Review Team - Assessment Reviews	Key System	Final	Substantial
Resources	Finance and Transactional Services	Housing & Council Tax Benefit - System Access	Key System	Final	Substantial
Resources	Finance and Transactional Services	Housing & Council Tax Benefit - Supported Accommodation	Key System	Final	Substantial
Resources	Finance and Transactional Services	Enforcement, including bailiffs arrangements	Assurance	Final	Substantial
Resources	Finance and Transactional Services	Creditor Payments	Key System	Final	Moderate
Resources	Finance and Transactional Services	Transparency Agenda - Interest on Late payments	Advice & Consultancy	Final	N/A
Resources	Finance and Transactional Services	Payroll	Key System	Final	Substantial
Resources	Finance and Transactional Services	Payroll - Starters & Leavers	Key System	Final	Substantial
Resources	Finance and Transactional Services	Payroll - Preparation - Temporary input	Key System	Final	Substantial
Resources	Finance and Transactional Services	Payroll - Preparation - Permanent input	Key System	Final	Substantial
Resources	Finance and Transactional Services	Debtors	Key System	Final	Moderate
Resources	Finance and Transactional Services	Debtors - Supporting Documentation (Commercial Rents)	Key System	Final	Moderate
Resources	Finance and Transactional Services	Debtors - Credit Notes & Write Offs (School Transport - Trade Waste - Works in Default)	Key System	Final	Moderate
Resources	Finance and Transactional Services	Debtors - Refunds	Key System	Final	Substantial
Resources	Finance and Transactional Services	Cash Management	Key System	Final	Moderate
Resources	Finance and Transactional Services	Cash Management - County Hall	Key System	Final	Moderate
Resources	Finance and Transactional Services	Cash Management - Dales Centre	Key System	Final	Moderate
Resources	Finance and Transactional Services	Section 256 agreements	Grant	Final	N/A
Resources	Digital and Customer Services	Mobile computing (Follow Up)	Assurance	Final	N/A
Resources	Digital and Customer Services	Office 365	Advice & Consultancy	Planning and Preparation	
Resources	Digital and Customer Services	Business Continuity for ICT	Assurance	Final	Moderate
Resources	Digital and Customer Services	Information Security - Procurement	Assurance	Final	Moderate
Transformation and Partnerships	Communications and Information Management	Data Protection - Accessing External Databases	Assurance	Cancelled	
Transformation and Partnerships	Partnerships and Community Engagement	Community Buildings - Health and Safety Compliance	Assurance	Final	Moderate
Transformation and Partnerships	Partnerships and Community Engagement	Community Grants Sample	Assurance	Final	Moderate
2018 / 2019 Internal Audit Plan					
Adult and Health Services	Adult & Health Services	Integration of Health and Care Plan for County Durham	Advice & Consultancy	In Progress	
Adult and Health Services	Adult Care	Direct Payments	Assurance	Defer to 2019/20	
Adult and Health Services	Adult Care	Direct Payment Cards	Advice & Consultancy	In Progress	
Adult and Health Services	Adult Care	Review of Section 117 Process	Assurance	Not Yet Started	
Adult and Health Services	Adult Care	Social Care Direct	Assurance	Not Yet Started	
Adult and Health Services	Adult Care	SSID Replacement	Advice & Consultancy	In Progress	
Adult and Health Services	CDCS	Supported Housing - Household A/Cs	Assurance	Final	Limited
Adult and Health Services	Commissioning	Commissioning of Learning Disability Services	Assurance	Defer to 2019/20	
Adult and Health Services	Commissioning	Commissioning of Learning Disability Services - Advice	Advice & Consultancy	Defer to 2019/20	
Adult and Health Services	Commissioning	Personalisation – Delivery of Services via the use of virtual budgets and through	Assurance	Defer to 2019/20	
Adult and Health Services	Public Health	Support to the DPH - Health Protection	Advice & Consultancy	In Progress	
Adult and Health Services	Public Health	0-19 Health Visitor and School Nursing Service	Assurance	Final	Moderate
Adult and Health Services	Public Health	Pharmoutcomes - Data Matching	Advice & Consultancy	In Progress	
Adult and Health Services	Adult Care	Workforce Development Innovation Fund	Claim 01	Complete	N/A
Adult and Health Services	Adult Care	Workforce Development Innovation Fund	Claim 02	Planning and Preparation	
Adult and Health Services	Adult Care	Workforce Development Innovation Fund	Claim 03	Not Yet Started	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2018

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Adult and Health Services	Adult Care	Development of a Direct Payment Audit Risk Tool	Advice & Consultancy	In Progress	
Adult and Health Services	Commissioning	Creditors Supplier Masterfile - Commissioning – Non-Residential Data Matching	Advice & Consultancy	Final	N/A
Adult and Health Services	Commissioning	High Needs Budget	Assurance	Planning and Preparation	
Adult and Health Services	Public Health	Suicide Early Alert System	Advice & Consultancy	Not Yet Started	
Children and Young People's Services	Early Help, Assessment and Safeguarding	Children Safeguarding Governance Arrangements	Assurance (DAS)	Not Yet Started	
Children and Young People's Services	Early Help, Assessment and Safeguarding	Troubled Families Programme	Claim 01	Complete	N/A
Children and Young People's Services	Early Help, Assessment and Safeguarding	Troubled Families Programme	Claim 02	Complete	N/A
Children and Young People's Services	Early Help, Assessment and Safeguarding	Troubled Families Programme	Claim 03	Planning and Preparation	
Children and Young People's Services	Early Help, Assessment and Safeguarding	Troubled Families Programme	Claim 04	Planning and Preparation	
Children and Young People's Services	Early Help, Assessment and Safeguarding	Section 17 Payments Follow Up	Assurance	In Progress	
Children and Young People's Services	Early Help, Assessment and Safeguarding	Section 17 Payments	Assurance	Defer to 2019/20	
Children and Young People's Services	Early Help, Assessment and Safeguarding	Childrens Centres and Hubs Establishment Review	Assurance	Defer to 2019/20	
Children and Young People's Services	Early Help, Assessment and Safeguarding	Review of the Petty Cash Arrangements across CYPS Locality Offices, One Point Hubs	Assurance	Defer to 2019/20	
Children and Young People's Services	Education	Youth Employment Initiative - Durham Works	Advice & Consultancy	Cancelled	
Children and Young People's Services	Education	Youth Employment Initiative - Durham Works	Assurance	Cancelled	
Children and Young People's Services	Education	Adult Learning Service	Assurance	Defer to 2019/20	
Children and Young People's Services	Education - Schools	SFVS	Assurance	Planning and Preparation	
Children and Young People's Services	Education - Schools	Governor Training • Internal Audit Role in Supporting Schools • Schools Financial Value Standard – The Governors Role	Advice & Consultancy	In Progress	
Children and Young People's Services	Education - Schools	SBM Training	Advice & Consultancy	Not Yet Started	
Children and Young People's Services	Education - Schools	Headteacher Group	Advice & Consultancy	Planning and Preparation	
Children and Young People's Services	Education - Schools	School User Provider Group	Advice & Consultancy	In Progress	
Children and Young People's Services	Looked After Children and Care Leavers	Foster Carer Payments - Review of Procedures	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Looked After Children and Care Leavers	Children's Homes Moorside New Lea	Assurance	Defer to 2019/20	
Children and Young People's Services	Looked After Children and Care Leavers	SSID Replacement: SSID Board	Advice & Consultancy	In Progress	
Children and Young People's Services	Looked After Children and Care Leavers	SSID Replacement: Finance Workstream - processes linked to parallel run of data	Assurance	In Progress	
Children and Young People's Services	Looked After Children and Care Leavers	Aycliffe Secure Services Centre - Follow Up	Assurance	In Progress	
Children and Young People's Services	Locality and Operational Support	Caldicott Compliance	Assurance	Planning and Preparation	
Children and Young People's Services	Locality and Operational Support	Caldicott Group	Advice & Consultancy	In Progress	
Children and Young People's Services	Education Services	School Programme (governance and financial management) School Follow Up of previous Limited Assurance Opinion Reports	Assurance	17 Substantial 30 Moderate 3 Limited 15 N/A	
Children and Young People's Services	Education Services	Audit of School Voluntary Funds	Fund Certification	44 Complete	
Children and Young People's Services	Education Services	National College for Teaching and Leadership (NCTL) - Direct Salaried Grant	Grant Certification	Not Yet Started	
Children and Young People's Services	Education Services	National College for Teaching and Leadership (NCTL) - Collaborative Fund Grant	Grant Certification	Not Yet Started	
Children and Young People's Services	Education	Youth Employment Initiative - Arrangements for the provision of Petty Cash to	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education	Provision of Audit Training to DurhamWorks Employees	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Looked After Children and Care Leavers	Children's Homes - Staff Finance Training Support	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education	Adult Learning Service - Apprenticeship Programme	Advice & Consultancy	Planning and Preparation	
Children and Young People's Services	Education	Learning Working Earning Grant	Advice & Consultancy	Planning and Preparation	
Regeneration and Local Services	Planning & Assets	Carbon Reduction Commitment	Grant	Final	N/A
Regeneration and Local Services	Planning & Assets	LoCarbo 4	Grant	Final	N/A
Regeneration and Local Services	Planning & Assets	LoCarbo 5	Grant	Final	N/A
Regeneration and Local Services	Planning & Assets	Rebus 4	Grant	Final	N/A
Regeneration and Local Services	Planning & Assets	Rebus 5	Grant	Final	N/A
Regeneration and Local Services	Planning & Assets	Atlantic Geoparks 2	Grant	Not yet started	
Regeneration and Local Services	Planning & Assets	Safety at Sports Grounds	Assurance	Not yet started	
Regeneration and Local Services	Planning & Assets	Asset Valuation	Assurance	Not yet started	
Regeneration and Local Services	Economic Development & Housing	Accommodation - Contract Management	Assurance	Not yet started	
Regeneration and Local Services	Economic Development & Housing	Business Durham	Assurance	Planning and Preparation	
Regeneration and Local Services	Economic Development & Housing	Stephanie 3	Grant	Final	N/A
Regeneration and Local Services	Economic Development & Housing	Stephanie 4	Grant	Not yet started	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2018

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Regeneration and Local Services	Economic Development & Housing	Financial Assistance Policy and Private Sector Housing	Assurance	Planning and Preparation	
Regeneration and Local Services	Economic Development & Housing	Disabled Facilities Grant	Grant	Final	N/A
Regeneration and Local Services	EHCP	Premises Requiring Alcohol License	Assurance	Final	Substantial
Regeneration and Local Services	Transport and Contract Services	Local Transport Capital Block Funding	Grant	Final	N/A
Regeneration and Local Services	Transport and Contract Services	Bus Subsidy Ring Fenced Grant	Grant	Final	N/A
Regeneration and Local Services	Transport and Contract Services	Road Safety Capital Grant	Grant	Not yet started	
Regeneration and Local Services	Transport and Contract Services	Transport - Safeguarding Arrangements	Assurance	Final	Substantial
Regeneration and Local Services	Direct Services	Durham Crematorium	Assurance (Joint Ctte)	Planning and Preparation	
Regeneration and Local Services	Direct Services	Mounsett Crematorium	Assurance (Joint Ctte)	Planning and Preparation	
Regeneration and Local Services	Direct Services	Facilities Management - Repairs and Maintenance	Advice & Consultancy	Not yet started	
Regeneration and Local Services	Direct Services	Asbestos Management	Assurance	Draft	
Regeneration and Local Services	Direct Services	Allotments - Follow Up (Deferred from 2017/18))	Assurance	Not yet started	
Regeneration and Local Services	Direct Services	Single Use Plastics - Process Review	Advice & Consultancy	Not yet started	
Regeneration and Local Services	Culture and Sport	Leisure Management System - Online Booking	Assurance	Cancelled	
Regeneration and Local Services	Culture and Sport	Rolling Programme of Leisure Centres - Louisa Centre	Assurance	Planning and Preparation	
Regeneration and Local Services	Culture and Sport	Rolling Programme of Leisure Centres - Consett	Assurance	Planning and Preparation	
Regeneration and Local Services	Culture and Sport	Leisure Centre Timesheets - Follow Up (Deferred from 2017/18)	Assurance	Planning and Preparation	
Regeneration and Local Services	Culture and Sport	Leisure Centre Timesheets	Assurance	Planning and Preparation	
Regeneration and Local Services	Culture and Sport	Management of Gym Memberships	Assurance	Final	Moderate
Regeneration and Local Services	Culture and Sport	Library System	Advice & Consultancy	Cancelled	
Regeneration and Local Services	Culture and Sport	Consett Empire Theatre	Assurance	In Progress	
Regeneration and Local Services	Culture and Sport	Competition Line UK Income Share Agreement	Assurance	In Progress	
Regeneration and Local Services	Culture and Sport	Stanley Bowls	Advice & Consultancy	Planning and Preparation	
Regeneration and Local Services	Culture and Sport	Events Management	Assurance	Not yet started	
Regeneration and Local Services	Culture and Sport	Car Parking (Riverside, Wharton Park and Hardwick Park)	Assurance	Cancelled	
Regeneration and Local Services	Technical Services	Local Highways Maintenance Funding - Incentive Element	Grant	Planning and Preparation	
Regeneration and Local Services	Technical Services	Local Transport Capital Block Funding for NECA	Grant	Final	N/A
Regeneration and Local Services	Technical Services	Stores Management	Assurance	Final	Substantial
Resources	Legal & Democratic Services	RIPA Group	Advice & Consultancy	In Progress	
Resources	Legal & Democratic Services	IKen System Review	Assurance	Final	Substantial
Resources	Legal & Democratic Services	Coroner (Deferred from 2017/18)	Assurance	Not yet started	
Resources	Corporate Finance and Commercial Services	Bank Reconciliation	Key System	Final	Substantial
Resources	Corporate Finance and Commercial Services	Treasury Management - Short Term Investments	Key System	In Progress	
Resources	Corporate Finance and Commercial Services	Collection Fund	Assurance	In Progress	
Resources	Corporate Finance and Commercial Services	Review of Commercial Services	Assurance	Not yet started	
Resources	Corporate Finance and Commercial Services	Procurement - Variations	Assurance	Not yet started	
Resources	Corporate Finance and Commercial Services	Contract Management	Assurance	Not yet started	
Resources	Corporate Finance and Commercial Services	Off Contract Spend	Assurance	Not yet started	
Resources	Corporate Finance and Commercial Services	Contract Procedure Rules	Assurance	In Progress	
Resources	Corporate Finance and Commercial Services	Procurement Cards (Further Follow Up)	Assurance	Not yet started	
Resources	Corporate Finance and Commercial Services	Oracle Programme Board	Advice & Consultancy	In Progress	
Resources	Corporate Finance and Commercial Services	Workstream on Petty Cash and Payment Cards	Advice & Consultancy	In Progress	
Resources	People and Talent Management	Attendance Management	Assurance	Not yet started	
Resources	People and Talent Management	Apprentices	Assurance	Not yet started	
Resources	Finance and Transactional Services	Budgetary Control and Financial Reporting	Assurance	Not yet started	
Resources	Finance and Transactional Services	Section 256 Agreements	Grant	In Progress	
Resources	Finance and Transactional Services	Caspar (Deferred from 2017/18)	Advice & Consultancy	Not yet started	
Resources	Finance and Transactional Services	Financial Assessments (scope to include self funders and deferred payments)	Assurance	Not yet started	
Resources	Finance and Transactional Services	FST Debit Card Cash Accounts and Shared Lives (Follow Up)	Assurance	Planning and Preparation	
Resources	Finance and Transactional Services	Financial Deputies	Assurance	Not yet started	
Resources	Finance and Transactional Services	Supporting People with Oxford Computer Consultants (SPOCC) - Deferred from	Assurance	Cancelled	
Resources	Finance and Transactional Services	Deputy and Appointee Team	Advice & Consultancy	In Progress	
Resources	Finance and Transactional Services	Revenues and Benefits Reconciliations	Assurance	Cancelled	
Resources	Finance and Transactional Services	Creditors	Key System	In Progress	
Resources	Finance and Transactional Services	Creditors - Invoices paid with no PO as an exception	Key System	Cancelled	
Resources	Finance and Transactional Services	Creditors - Supplier Masterfile	Key System	In Progress	
Resources	Finance and Transactional Services	Creditors - System Access	Key System	Planning and Preparation	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2018

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Finance and Transactional Services	P2P Performance and Improvement Project	Advice & Consultancy	In Progress	
Resources	Finance and Transactional Services	Better Care Fund and Improved Better Care Fund (Sn 75)	Advice & Consultancy	In Progress	
Resources	Finance and Transactional Services	Payroll	Key System	In Progress	
Resources	Finance and Transactional Services	Payroll Implementation	Advice & Consultancy	In Progress	
Resources	Finance and Transactional Services	Payroll - Taxation/PAYE	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Payroll - Access to Data and Records	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Payroll - Preparation/Corrections	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Payroll - Processing	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Agency	Assurance	Not yet started	
Resources	Finance and Transactional Services	Business Rates	Key System	In Progress	
Resources	Finance and Transactional Services	Business Rates - Liability	Key System	Cancelled	
Resources	Finance and Transactional Services	Business Rates - Recovery	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Business Rates - Quality Assurance and Appeals	Key System	Cancelled	
Resources	Finance and Transactional Services	Housing Benefit and Council Tax Reduction (HB and CTR)	Key System	In Progress	
Resources	Finance and Transactional Services	HB and CTR - Overpayment Recovery	Key System	In Progress	
Resources	Finance and Transactional Services	HB and CTR - New Claims and Change in Circumstances	Key System	Final	Substantial
Resources	Finance and Transactional Services	HB and CTR - Payments	Key System	Cancelled	
Resources	Finance and Transactional Services	HB and CTR - Quality Assurance and Appeals	Key System	Cancelled	
Resources	Finance and Transactional Services	Post Opening and Scanning	Assurance	Final	Substantial
Resources	Finance and Transactional Services	Welfare Rights (Deferred from 2017/18)	Assurance	Planning and Preparation	
Resources	Finance and Transactional Services	Council Tax	Key System	In Progress	
Resources	Finance and Transactional Services	Council Tax - Valuation	Key System	In Progress	
Resources	Finance and Transactional Services	Council Tax - Liability - Class N Property Exemptions	Key System	Final	Substantial
Resources	Finance and Transactional Services	Council Tax - Recovery	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Council Tax - Quality Assurance and Appeals	Key System	Cancelled	
Resources	Finance and Transactional Services	Cash Management	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Debtors	Key System	In Progress	
Resources	Finance and Transactional Services	Debtors - Customer Masterfile (Deferred from 2017/18)	Key system	Planning and Preparation	
Resources	Finance and Transactional Services	Debtors - Standing Charges (Deferred from 2017/18)	Key system	Planning and Preparation	
Resources	Finance and Transactional Services	Debtors Working Group	Advice & Consultancy	In Progress	
Resources	Digital and Customer Services	UNIX / LINUX Security	Assurance	Planning and Preparation	
Resources	Digital and Customer Services	Oracle Licencing	Assurance	Planning and Preparation	
Resources	Digital and Customer Services	Vulnerability Management	Assurance	Planning and Preparation	
Resources	Digital and Customer Services	Network Folders Identity and Access Management	Assurance	Planning and Preparation	
Resources	Digital and Customer Services	SharePoint Identity and Access Management	Assurance	Draft	
Resources	Digital and Customer Services	Third Party Identity and Access management	Assurance	Draft	
Resources	Digital and Customer Services	Digital Durham	Grant	Not yet started	
Resources	Internal Audit, Risk and Fraud	Insurance	Assurance	Draft	
Resources	Finance and Transactional Services	Business Rates - Valuation	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Interest on Late payments	Advice & Consultancy	In Progress	
Resources	People and Talent Management	Gifts and Hospitality	Advice & Consultancy	In Progress	
Resources	Finance and Transactional Services	Payroll - Mileage Expenses	Advice & Consultancy	In Progress	
Resources	Finance and Transactional Services	Creditors - Oracle Requisition Approver Hierarchy	Advice & Consultancy	Planning and Preparation	
Transformation and Partnerships	Communications and Marketing	Business Continuity Planning	Key System	Final	Substantial
Transformation and Partnerships	Strategy	Data Quality	Assurance	Not yet started	
Transformation and Partnerships	Partnerships and Community Engagement	Community Grants Sample	Assurance	Final	Substantial
Transformation and Partnerships	Transformation	Transformation	Advice & Consultancy	In Progress	
Transformation and Partnerships	Transformation	Data Protection - GDPR (including Use of Privacy Notices)	Assurance	Not yet started	
Transformation and Partnerships	Transformation	GDPR Working Group	Advice & Consultancy	In Progress	
Transformation and Partnerships	Transformation	Information Governance Group	Advice & Consultancy	In Progress	
Transformation and Partnerships	Transformation	Business Support Review	Advice & Consultancy	In Progress	

This page is intentionally left blank

FINAL REPORTS ISSUED IN PERIOD ENDING 31 DECEMBER 2018

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
ADULT AND HEALTH SERVICES (AHS)		
Supported Housing: Household Accounts	Assurance review to consider the following risks: <ul style="list-style-type: none"> - Household accounts are not operated in accordance with the established procedure resulting in household expenditure not being correctly recovered from tenants; - Loss/misuse of tenant monies; - Unauthorised pre paid card payments are made - Cash is not securely held; - Motability vehicle usage is not appropriately managed; - Employees are unaware of their roles and responsibilities. 	Limited
0-19 Health Visitor and School Nursing Service	Assurance review to consider the following risks: <ul style="list-style-type: none"> - The contractor does not fulfil the contract to the required standard or level of performance; - The Council pays for goods, services or works that are not provided or not completed; - Risk management arrangements are not in place; - The contract manager is not sufficiently objective in their relationship with the supplier; - The written contract does not cover all pertinent areas and issues leaving the council unduly exposed to risks associated with the activity; - Arrangements to provide for continuing services needs after the termination or expiry of the contract are not in place. 	Moderate
Workforce Development Innovation Fund	Advice and Support provided during claim preparation and submission and certification of the October claim.	N/A
Creditors Supplier Masterfile - Commissioning – Non-Residential Data Matching	Advice and Support provided in matching data held between the Commissioning and Creditors records relating to Non-Residential services.	N/A

CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS)		
Troubled Families Programme	Advice and Support provided during claim submission window and certification of claims in Sept and Nov 2018.	N/A
DurhamWorks	Provision of Audit Training to DurhamWorks Employees.	N/A
Children's Homes	Provision of Staff Finance Training Support.	N/A
DurhamWorks	Provision of advice in relation to alternative mechanisms available for incurring expenditure rather than through the use of petty cash.	N/A

REGENERATION AND LOCAL SERVICES (ReaL)		
Fleet Management	<p>Assurance review of the arrangements in place to mitigate against the risks of:</p> <ul style="list-style-type: none"> - Charges are insufficient to cover costs; - Works are inefficiently scheduled and completed; - Labour and materials are inaccurately costed to jobs - Income is not collected and recorded. 	Substantial
Transport – Safeguarding Arrangements	<p>Assurance review of the arrangements in place to mitigate against the risks of:</p> <ul style="list-style-type: none"> - Complaints are not investigated in line with the Child and Vulnerable Adults Protection Referral Procedure; - Contractors/drivers not abiding to the conditions of the sanctions; - Contractors/drivers are unaware of what is poor/unsafe practice; - Breach of GDPR. 	Substantial
Stores Management	<p>Assurance review of the arrangements in place to mitigate against the risks of:</p> <ul style="list-style-type: none"> - Misappropriation or loss of stock; - Stock holding is excessive or does not meet operational needs; - Obsolete/spoiled stock; - Cost of providing stores exceeds the benefits; - Unsafe practices within the stores; - Stock valuation is inaccurate; - Recharges/invoices are not raised in a timely manner. 	Substantial
Management of Gym Memberships	<p>Assurance review of the arrangements in place to mitigate against the risks of:</p> <ul style="list-style-type: none"> - Inadequate or incomplete information is entered into the system for new memberships; - Information is lost, corrupted or inappropriately divulged or treated; - Gym facilities accessed by non-members/defaulters; - Income is inadequately charged, collected, recorded or handled; - Member of the public is injured in the gym. 	Moderate

REGENERATION AND LOCAL SERVICES (Real) Contd.		
Disabled Facilities Grant – VFM Review	An advice and consultancy review to evaluate processes for adaptations to homes funded through DFG.	N/A
LoCarbo– supporting a low carbon economy (5)	Grant certification.	N/A
Rebus - Renovation for Energy efficient Buildings (5)	Grant certification.	N/A

RESOURCES		
Bank Reconciliation	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Material errors/fraudulent activities within bank accounts or the general ledger are not identified and corrected in a timely manner; - Theft or misuse of Council funds or bank accounts; - Transaction errors made by the bank go unnoticed; - Inaccurate or misleading financial information; - Performance is not properly managed or monitored. 	Substantial
Pension Fund: Debt Recovery	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Failure to collect or recover income; - Invoices are raised incorrectly. 	Substantial
Council Tax	Overarching assurance review combining the outcomes from individual Council Tax reviews carried out through the year.	Substantial
Council Tax, Business Rates and Housing Benefit – System Access	Assurance review of the arrangements in place to mitigate against the risk of users having access to, and the ability to amend, data which they do not require.	Substantial
Business Rates	Overarching assurance review combining the outcomes from individual Business Rates reviews carried out through the year.	Substantial
Housing Benefits and Council Tax Reduction	Overarching assurance review combining the outcomes from individual benefit reviews carried out through the year.	Substantial
Housing Benefits and Council Tax Reduction – New Claims and Change in Circumstances	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Housing Benefit new claims and changes in circumstances are not processed promptly or are incorrect; - Council Tax Reduction new claims and changes in circumstances are not processed promptly or are incorrect. 	Substantial

RESOURCES (Contd.)		
Council Tax Liability – Class N Property Exemptions	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Failure to adhere to legislation, best practice or procedures; - Discounts or exemptions are incorrectly awarded. 	Substantial
Transfer Values and Interfund Transfers	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Transfer value out calculations are inaccurate or are not carried out promptly; - Transfer values in are not received or are not accurately accounted for in a timely manner. 	Substantial
Pension Fund: Bank Reconciliation	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Material errors or fraudulent activities within the bank account or the General Ledger are not identified and corrected in a timely manner; - Theft or misuse of Pension Fund monies or bank accounts; - Transaction errors made by the bank go unnoticed; - Inaccurate or misleading financial information; - Performance is not properly managed or monitored. 	Substantial
IKen System Review	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Data is accessed inappropriately; - The system is not used effectively or efficiently; - Data is lost or stolen; - Data is inaccurate; - Data is found not to be held or processed in accordance with GDPR principles. 	Substantial
Post Opening and Scanning	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Non-compliance with legislation, procedures or best practice in relation to DWP and the Council's financial regulations and procedures where claimant valuables, original documents or cheques may go astray, i.e. misplaced or stolen, or are not processed in a timely manner; - Information and data are not protected from loss, damage or unauthorised disclosure; - Postal remittances are not recorded or are misappropriated. 	Substantial
Debtors	Overarching assurance review combining the outcomes from individual debtors' reviews carried out through the year.	Moderate

RESOURCES (Contd.)		
Cash Management – County Hall	<p>Assurance review of the arrangements in place to mitigate against the risks of:</p> <ul style="list-style-type: none"> - Non-compliance with financial regulations; - Theft/misappropriation; - Postal remittances are not recorded or are misappropriated; - Information and data are not protected from loss, damage or unauthorised disclosure; - Lack of corporate understanding of, or buy in to, PCI DSS requirements; - Loss/theft of card data. 	Moderate
Cash Management	Overarching assurance review combining the outcomes from individual cash management reviews carried out through the year.	Moderate
Information Security - Procurement	Assurance review of the arrangements in place to mitigate against the risk of information assets and data not being adequately protected from corruption, loss, or theft.	Moderate

TRANSFORMATION AND PARTNERSHIPS (TaP)		
Business Continuity Planning	<p>Assurance review of the arrangements in place to mitigate against the risks of:</p> <ul style="list-style-type: none"> - Unable to provide critical services to the community in the event of a major disruption; - Unable to recover business processes and procedures within required time; - Employees are unable to respond effectively to an incident or disruption; - The business continuity process is ineffective. 	Substantial

This page is intentionally left blank

Progress on the Implementation of Audit Recommendations

Appendix 4

	Actions Due	Actions Implemented	Overdue Actions by original target date	Number of Actions where the original target has been revised	Overdue Actions following a revised target date
ADULT AND HEALTH SERVICES (AHS)					
2016/17					
High	7	7	0	0	0
Medium	42	42	0	0	0
Total	49	49	0	0	0
2017/18					
High	10	7	3	3	0
Medium	19	18	1	1	0
Total	29	25	4	4	0
2018/19					
High	1	1	0	0	0
Medium	26	24	2	2	0
Total	27	25	2	2	0
Overall Total	105	99	6	6	0
CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS)					
2016/17					
High	1	1	0	0	0
Medium	45	44	1	1	0
Total	46	45	1	1	0
2017/18					
High	2	2	0	0	0
Medium	88	84	4	4	0
Total	90	86	4	4	0
2018/19					
High	1	1	0	0	0
Medium	37	36	1	1	0
Total	38	37	1	1	0
Overall Total	174	168	6	6	0
REGENERATION AND LOCAL SERVICES (REAL)					
2015/16					
High	7	6	1	1	0
Medium	119	119	0	0	0
Total	126	125	1	1	0
2016/17					
High	11	11	0	0	0
Medium	193	191	2	2	0
Total	204	202	2	2	0
2017/18					
High	3	3	0	0	0
Medium	56	53	3	3	0
Total	59	56	3	3	0
2018/19					
High	0	0	0	0	0
Medium	46	39	7	7	0
Total	46	39	7	7	0
Overall Total	435	422	13	13	0
RESOURCES (RES)					
Total					
2016/17					
High	10	10	0	0	0
Medium	104	103	1	1	0
Total	114	113	1	1	0
2017/18					
High	10	10	0	0	0
Medium	126	125	1	1	0
Total	136	135	1	1	0
2018/19					
High	3	2	1	1	0
Medium	49	40	9	9	0
Total	52	42	10	10	0
Overall Total	302	290	12	12	0
TRANSFORMATION AND PARTNERSHIPS (TAP)					
2016/17					
High	0	0	0	0	0
Medium	26	26	0	0	0
Total	26	26	0	0	0
2017/18					
High	0	0	0	0	0
Medium	8	7	1	1	0
Total	8	7	1	1	0
2018/19					
High	0	0	0	0	0
Medium	5	5	0	0	0
Total	5	5	0	0	0
Overall Total	39	38	1	1	0
TOTAL COUNCIL					
2015/16					
High	7	6	1	1	0
Medium	119	119	0	0	0
Total	126	125	1	1	0
2016/17					
High	29	29	0	0	0
Medium	410	406	4	4	0
Total	439	435	4	4	0
2017/18					
High	25	22	3	3	0
Medium	297	287	10	10	0
Total	322	309	13	13	0
2018/19					
High	5	4	1	1	0
Medium	163	144	19	19	0
Total	168	148	20	20	0
OVERALL TOTAL	1055	1017	38	38	0

This page is intentionally left blank

Performance Indicators as at 31 December 2018

Efficiency			
Objective: To provide maximum assurance to inform the annual audit opinion			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Actual
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% (Annually)	74% at 31 December 2018
Timeliness of Draft Reports	% of draft reports issued within 30 calendar days of end of fieldwork/closure interview	90% (Quarterly)	88% (122 out of 138)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response	95% (Quarterly)	99% (152 out of 153)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100%
Quality			
Objective: To ensure that the service is effective and adding value			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Recommendations agreed	% of recommendations made compared with recommendations accepted	95% (Annually)	100%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service satisfactory or above (3 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	100% - Av score 4.6
Customers providing feedback Response	% of customers returning satisfaction returns	70% (Quarterly)	84%
Cost			
Objective: To ensure that the service is cost effective			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	Yes (2015/16 exercise) £226 cost per chargeable audit day

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank