



Audit Committee

Date Thursday 25 February 2021
Time 9.30 am
Venue Remote Meeting - This meeting is being held remotely via Microsoft Teams

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 26 November 2020 (Pages 5 - 10)
3. Declarations of interest, if any
4. Opportunity for Committee to meet Alan Patrickson, the Council's Corporate Director, Neighbourhoods and Climate Change
5. Quarter 3 2020/21 Health, Safety and Wellbeing Performance Report - Report of the Occupational Health and Safety Manager (Pages 11 - 30)
6. Changes to the Code of Practice for Local Authority Accounting in the UK - Report of Corporate Director of Resources (Interim) (Pages 31 - 36)
7. Agreement of Accounting Policies for Application in the 2020-21 Financial Statements - Report of Corporate Director of Resources (Interim) (Pages 37 - 74)
8. Final Accounts Timetable for the Year Ended 31 March 2021 - Report of Corporate Director of Resources (Interim) (Pages 75 - 82)
9. External Audit - 2019/20 Annual Audit Letter - Report of the External Auditor (Pages 83 - 106)

10. External Audit - Durham County Council Audit Strategy Memorandum Year Ended 31 March 2021 - Report of the External Auditor (Pages 107 - 142)
11. External Audit - Durham Pension Fund Audit Strategy Memorandum Year Ended 31 March 2021 - Report of the External Auditor (Pages 143 - 172)
12. Corporate Governance Review 2020/2021 - Key Dates - Report of Corporate Director of Resources (Interim) (Pages 173 - 176)
13. Annual Governance Statement for the year April 2019 - March 2020: Actions Update - Report of Corporate Director of Resources (Interim) (Pages 177 - 182)
14. Strategic Risk Management Progress Report for the Quarter Ended 31 December 2020 - Report of Corporate Director of Resources (Interim) (Pages 183 - 202)
15. Revised Risk Management Policy and Strategy - Report of Corporate Director of Resources (Interim) (Pages 203 - 210)
16. CIPFA Guidance: Head of Internal Audit Annual Opinions: Addressing the Risk of a Limitation of Scope - Report of Chief Internal Auditor and Corporate Fraud Manager (Interim) (Pages 211 - 222)
17. Internal Audit Progress Report for the quarter ended 31 December 2020 - Report of Chief Internal Auditor and Corporate Fraud Manager (Interim) (Pages 223 - 240)
18. Emergent Internal Audit Plan 2021/2022 - Report of Chief Internal Auditor and Corporate Fraud Manager (Interim) (Pages 241 - 256)
19. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
20. 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)

21. Internal Audit Progress Report for the quarter ended 31 December 2020 - Report of Chief Internal Auditor and Corporate Fraud Manager (Interim) (Pages 257 - 278)
22. 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
17 February 2021

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

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

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

Co-opted Members:

Mr C Robinson and Mr I Rudd

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DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held **remotely via Microsoft Teams** on **Thursday 26 November 2020 at 9.30 am**

Present:

Councillor E Bell (Chair)

Members of the Committee:

Councillors J Rowlandson (Vice-Chair), B Kellett, J Nicholson, J Robinson, J Shuttleworth and O Temple

1 Apologies for absence

Apologies for absence were received from Councillors C Carr and J Clark.

2 Minutes

The minutes of the meeting were agreed as a correct record to be signed by the Chair.

3 Declarations of interest

There were no declarations of interest.

4 Opportunity for Committee to meet Amy Harhoff the Council's recently appointed Corporate Director, Regeneration, Economy & Growth

The recently appointed Corporate Director of Regeneration, Economy & Growth was introduced by the Chair and provided an overview of her service responsibilities.

The Corporate Director confirmed that the Councils Libraries and Leisure Centres had been particularly affected due to the impact of COVID-19 and she was grateful to the teams involved. Public transport was another area particularly affected and the Council needed to work closely with bus operators to ensure a good recovery following the pandemic.

Priorities for regeneration, included town centres and she confirmed that in October, Cabinet had launched towns and villages investments of almost £20m to spend across the County.

The Corporate Director confirmed the importance of ensuring Council Assets were being used to support community organisations. She referred to the vital role that Business Durham played to support businesses and noted the support they had given during the pandemic to Corporate Services and Finance in administering business grants and the support to those that were suffering potential redundancies.

The Corporate Director confirmed that the service had continued to progress a number of priorities in place prior to the pandemic and these were more critical than ever as the County faced the economic effects of the health crisis. Significant transport investments were vital to support the economy in the aftermath of the pandemic and despite the positive news regarding the roll out of a vaccine, the Council needed significant recovery ambitions.

Whilst there had been incredible challenges, the Corporate Director credited the hospitality sector for immense resilience despite not having had the opportunity to fully recover and that continued support would be offered.

Finally, she acknowledged businesses that had responded to the pandemic, some of which have redirected manufacturing to provide additional support resulting from the COVID-19 outbreak.

5 Quarter 2 2020/21 Health, Safety and Wellbeing Performance Report

The Committee considered a report of the Occupational Health and Safety Manager which provided an update on the council's Health, Safety and Wellbeing (HSW) performance for Quarter two 2020/21 (for copy see file of minutes).

Councillor Shuttleworth referred to employee mental health and wellbeing and asked what responsibility the Council took for members of staff who indicated that working from home was affecting their mental health. The Occupational Health and Safety Manager confirmed that individuals who had been identified as being affected were assessed to identify the risk of working from home against the risk of returning to the workplace and would accommodate staff accordingly. He confirmed that there had been up to 30 employees at one time that had expressed concern relating to home working, this had reduced when restrictions had eased and was expected to rise through Winter, but the number fluctuated greatly.

Councillor Kellet queried the health and safety COVID-19 risk register and employees who may be at increased risk of exposure to COVID-19 due to redeployment and the Occupational Health and Safety Manager confirmed that an example was of someone who had more interaction with people than

their substantive role may be at a higher risk of exposure, however this should be offset by the control measures in place.

Resolved:

That the report be noted.

6 External Audit Progress Report

The Committee considered a report of the External Auditor which provided a progress update (for copy see file of minutes).

The External Audit Manager confirmed that the outstanding investments letter discussed at the previous meeting had been subsequently received and the accounts signed off on 30 October 2020.

Resolved:

That the report be noted.

7 Local Code of Corporate Governance

The Committee considered a report of the Corporate Director of Resources, which sought the approval of the updated Local Code of Corporate Governance following an annual review (for copy see file of minutes).

The Principal Risk and Governance Officer referred to cross references to the Local Code of Corporate Governance in the covering report at paragraph 13 a) to j) and confirmed that the paragraph should be prefixed with number 3. and not 4.

Resolved:

That the report be noted.

8 Strategic Risk Management Progress Report for 2020/21 - Review 2

The Committee considered a report of the Corporate Director of Resources which highlighted the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group between June and September 2020 (for copy see file of minutes).

Councillor Robinson asked what the governance arrangements were for the Local Resilience Forum which had had a major role during the pandemic. The Strategic Manager - Executive Support confirmed that the LRF was

overseen by the Ministry for Housing, Communities and Local Government but each individual organisation had their own scrutiny arrangement so with regards to the Council this would be Audit and Scrutiny Committees and there were also links into the Safe Durham Partnership.

Councillor O Temple referred to paragraph 17 of the report and asked whether the Council and the County Durham and Darlington LRF had been stood-up once again with their respective Brexit task and finish group arrangements. The Strategic Manager - Executive Support confirmed that the LRF had been stood-up in relation to COVID-19 since the beginning of February and the prospect of a no trade agreement was being treated as a concurrent risk. The Council had reviewed the additional impact of failing to agree a deal combined with COVID-19 to enable council to respond if needs be. The report had been prepared in mid-October and the latest position was that negotiations were still ongoing, however, since then more positive progress had been made on state aid. Should a technical agreement on a draft trade agreement be made, it would still need to go through UK and EU Parliament. The LRF was dealing with risks regarding Brexit and the Council also had their own internal planning arrangements.

In response to comments from Councillor Shuttleworth with regards to road slippage on the A690, the Risk, Insurance & Governance Manager confirmed that the assessment of risk was based on factors such as technical assessments on any movement by specialists, funding, planning and whether the level of risk required it to be addressed in the short term or long term, however he would seek further clarification from the service and feed this back to Members.

C Robinson referred to the key risks in the report which were almost exclusively long term, specifically items 5 and 6 – protecting children and adults from harm as he did not feel assured that the proposed actions were adequate to mitigate the risk. The Risk, Insurance & Governance Manager confirmed that these two risks were kept on the key risk register even if considered unlikely to occur as CMT and Audit Committee wanted to monitor them to ensure they did not increase. Although the likelihood of the risk occurring had increased due to COVID-19 and extra measures were in place to try and deal with that, the overall assessment of the risk and the appropriateness of the measures in place remained the same. However he would seek a response from the Service and feed this back to Members.

I Rudd asked for more details relating to the new risk on climate change emergency and penalties should the Council not succeed in meeting targets. The Risk, Insurance & Governance Manager advised that there could be a variety of impacts including financial, reputation and impact on the wider community, which are likely to change over the period up to 2050. In addition, the Council will be expected to meet its targets and consequently

lead by example to other sectors of the business community. The programme of work to achieve this objective covers 30 years, but it will be broken down and managed within numerous projects over that period, including up to 100 projects in the next few years.

Resolved:

That the report be agreed.

9 Protecting the Public Purse Update

The Committee considered a report of the Interim Chief Internal Auditor and Corporate Fraud Manager which provided the update activity and informed Members of the work that has been carried out as at 30 September 2020 (for copy see file of minutes).

Councillor Temple referred to the increase in fraud as a result of the COVID-19 pandemic and asked if the department needed more resources and the practicality of temporary redeployment to focus on that area of work. The Corporate Fraud Manager confirmed that the team was well staffed in comparison to some Local Authorities in the region and although they had needed to put additional resources towards the risks associated with COVID-19, they were working considerably well according to benchmarking and that once the vaccine was rolled out it would enable the Fraud Team to resume normal work and a reduction in COVID-19 related work.

The Chair added that Durham was regarded as an exemplar by other local authorities and Councillor Shuttleworth praised the Revenues and Benefits Team for their response to COVID-19 as businesses were applying for and receiving grants on the same day.

Resolved:

That the report be noted.

10 Internal Audit Progress Report Period Ending 30 September 2020

The Committee considered a report of the Interim Chief Internal Auditor and Corporate Fraud Manager which provided information relating to the work that had been carried out by Internal Audit during the period 1 April 2020 to 30 September 2020 as part of the six- month Internal Audit Plan to September 2020 (for copy see file of minutes).

Resolved:

That the report be noted.

11 Six-Month Internal Audit Plan: 01 October 2020 to 31 March 2021

The Committee considered a report of the Interim Chief Internal Auditor and Corporate Fraud Manager which provided the Six-Month Internal Audit Plan for the period from 01 October 2020 to 31 March 2021 (for copy see file of minutes).

Councillor Shuttleworth referred to Beamish Museum audit which took almost two months and the Interim Chief Internal Auditor and Corporate Fraud Manager advised that this included a range of individual reviews across services.

Resolved:

That the report be approved.

12 Exclusion of the public

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 paragraphs 1,2,3 and 5 of Schedule 12A of the Act.

13 Protecting the Public Purse Update

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which provided an update on activity to 30 September 2020 (for copy see file of minutes).

Resolved:

That the report be noted.

14 Internal Audit Progress Report Period Ending 30 September 2020

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which provided internal audit progress to 30 September 2020 (for copy see file of minutes).

Resolved:

That the report be noted.

Audit Committee

25 Feb 2021

**2020/21 Quarter 3 Health, Safety
and Wellbeing Performance
Report****Report of Corporate Management Team**

Report of Kevin Lough, Occupational Health and Safety Manager.

Electoral division(s) affected:

1. Countywide.

Purpose of the Report

2. To provide an update on the council's Health, Safety and Wellbeing (HSW) performance for Quarter 3 2020/21.

Executive summary

3. Health and Safety (H&S) and Occupational Health Services (OHS) continue to provide significant organisations support and interventions in relation to the COVID pandemic. A continuation of employee risk assessments, safe working procedures, employee testing and compliance related advice. OHS screened in excess of 350 employees requiring COVID tests via CDDFT and received significant numbers of queries relating to the introduction of stricter lockdown and Tiered restrictions during the quarter.
4. A total of 34 COVID assurance audits were undertaken in Council premises during quarter three. The audits predominantly focused on premise related control measures which are required in accordance with government guidance. Assurance auditing resulted in a 96.43% compliance rate overall. Actions have been taken to address the issues identified during the assurance audits to ensure compliance.
5. Members of the H&S team continued to provide technical advice, support and guidance throughout Quarter three and in response to the increased restrictions and associated changes to workplace and work activity guidance. This again resulted in safe working procedures being reviewed and risk assessments being revised.
6. Several schools across the county were audited by HSE inspectors in relation to their COVID secure arrangements and risk control. The outcomes of these were positive and compliance evidenced by inspectors.
7. A revised approach and additional intervention was introduced during this quarter which involved more widespread mandatory use of face coverings in workplaces, vehicles and public facing roles. guidance and advice to be provided and risk assessments amended for work activities.

8. There were continued challenges in relation to educational settings and the requirement to revise risk assessment and guidance following introduction of additional restrictions. The H&S team worked with public health and education colleagues to ensure that control measures and interventions were up to date and consultation with teaching trade unions continued positively.
9. Emphasis was again been placed during quarter three on employee mental health and wellbeing, although the likelihood of some faded introduction of employees back into some workplaces following work in quarter two was reduced following restrictions being introduced. Several surveys were prepared and undertaken to establish the organisational demands and expectations regarding returning to workplaces and what an extended period of homeworking would present in terms of challenges and opportunities.
10. Incident statistics show a small increase overall for the quarter which and overall a significant reduction for the year so far, which is reflective of restricted service provision and working from home arrangements. It was positive to note that RIDDOR reportable accidents decreased during this quarter.
11. There were six fire related incidents during Quarter three across a range of premises and locations. which were effectively dealt with by existing fire protection systems and employee interventions. There were no injuries to employees or service users, however some minimal damage to property.

Recommendation(s)

12. That Audit Committee note and agree the contents of this report.

242

Accidents, incidents and near misses reported
 (208 in Q2 2020/21
 94 in Q1 2020/21
 404 in Q4 2019/20)



95%
 Of all reported accidents are either no injury or near miss

Main Accident/Incident Causes



3 RIDDOR 'specified' injury, and 6 over 7 days absence RIDDOR injuries

339 employees screened for COVID testing
120 Tests provided



• Better Health at Work Continuing Excellence Award *Achieved*



17 psychological work related incidents in Q3 2020/21, compared to
 - 17 in Q2 2020/2,
 - 30 in Q1 2020/21,
 - 52 in Q4 2019/20,

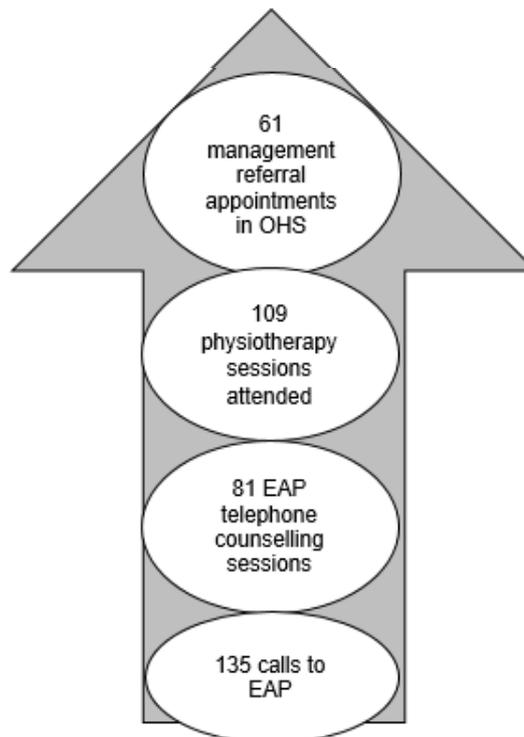
6 fire related incidents  5 CDDFRS inspections of council premises



821 COVID related contacts with OHS for advice and support

0

Enforcement related actions or advice from HSE/CDDFRS following inspections and audit activity



COVID 19 H&S Update

13. There were significant changes to the COVID tier levels during Quarter three and as a result, changes to COVID related guidance. The County went into the highest COVID tier level which superseded a November lockdown. This resulted in a review of COVID secure arrangements, working from home restriction and those who were in operational sites. Updated technical advice and support was provided to ensure work activities were undertaken as safely as possible with transmission related risks controlled effectively.
14. As a result of COVID vaccinations being licensed and the roll out of testing, preparatory work was undertaken in the quarter to identify employee cohorts who would be eligible when testing and vaccination intervention became available.
15. The OHS service continued to lead on the process of employee testing and worked in partnership with CDDFT to provide this service. During Quarter three, more than 350 employees were screened in OHS prior to a test being arranged or not, with 66% (232) being advised to take a test via CDDFT. Approximately 20% (45) of those employees tested returned a positive COVID result. An alternative process for employee testing was identified for the post-Christmas period to ensure that delays in results were not experienced and to enable employees from the occupational health services at DCC and CDDFT to take some holiday leave. A significant number of queries continued to be received in OHS during the quarter, with clinical advice and guidance being provided, particularly relating to shielding, vulnerable persons, and isolation criteria.
16. In terms of additional interventions regarding A-symptomatic spread of coronavirus, a revised approach to use of face coverings was agreed by CMT during this quarter. A mandatory requirement to wear face coverings in shared vehicles, communal areas of all council premises and front facing public/customer service roles was adopted and communications went out to all employees regarding this.
17. The H&S team continued to work proactively to ensure that service groupings were provided with updated advice and risk assessments following changes to COVID related guidance. Extensive work was undertaken to ensure that revised risk assessments were in place following the changes to the Tier risk levels in December 2020.
18. The H&S team created a self-audit tool during the quarter and this was distributed to premises which remained open and accessed by employees. In total 34 COVID assurance audits were completed and returned to the H&S team for analysis and further action where appropriate. The audits predominantly focused on premise related control measures which are required in accordance with government guidance. Assurance auditing resulted in a 96.43% compliance rate overall. Areas for action included improvement to one way systems, floor markings, sneeze guard installation and directional signage. Actions have been taken with premise managers and responsible persons to address the issues identified during the assurance audits to ensure compliance.

19. Additional work continued to be undertaken to support employees who were continuing to work from home. In addition to leadership communications relating to employee health and wellbeing, the employee health and wellbeing group also identified additional actions and interventions to support and guide employees.

Fire Incidents

20. There were six fire related incidents at Council premises or staffed premises or on-board Council vehicles during Quarter three. These were at:
 - Brandon Community Primary School
 - North Lodge Chester le Street
 - Morrison Busty Depot
 - Catchgate Primary School
 - West Rainton Children's Unit
 - Flat 7 Charles Dickens Lodge Barnard Castle

Brandon Community Primary School

21. It was reported that the schools fire detection and warning system activated at 01:11am on 18 October and the fire service were called via the alarm receiving centre (ARC) who monitor the school's intruder and fire alarm during unoccupied hours. In addition, the school is fitted with a fire alarm system to an L2 standard and fitted with sprinklers.
22. The fire service attended the school at 01:25am the same day and it was discovered that there was a fire within the internal parts of a refrigeration unit within the school kitchen. As the fire was kept within the housing of the refrigeration unit and did not develop any further, no sprinkler head activated. Heat and smoke damage were caused to both the school kitchen and main dining hall with ceilings, walls, floors, and stock being affected. Once extinguished, the fire service disconnected the unit from its power supply and removed the unit to the outside of the building to ensure no further damage could be caused. The school was closed for one day on the 19 October to allow for cleaning of the affected area.
23. The post fire investigation did not reveal any faults with the school kitchen electrical installation, and it is believed that it was an internal fault that had developed within the refrigeration unit. There being no combustible storage near to the affected unit also helped to ensure the fire did not develop. Having the school fire detection and warning system linked to the ARC via the security system ensured that the fire service was called at the earliest opportunity at a time when the premises were unoccupied. This along with the provision of the sprinkler system at the school would have prevented further damage had the fires spread from the unit where the fire started to adjoining equipment and storage.

North Lodge Chester - le - Street

24. At 08:15am on 29 October 2020 the crew and driver of the refuse carrying vehicle (RCV) NK67NHW became aware of light smoke and a smell of burning in the load of the hopper on the vehicle. The crew decided to drive to the waste transfer station (WTS) at Morrison Busty and the hot load was placed into the hot load bay. It was examined by the WTS supervisor who detected a smell of burning but no signs of fire. It was estimated that there were approximately two tonnes of rubbish and it was kept in the hot load bay for 4 days before it was taken away. The waste was examined to try and identify what was the cause of ignition but nothing was identified.
25. It would appear that the crew followed procedures of compacting the waste materials in the hopper of the vehicle has extinguished the fire by preventing oxygen getting to the seat of the fire and their prompt actions has prevented this from being a bigger fire which may have resulted in fire service intervention.

Morrison Busty Depot

26. It was reported on 18 November 2020 by the driver of an RCV it was showing an engine management fault with diesel particulate filter. As the vehicle was a hire vehicle a fitter was called to investigate further. Whilst looking into the engine management fault the fitter identified that a wiring harness located behind the cab and located near the engine was showing signs of heat damage. Prior to the engineer's inspection, the area involved was jet washed to provide a clean working environment for the engineer. The engineer stated that the fire had been caused by waste materials getting behind the packer plate and encountering hot engine parts. A subsequent inspection of the area behind the packer plate by the waste team leader identified enough waste materials to fill a 360Ltr waste bin.
27. It is unclear when the small fire took place as according to the Dennis Eagle engineer the wiring harness involved is not linked to the engine management system and was only noticed after the area was jet washed prior to inspection by the Dennis engineer. All driver/chargehands have been reminded of the requirement to clean the vehicles weekly and that this weekly task includes cleaning the area behind the packer plate.

Catchgate Primary School

28. It was reported that on 18 December at 11:40am two bulbs in a regeneration oven failed whilst lunch was being served to KS1 pupils in the dining hall and hot shards of glass and bulb filament fell onto the food below and burnt some holes in a tea towel that was below. Kitchen staff were in the area at the time and removed the tea towel. No pupils or staff were injured by the shards of hot glass as the design of the bulb fitting directed the shards down onto the vegetables and cake being kept warm in the servery. Following the incident, the regeneration oven in question has been inspected/tested by JBL Services Ltd and they have stated that the oven is fine, and no faults could be found with the oven. The bulbs have been replaced with lower wattage versions.

4 Tollgate Fields West Rainton

29. West Rainton Children's unit houses three young persons, the unit itself is fitted with a category L2 fire warning system in addition, risk rooms are fitted with fire doors and a minimum of two staff members are on duty. Staff members have been trained in the practical use of fire extinguishers. It was reported that on the evening of 27 December 2020 a member of staff had entered a young person's bedroom and could smell what seemed like struck matches. After searching the young person's bedroom, they found a box of matches and there was evidence they had used the matches to try and ignite some playing cards. Fortunately, the cards did not catch fire and only the card ends were scorched. It is believed that this is a one-off incident as the service user has exhibited no other fire setting behaviour while in the home and it is believed that young person involved had taken the matches from an unlocked cupboard in a shed at one the carers allotment earlier in the day and then brought them back to the home.
30. The risk assessments for the service user involved have been reviewed. An additional room search has been carried out in addition to the one that located the matches and no other ignition sources were found. A key work session has been completed with the young person with regards to fire safety/danger of fire. County Durham and Darlington Fire and rescue service have been contacted and a request made to have some intervention from the service regards the dangers of fire play for all young people at the unit.

Flat 7 Charles Dickens Lodge

31. Charles Dickens Lodge is an 'Extra Care scheme' premises, whereby the property is owned and maintained by Anchor Hanover Housing with a tenancy agreement in place for each resident. DCC Staff provide a 24-hour care service for the residents. It was reported that on 28 December a staff member entered the two-bedroom apartment which is occupied by an elderly couple and discovered a tea towel on top of the cooker hob which had all four rings turned on. The care worker removed the tea towel and turned off the hob.
32. A specialist care provider has been identified to provide respite care until a more permanent place for the couple can be found. In the interim period while they are still residing at Charles Dickens Lodge, only staff and the couple's daughter have access to use the cooking appliances.

Fire Inspections – County Durham and Darlington Fire and Rescue Service

33. There were 5 Fire and Rescue Service inspections of Council premises during Quarter three. These were at Lanchester EP Primary School, Bournmoor Primary School, Brandon Primary School, 9 Cedar Drive Residential Childrens Home Newton Aycliffe and Morrison Busty Depot.

The outcome of the inspections was that at Lanchester EP Primary and Bournmoor Primary there were minor deficiencies of current fire safety legislation and Brandon Primary, 9 Cedar and Morrison Busty were deemed to be broadly compliant with current fire safety legislation.

Enforcement Body Interventions & Significant Incidents

34. There were no formal HSE or CDDFRS enforcements interventions in Quarter three.
35. The HSE did contact the H&S team regarding the submission of an Occupational Disease Report being submitted for an employee with tendonitis, an overview of the individual's job role and clarification of content of occupational health report were forwarded. The HSE were satisfied with the information provided and control measures.
36. HSE inspectors undertook a range of COVID secure related inspections and assurance activities during this quarter. Five schools in the county were either visited by an inspector or contact made remotely regarding COVID related controls measures, including risk assessments. The outcome of these interventions was very positive and HSE inspectors found that COVID secure arrangements for school environments were compliant and risk assessments and associated procedures comprehensive and compliant with legislative requirements.

Open Water Safety

37. The City Safety Group (CSG) formed a student induction week multi agency subgroup, chaired by the Council Occupational Health and Safety Manager. This group focused on similar challenges to previous student induction weeks but also in addition to the risks regarding COVID 19.
38. Assurances were obtained from the University and colleges on how they were going to restrict movement of students during freshers week and ensure compliance with national guidance and legislation. Durham city policing teams and the council licensing enforcement team also made plans to assist with the control of activities in licensed premises and ensure that rules of six were being adhered to, subject to further guidance changes. Engagement visits by police and licensing officers were undertaken during the quarter to ensure that licensees were sure of their responsibilities and to clarify the government guidance and resolve any queries. Licensed premises risk assessments and COVID related control measures were also reviewed during the quarter to ensure that they supported the university students in maintaining safety and social distancing.
39. The University were undertaking a series of student related communication aimed at emphasis that students should remain in college bars and not be in gatherings of more than 6 people. There was also clear messaging regarding no formal fresher type events being held outside of the university itself. For those entering into town it was also being communicated what

the restrictions were outside of university areas. Also, key safety related messages as part of student induction were relayed in terms of personal safety, personal responsibility in relation to alcohol consumption/health effects, risks from becoming detached from social groups and the river corridor related hazards.

40. From a county wide water safety perspective, the open water safety group undertook a series of open water related safety communications and activities. In the absence of being able to deliver the dying to be cool cold water shock water safety campaign to schools throughout county durham, social media videos were created featuring the five year anniversary of the death of Cameron Gosling. Work was once again undertaken with Fiona Gosling, Cameron's mother, to record campaign videos, undertake media interviews, design, and deliver social media messaging. There were also arrangements made to erect posters and information cards at prominent open water locations across the county to highlight the dangers to those who may be entering into cold water.
41. The H&S team also undertook assurance auditing of higher risk destination parks and other open water related locations across the county to ensure that safety related control measures previously installed, remain in situ.

Employee Health and Wellbeing

42. The council has been awarded the better health at work award continuing excellence award submission following achievement of gold award status. This both recognises and awards our continued commitment and 'continued excellence' in addressing and improving workplace health and wellbeing
43. DCC proved that it has sustained the great work we have done to date whilst progressing through the award. The evidence submitted in support of this level of the award demonstrated significant work relating to staff mental health including our work around WMHD, TTT day, MH Awareness Week, staff wellbeing during COVID-19 (survey and focus groups) and the Power of 5. The assessor commented that is apparent that DCC has been proactive in its response to the rapid and enforced change to working conditions that have presented multiple challenges for all organisations but have presented a particular challenge for local authorities.
44. Further work and communications were undertaken during the quarter to provide employees with health and wellbeing related information and awareness to support them during the COVID 19 pandemic. The employee assistance programme was once again promoted along with other activities which support mental health and wellbeing. A new health and wellbeing portal is being constructed and will enable improved access to support and guidance.

45. Occupational Health Service (OHS) also continued to deliver employee related management referral services during the quarter and supported managers during the process.

Occupational Health Service

46. The OHS team continues to attend the OH department with a covid 19 risk assessment in place to enable us to deliver essential OH services including immunisations, inoculation injury follow-up which includes a blood test, physiotherapy, drivers medicals and statutory health surveillance. A return to the OH department has also allowed the management of paper records which includes pension applications and processing confidential post. Staff are attending the department on a rota basis to allow social distancing to be maintained whilst the remaining staff continue to work from home.

Management Referrals

47. During Quarter 3, 228 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, Long Term Sickness Absence/Short Term Sickness Absence (LTSA/STSA)

Chart 1

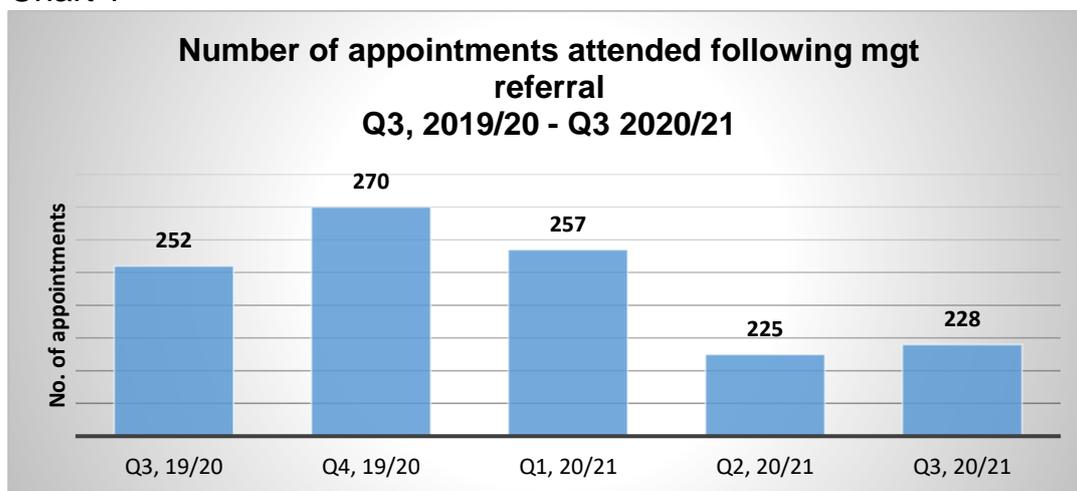
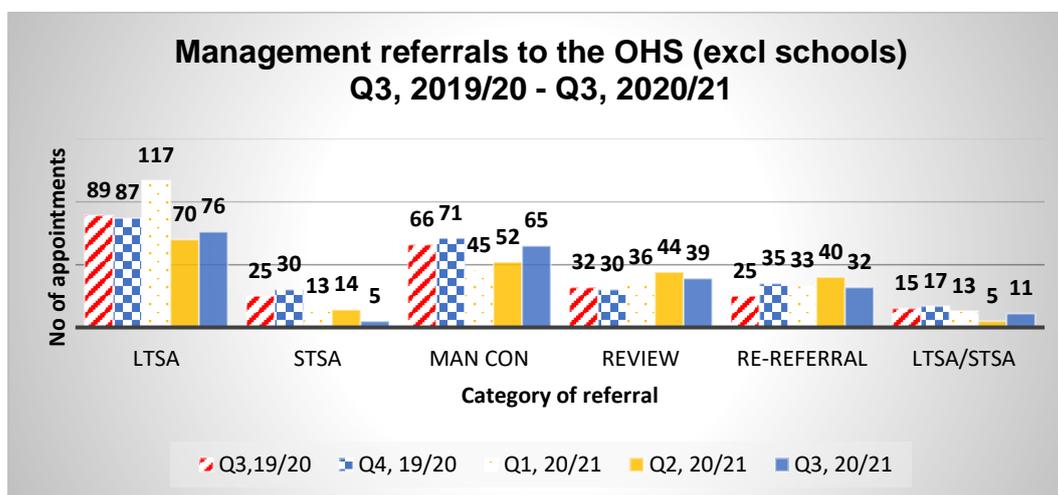


Chart 2 shows the categorisation of management referral appointments attended.

Chart 2



Support Services

48. During Quarter 3, the OHS provided the following additional support services. See Table 1.

Table 1

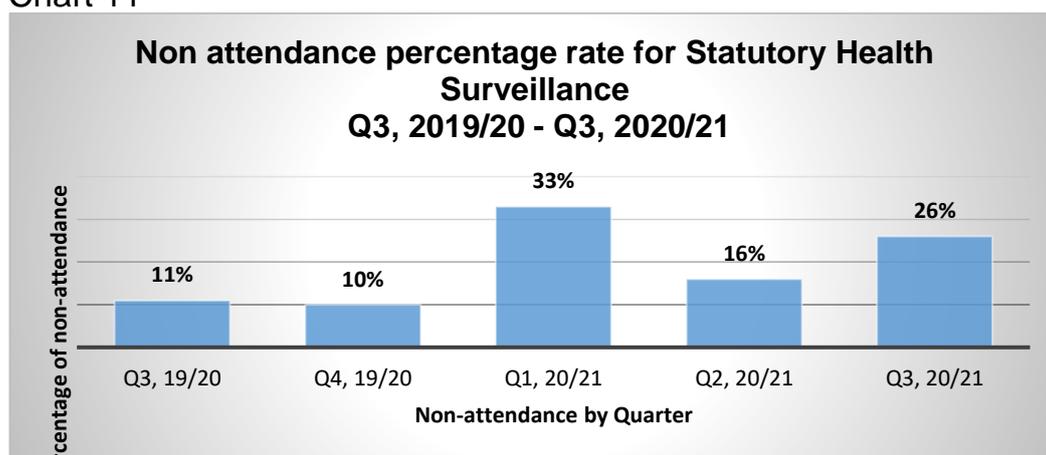
Additional Support services accessed via the OHS	A&H S	CYP S	NCC	REG	Res	CM	Service not detailed	Q3 20/21 Total	Q2 20/21 Total	Q1 20/21 Total	Q4, 19/20 Total	Q3, 19/20 Total
Number of routine physiotherapy referrals	2	4	5	4	6	0	-	21	27	29	28	34
Number of routine physiotherapy sessions	8	15	34	32	20	0	-	109	110	89	102	117
Number of 'face to face' counselling referrals	0	0	0	0	0	0	-	0	0	1	20	14
Number of 'face to face' counselling sessions	0	0	0	0	0	0	-	0	0	37	43	28
Total number of calls to the EAP	17	46	8	8	24	1	31	135	121	29	91	111
Telephone EAP structured counselling cases	1	5	1	1	1	0	2	11	8	6	9	50
Telephone EAP structured counselling sessions	10	17	4	6	6	0	9	52	33	29	70	63

49. Routine physiotherapy clinics run one day per week in the OHS at County Hall under contract with the OHS, currently during COVID the clinics are a combination of telephone assessments, assessments carried out by video link and face to face physiotherapy appointments, should following the physiotherapy initial assessment by telephone the physiotherapist deem this to be clinically required. At the time of preparing this report (14/02/2021) the waiting time for an initial assessment is 9 working days. The OHS will continue to monitor this waiting time and report to this group.

Health Surveillance

50. The Occupational Health Service (OHS) has continued to provide Statutory Health Surveillance programmes remotely to employees during the pandemic in line with the guidelines issued by the HSE in relation to health surveillance. The guidelines were updated on 4th January 2021 and allows for audiometry to be deferred for up to 12 months including any previous deferment. Plans for face to face audiometry to resume are currently delayed due to the increase in COVID cases, however, to meet the HSE guidelines face to face audiometry the OHS plan to recommence health surveillance for noise in early March 2021. A risk assessment has been carried out which includes extra time between appointments to allow for cleaning and ventilation of the room, testing outside of the hearing booth, a Perspex screen between the employee and the nurse, appropriate PPE, and hand hygiene.
51. During Quarter 3, 26% (n=5) employees failed to attend their appointment with the OHS in relation to statutory health surveillance. See Chart 11.

Chart 11



Immunisation

52. During Q3 despite the current pandemic the OHS have continued to provide Hepatitis B immunisation to employees who were on the programme administering a total of 49 vaccines. Due to shortages of the vaccine for over 2 years there is a waiting list of employees who have

been employed by DCC and their job role has been identified via risk assessment as requiring an offer of Hepatitis B immunisation, the OHS have made significant progress in reducing the waiting list and are continuing to send offer letters to this group of employees and anticipate that this will be an ongoing process.

53. The Occupational Health Service delivered onsite flu vaccinations to employees who routinely provide up close and personal care to clients who are at risk of the complications of flu and provided additional clinics in the OHS, administering 500 flu vaccines during November and December 2020.

Covid response

54. During the restrictions in place due to the coronavirus outbreak the OHS have continued to provide Occupational Health provision to DCC and external contracts. This has been done remotely when possible and in line with guidance from the HSE, DVLA, Faculty of Occupational Medicine and the NHS.
55. The OHS has continued to facilitate covid testing for employees, elected members and their families liaising with public health and HR colleagues to achieve an efficient service. The number of referrals for covid testing has gradually reduced during Q3 which is likely to be due to the increased availability of efficient covid testing via the 119 route.
56. The OHS have provided advice to managers via management referral specifically relating to employees with health conditions and working during the covid pandemic.
57. The OHS have also provided advice to managers and employees via email and telephone on a variety of covid related matters. (See Table 2)

Table 2

COVID-19 Activity Data Q3, 2020/21			
Email/Telephone Queries relating to COVID	Clinician	Admin	Total
DCC	257	54	311
Schools	126	30	156
Academies	0	0	0
Total	383	84	467

Screened	DCC (inc elected members)	Schools	Academies	Total
Total Screened	211	128	0	339
Of which referred for testing:				
<i>Employees referred for testing</i>	78	35	0	113
<i>Household members referred for testing</i>	5	2	0	7
COVID-19 related referrals to OHS	DCC	Schools	Academies	Total
Total referrals	13	2	0	15
Fast -tracked pre-employments	0	0	0	0
Email/telephone Queries relating to COVID	311	156	0	467
Total number of contacts relating to Covid response	535	286	0	821

Violence and Aggression – Potentially Violent Persons Register (PVPR)

58. At the close of Quarter three 2020/21, there were 83 live entries on the PVPR register. The 12 month rolling figures for PVPR live entries are as follows:

Year	Quarter	PVPR live entries
2020/21	1	83
2020/21	2	83
2020/21	3	62
2019/20	4	91

Number of Live Records	62
Number of Additions	4
Number of Removals	12
Number of Warning Letters Sent	2
Number of PVPR Appeals	0

59. Breakdown by service of PVPR views in the last quarter is as follows:

- CYPs - 42 viewed 50 times
- AHS - 56 viewed 83 times
- N&CC – 46 viewed 79 times
- REG - 65 viewed 335 times
- RES - 35 viewed 177 times
- Members- 1 viewed 1 time

Corporate risks that may have an impact on Health and Safety

60. The below tables detail the Corporate risk that may have an impact on Health and Safety at beginning of 2021.

Health and Safety Related Strategic Risks Jan 2021

Ref	Service	Risk	Treatment
1	AHS	Failure/inability to respond to and recover from the COVID-19 pandemic, leading to high levels of staff absence, overwhelming pressure on services, and impacts on the safety and wellbeing of the wider community and economy.	Treat
2	CYPS	Failure to protect a child from death or serious harm (where service failure is a factor or issue)	Treat
3	REG	Serious injury or loss of life due to Safeguarding failure (Transport Service)	Existing controls considered adequate
4	AHS	Failure to protect a vulnerable adult from death or serious harm (where service failure is a factor or issue).	Treat
5	NCC	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
6	RES	Serious breach of Health and Safety Legislation	Existing controls considered adequate
7	REAL	Potential serious injury or loss of life due to the Council failing to meet its statutory, regulatory, and best practice responsibilities for property and land.	Treat
8	RES	Potential violence and aggression towards members and employees from members of the public	Existing controls considered adequate
9	NCC	Demand pressures on the Community Protection inspections and interventions arising from the COVID-19 pandemic and a potential Brexit may lead to an adverse impact on public health and safety in Co Durham.	Treat

Statistical Information

61. 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). It is important to note that when setting future performance targets this data should be utilised.

Main implications

Legal

62. 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

63. 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

64. 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.

Conclusions

65. Changes to government COVID restrictions during this period resulted in further demands for new and revised risk assessments, employee support and COVID testing. Nevertheless, both H&S and OHS services continue to provide timely and effective COVID related advice and support, in addition to standard other core statutory requirements.
66. It was very positive that an external enforcement agency inspected the COVID secure arrangements within schools and provided positive feedback on control measures to reduce transmission risks. Assurance was also provided on the extensive work on risk assessments and the preparations for the return of schools in the autumn term.
67. Employees continued to be supported by OHS in terms of the ability to arrange a COVID test via CDDFT following initial screening. This again

proved successful with tests being arranged and results returned in most cases in under 48 hours.

68. Audit outcomes were positive in relation to compliance with COVID secure requirements for premises. Despite the positive outcome there were still areas for improvement identified which have been actioned in order to further enhance control measures.
69. Despite a small increase in the overall numbers of accidents during this quarter there was a reduction in the number of RIDDOR reportable accidents. RIDDOR reportable accidents are reflective of front line, higher risk services still operating despite the pandemic.
70. It was positive that employees were continuing to utilise the OHS internal COVID testing service and there were again high number of requests for tests and also general support and advice regarding COVID.

Other useful documents

71. Occupational Health quarter 3 2020/21 Report
72. Health, Safety and Wellbeing statistical quarter 3 2020/21 report

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.

Climate change- None

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 – None.

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.

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Audit Committee

25 February 2021



**Changes to the Code of Practice for
Local Authority Accounting in the UK
for 2020/21**

Paul Darby, Corporate Director of Resources (Interim)

Electoral division(s) affected:

None

Purpose of the Report

- 1 This report provides 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 2020/21 Statement of 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 2020/21 Statement of Accounts will be prepared in accordance with the CIPFA Code of Practice for Local Authority Accounting in the UK 2020/21. The main changes to the Code from 2019/20 to 2020/21 are outlined in Appendix 2, detailing their relevance and applicability to the council.

Recommendation

- 4 Members are asked to note the changes detailed in the report and in Appendix 2, which will be taken into account in the preparation of the 2020/21 statements.

Background

- 5 This report is presented to the Audit Committee 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 In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK (the Code), which is based upon approved accounting standards.
- 7 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.
- 8 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 2020. It supersedes the 2019/20 Code.
- 9 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.
- 10 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

- 11 Appendix 2 provides a summary of the main changes to the Code and their relevance to the council in preparing its Statement of Accounts for the year ended 31 March 2021.
- 12 In addition to the Code, the following key changes are relevant to the preparation of the 2020/21 accounts:
 - (a) The findings of the Independent Review of Local Authority Financial Reporting and Audit (the Redmond Review) were reported to Audit Committee on 25 September 2020. Whilst some recommendations are still under consideration, Government have accepted the recommendation to extend the

audit deadline from 31 July to 30 September, for 2020/21 and 2021/22 initially. This is subject to legislation.

- (b) Dedicated Schools Grant (DSG) deficit balances – legislation came into force in November 2020, after the Code was issued. Where a local authority has a deficit in respect of its schools budget for a financial year beginning on 1 April 2020, 2021 or 2022, the authority:
- (i) must not charge to a revenue account an amount in respect of that deficit; and
 - (ii) must charge the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its schools budget.

This means that the council can no longer hold a negative earmarked DSG reserve and will instead transfer any DSG deficit balance to a new unusable reserve.

- (c) Adoption of IFRS 16 Leases, originally due in 2020/21, has been further deferred to the 2022/23 Code.

Other useful documents

- Audit Committee, 25 September 2020 – Statement of Accounts for the Year Ended 31 March 2020
- Audit Committee, 25 September 2020 – Independent Review of Local Authority Financial Reporting and Audit

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.

Climate Change

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 2020/21

The table below provides a summary of the changes in the 2020/21 CIPFA Code and their applicability to Durham County Council.

	Change	Relevant to Durham County Council?
1	Amendments to implement and emphasise the application of Amendments to IAS 1 and IAS 8: Definition of Material, for example the importance of ensuring that material information is not obscured for users.	Yes
2	Reference to arrangements for the application of accounting standards arising as a consequence of the UK withdrawal from the remit of the EU-endorsement framework, that is that the Code will be based on standards adopted for UK application.	Yes
3	Legislative amendments relating to investments in specified pooled investment funds that are measured at fair value through profit or loss (FVPL), and back payments following unequal pay	Yes
4	Clarification of the treatment relating to some financial instruments entries	Yes
5	Fees and charges for services under statutory requirements are now specified to include Housing Revenue Account tenancy rental income	Not currently
6	References to RICS valuation guidance publications updated – they are now based on a global framework	Yes
7	The signage used at the foot of the Comprehensive Income and Expenditure Statement should be clearly identified, to enable the reader to distinguish between a surplus or a deficit	Yes
8	Recognition that the presentation of a disclosure of movements in property, plant and equipment for the year in the accounts may differ from Whole of Government Accounts practices.	Yes

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Audit Committee

25 February 2021



**Agreement of Accounting Policies for
Application in the 2020/21 Financial
Statements**

Ordinary Decision

Paul Darby, Corporate Director of Resources (Interim)

Electoral division(s) affected:

None

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 2020/21 Statement of Accounts and to seek confirmation from the Audit Committee that appropriate policies are being applied.

Executive summary

- 2 The accounting policies applied in the preparation of the 2019/20 Statement of Accounts remain appropriate for the preparation of 2020/21 Statement of Accounts. The CIPFA code changes for 2020/21 are considered minor and there are no accounting policies which require amendment as a result of any changes in the Code.
- 3 The full list of accounting policies the council proposes to disclose in its Statement of Accounts notes are detailed in Appendix 2.

Recommendation

- 4 The Committee is recommended to:
 - (a) review the accounting policies outlined in Appendix 2;
 - (b) approve their use in the preparation of the 2020/21 financial statements;

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

Background

- 5 In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK (the Code), which is based upon approved accounting standards.
- 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 2020. It supersedes the 2019/20 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.
- 10 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.
- 11 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".
- 12 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.

- 13 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

- 14 The proposed accounting policies are in line with those used in the preparation of the 2019/20 accounts.
- 15 The CIPFA code changes for 2020/21 are minor, and there are no accounting policies which require amendment.
- 16 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 27 February 2020 - Agreement of Accounting Policies for Application in the 2019/20 Financial Statements
- Audit Committee 25 September 2020 – Statement of Accounts for the Year Ended 31 March 2020

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 2020/21.

Consultation

None.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

None.

Procurement

None.

Appendix 2: Accounting Policies 2020/21

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. Contingent Liabilities			✓	✓
1.25. Contingent Assets			✓	✓
1.26. Reserves			✓	✓
1.27. Revenue Expenditure Funded from Capital under Statute (REFCUS)			✓	✓
1.28. Value Added Tax (VAT)			✓	✓
1.29. Schools			✓	✓
1.30. Collection Fund Statement			✓	✓

1. Accounting Policies

1.1. General Principles

The Statement of Accounts summarises the council's financial performance for the 2020/21 financial year and its position at the year-end of 31 March 2021. 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 2020/21 (the Code) and the Service Reporting Code of Practice 2020/21 (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 where 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 to reduce the overall borrowing requirement calculated by the council on a prudent basis and in accordance with statutory guidance. This annual contribution is known as the minimum revenue provision.

Therefore, so that 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 holds most of its investments solely to collect contractual cash flows, which means that the majority of its financial assets are measured at amortised cost.

There are some exceptions e.g. where the council holds strategic investments to help it meet other policy objectives, such as the support of economic development in the county. With these types of investments, the purpose of the contract is not solely concerned with the payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument). For each of these investments a separate assessment has been made on the appropriate accounting treatment in relation to IFRS 9 for Financial Instruments.

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 given small loans to external or voluntary organisations, but these are for trivial amounts. The council has not 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 of 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 twelve 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 twelve month expected losses.

Financial Assets Measured at Fair Value through Profit or 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 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, as 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 2020/21 (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 2020/21 were either carried out by council staff or by suitably qualified external consultants. 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 periods 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 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. 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.

1.25. 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.

1.26. 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.

1.27. 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.

1.28. 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.

1.29. 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.

1.30. 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

25 February 2021



Final Accounts Timetable for the year ended 31 March 2021

Paul Darby, Corporate Director of Resources (Interim)

Electoral division(s) affected:

None

Purpose of the Report

- 1 This report provides Members with information regarding the Final Accounts timetable for 2020/21. 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 Corporate Director of Resources to sign and certify the unaudited Statement of Accounts 2020/21 by no later than 31 May 2021.
- 3 It is the responsibility of the Audit Committee to approve the final, or audited, set of accounts on or before 30 September 2021.
- 4 These deadlines are subject to change due to the ongoing Covid-19 situation and the recommendations of the Independent Review of Local Authority Financial Reporting and Audit (the Redmond Review).
- 5 The final accounts timetable is the means of communicating and gaining ownership of the deadlines for completing tasks by all those involved in the closure of accounts process and serves as a tool for monitoring progress against those target dates.

Recommendation

- 6 Members are asked to note the key dates in the Final Accounts timetable for 2020/21 detailed in Appendix 2, and also note that some dates are subject to confirmation and change.

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 currently require that:
 - (i) 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.
 - (ii) 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.
- 7 For 2019/20, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 extended these deadlines to:
 - (i) 31 August for the certified unaudited accounts. The council's accounts for 2019/20 were certified on 12 June 2020, so well within this revised deadline.
 - (ii) 30 November for the approved accounts. The council's 2019/20 accounts were approved by Audit Committee on 25 September 2020, and were published on 30 October 2020 following conclusion of the audit, again, well within the revised deadline.
- 8 The Government has accepted the recommendation of the Independent Review of Local Authority Financial Reporting and Audit (the Redmond Review) for the audit deadline to be extended to 30 September, for local authority accounts for 2020/21 and 2021/22. This will need to be formalised by an amendment to the Accounts and Audit Regulations.
- 9 The Redmond Review makes no recommendation about the deadline for certification of the draft. However, it is possible that Government will take the opportunity at the same time to extend the current 31 May deadline, particularly in view of the ongoing Covid-19 situation.

Main implications

- 10 The Final Accounts timetable is a tool for the effective management and monitoring of the process of closing the accounts.

- 11 Each year the timetable is compiled by officers within the central Strategic Finance Team, with input from officers across the council 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 – in our case the Corporate Director of Resources) by the statutory deadline.
- 12 In preparing the closedown timetable new and amended processes are considered for the impact on the achievement of dates, as well as reference to any learning from the previous year, particularly where there were problems or issues in meeting of deadlines.
- 13 Although some statutory dates are subject to confirmation and change, at this stage, the timetable is based on an assumption of 31 May for the unaudited accounts to be completed and 30 September for the approved, audited accounts to be presented to the Committee for approval.
- 14 Officers in the Strategic Finance Team closely monitor the achievement of the dates in the timetable throughout the final accounts period, sending prompts in advance of upcoming deadlines and following up any delays and missed deadlines. This helps to ensure that the overall timetable is achieved, and to identify improvements that can be made to the next year end process.
- 15 Meetings are also held to ensure that practitioners apply accounting procedures consistently; best practice is shared; there is a shared understanding of all interdependencies across the closedown period and that any difficulties or delays being encountered are escalated. The meetings also act as forum for disseminating updated information quickly and consistently and a conduit to ensuring that any external audit queries are quickly addressed.
- 16 The key dates included in the detailed Final Accounts timetable are attached at Appendix 2 for information.

Other useful documents

- Audit Committee 25 September 2020 – Statement of Accounts for the Year Ended 31 March 2020
- Audit Committee, 25 September 2020 – Independent Review of Local Authority Financial Reporting and Audit

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Beverley White

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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. These regulations may be subject to amendment in view of the Redmond Review and the ongoing Covid-19 situation.

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.

Climate Change

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	Original Timetabled date 2019/20	Proposed completion date 2020/21
Circulation of Related Party declarations for completion by Members and Senior Officers	Resources – Democratic Services	Mon 2 Mar 2020	Mon 1 Mar 2021
Details of Related Party declarations for Members and Senior Officers to be returned to Democratic Services	Members / Senior Officers	Mon 16 Mar 2020	Mon 15 Mar 2021
Final postings by Benefits section	Finance & Transactional Services - Income & Support	Tue 31 Mar 2020	Wed 31 Mar 2021
Last creditors paysheet for 2020/21	Finance & Transactional Services - Payments & Expenditure	Tue 31 Mar 2020	Wed 31 Mar 2021
All stock checks completed at 31 March	Services	Tue 31 Mar 2020	Wed 31 Mar 2021
All cash posted up to and including 31 March	Finance & Transactional Services - Income & Support	Wed 1 Apr 2020	Thu 1 Apr 2021
Last monthly salaries and wages information for 2020/21 processed into ledger	Payroll / Strategic Finance	Wed 1 Apr 2020	Thu 1 Apr 2021
All bank reconciliations to 31 March completed	Strategic Finance	Mon 20 Apr 2020	Mon 19 Apr 2021

Task	Responsibility	Original Timetabled date 2019/20	Proposed completion date 2020/21
Service ledgers finalised and final reports produced and net revenue outturn for each service grouping notified to Strategic Finance	Finance & Transactional Services / Strategic Finance	Fri 24 Apr 2020	Tue 27 Apr 2021
Chief Financial Officer to sign the Statement of Accounts	Strategic Finance / Corporate Director of Resources	Fri 29 May 2020	Fri 28 May 2021
Statement of Accounts to External Audit	Strategic Finance	Mon 1 Jun 2020	Tue 1 Jun 2021
Start of Statement of Accounts audit	External Audit	Mon 1 Jun 2020	Tue 1 Jun 2021
Start of Inspection Period (provisional)	Strategic Finance	Mon 1 Jun 2020	Tue 1 Jun 2021
Unaudited Whole of Government Accounts (WGA) return to External Audit and HM Treasury (provisional)	Strategic Finance	Fri 12 Jun 2020	Fri 11 Jun 2021
Cabinet – Overall Outturn Report considered (provisional)	Strategic Finance	Wed 8 Jul 2020	Wed 7 Jul 2021
End of Inspection Period (provisional)	Strategic Finance	Fri 10 Jul 2020	Mon 12 Jul 2021
Audit Committee meeting – approval of Statement of Accounts (provisional)	Strategic Finance	Fri 31 Jul 2020	Thu 30 Sep 2021
Publication of Accounts (provisional)	Strategic Finance	Fri 31 Jul 2020	Thu 30 Sep 2021
Audited WGA return to HM Treasury (provisional)	Strategic Finance	Mon 31 Aug 2020	Mon 4 Oct 2021

Annual Audit Letter

Durham County Council and Durham County Council Pension Fund

Year ending 31 March 2020





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Our reports are 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 the Council and Pension Fund. No responsibility is accepted to any member or officer in their individual capacity or to any third party. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Durham County Council (the Council) and Durham County Council Pension Fund (Pension Fund) for the year ended 31 March 2020. Although our letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide information on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's reports were issued on 30 October 2020 included our opinions that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended;• give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2020, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2020; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020</p>
Reporting to the group auditor - Whole of Government Accounts (WGA)	<p>We are required to report to the group auditor in line with the requirements applicable to the Council's WGA return. As for some other authorities, technical issues with the Government's OSCAR system have prevented us from being able to report to the NAO. See page 18 for further detail.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>
Audit of the financial statements included in the Pension Fund Annual Report	<p>On 30 October 2020, we issued our opinion that the Pension Fund financial statements within the Pension Fund Annual Report are consistent with the full Annual Statement of Accounts of Durham County Council.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

Opinion on the financial statements – County Council

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the relevant financial reporting framework and whether they give a true and fair view of the Council's financial position and of its financial performance.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Emphasis of Matter - Material uncertainty relating to valuations of property investments

We drew attention to Note 44 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. The outbreak of Covid-19 has had a significant impact on global financial markets. As such the Pension Fund's property investment manager, has included a material valuation uncertainty clause in some of their 31 March 2020 valuation reports due to the possible impact of Covid-19. Therefore, there is less certainty and a higher degree of caution should be attached to valuations of unquoted property assets than would normally be the case. We included an emphasis of matter paragraph in our report. Our opinion was not modified in respect of this matter.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider materiality in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. We set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) because of the nature of certain items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure at the surplus/deficit on provision of services	£28.015m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.840m



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> accounting estimates impacting on amounts included in the financial statements; consideration of identified significant transactions outside the normal course of business; and journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the required assurance.</p>
<p>Revenue recognition In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal for all income streams in 2019/20. 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 addressed 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 fees and charges receivables; testing adjustment journals; and obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger. 	<p>Our work provided the required assurance.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

Identified significant risk	Our response	Our findings and conclusions
<p>Property, Plant and Equipment (PPE) 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 property.</p> <p>Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE because of the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk</p>	<p>We addressed this risk by carrying out the following procedures:</p> <ul style="list-style-type: none"> • considering the Council's arrangements for ensuring that PPE values are reasonable; • challenging the reasonableness of the valuations provided by the Council's valuer using other sources of data; • assessing the competence, skills and experience of the valuer and the instructions issued to the valuer; and • performing audit procedures on individual assets to ensure the basis of valuations is appropriate 	<p>Our work provided the required assurance.</p>
<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 addressed this risk using the following audit procedures:</p> <ul style="list-style-type: none"> • evaluating the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and • considering 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. 	<p>Our work provided the required assurance.</p> <p>As detailed on page 3, our Audit Report included an emphasis of matter associated with material uncertainty relating to valuations of Pension Fund property investments.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

Our response to the key management judgements

Identified management judgement	Our response	Our findings and conclusions
<p>Unquoted equity investment valuations The Council has to make judgements in respect of the fair value measurements of unquoted equity investments it holds, including Newcastle Airport.</p> <p>The underlying accounting requirements changed in 2018/19, which increased the risk in respect of these valuation judgements, therefore they have been assessed as enhanced risk.</p>	<p>We addressed this matter by :</p> <ul style="list-style-type: none"> critically reviewing the basis of valuation for the Council's unquoted equity investments. This included consideration of the impact of COVID-19 on valuations; and assessing whether disclosures are in line with the Code of Audit Practice 	<p>Our work provided the required assurance.</p>
<p>Debtors impairment allowance The Council has disclosed its impairment of debtors allowance as an area of estimation uncertainty.</p>	<p>We addressed this matter by :</p> <ul style="list-style-type: none"> critically reviewing the Council's calculation of its impairment of debtors allowance; and assessing whether disclosures are in line with the Code of Audit Practice. 	<p>Our work provided the required assurance</p>



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency	Shared privileged accounts were found to be present on the network (active directory) and Resource Link. The password for the AD shared accounts was shared through an encrypted file to which the IT team have access. For Resource Link, the password was shared verbally. Note that this is relevant to both the Council and the Pension Fund.
Potential effects	Shared accounts mean that actions undertaken using privileges are not attributable to an individual, and therefore cannot be traced.
Recommendation	Disable shared accounts and create individual access for each of the users for whom it is intended to have privileged access for AD and Resource Link.
Management response	The process will be reviewed in the coming year.

Description of deficiency	Shared privileged accounts were found to be present on the SSID live environment. Noted that developers have access to the password for these accounts.
Potential effects	Developers having privileged access to the live environment presents the risk that they could promote code which is later exploited in the live environment.
Recommendation	Ensure that developers do not have the ability to promote code and circumvent the change management controls.
Management response	As SSID is due to be replaced summer 2021 and is due to be decommissioned January 2022, currently it would not seem to be relevant to implement the audit recommendation fully. What has been completed though is that the 'system.audit_logon' table has been amended and associated maintenance script to begin recording the 'OS hostname', 'OS username' and action type as well from the main database audit table. This will allow changes to be identified to an individual user.



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

Description of deficiency	<p>Our consideration of related party declarations included consideration of Members' declarations. We noted in some instances that declarations had not been received for the year ended 31 March 2020. We acknowledge that the additional burdens Members have faced during the COVID-19 pandemic and the consequential restrictions implemented may have affected the completion of returns for the year ended 31 March 2020. In some cases the accounts disclosure was based on declaration returns dated 2018.</p> <p>There are compensating controls in the Council constitution which sets out the requirements of Members regarding declarations of interest, including declarations where necessary at Council meetings. In particular the Constitution makes clear that 'Members must ensure they keep the register updated and acknowledge that its contents will be published on the Authority's website and will be open to the public to inspect.' We would consider it best practice for Members to make an annual declaration.</p> <p>We also noted that the declarations published on the Council's website were several years old. We would recommend the Council consider the need to keep declared interests on the website up to date.</p>
Potential effects	Declared interests are not captured or up to date.
Recommendation	The Council should ensure all Members make a declaration at least annually. These declarations should be made available to the public on the Council's website.
Management response	The process for gathering declarations will be reviewed in the coming year.

Description of deficiency	The Council requires all journals over £1m to be authorised by a supervisor prior to being posted in the General ledger. From our sample of journals officers were unable to provide evidence to support the authorisation of two journals posted. This is in part owing to the authorisation being hard copy and not easily accessible in the current restrictions. The authorising manager has confirmed both journals are appropriate and have been authorised.
Potential effects	Inappropriate journals are posted to the ledger.
Recommendation	The Council should consider electronic authorisation of journals.
Management response	The council has a policy of approving all journals over £1m before posting to the ledger, which prior to the need for staff having to work from home, could be done either manually or electronically. The 2 journals processed where approval could not be obtained were processed manually at the time that staff had just started to work from home, due to the coronavirus pandemic. Finance staff have been reminded of the importance of approving all journals over £1m before posting to the ledger, and to do them electronically from now on.



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

Prior year internal control recommendations

Description of deficiency	<p>Our testing of IT general controls noted the following matters:</p> <ul style="list-style-type: none"> • There was no specific periodic review of active directory accounts. We were informed by ICT Management that a recent review of old active directory accounts (i.e. older than 12 months) has been undertaken but this was undertaken outside of the audit period (i.e. post 31st March 2019). • Resource Link (payroll system) password parameters, such as minimum character length, were not in line with the policy requirements. <p>Compensating control are in place and neither matter affected our audit approach.</p> <p>Note that this is relevant to both the Council and the Pension Fund</p>
Potential effects	There is inappropriate access to the Council's financial systems.
Recommendation	The Council should ensure policies are complied with.
Position for 2019/20	Matters remain relevant based on 2019/20 IT work.



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL PENSION FUND

Opinion on the financial statements – Pension fund

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the relevant financial reporting framework and whether they give a true and fair view of the Pension Fund's financial position and of its financial performance.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Pension Fund's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Pension Fund's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Emphasis of Matter - Material uncertainty relating to valuations of property investments

We drew attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's level 3 unquoted property investments as at 31 March 2020. As disclosed in Note 5 of the Pension Fund's financial statements, the outbreak of Covid-19 has had a significant impact on global financial markets. As such the Pension Fund's property investment manager, has included a material valuation uncertainty clause in some of their 31 March 2020 valuation reports due to the possible impact of Covid-19. Therefore, there is less certainty and a higher degree of caution should be attached to valuations of unquoted property assets than would normally be the case. We included an emphasis of matter paragraph in our report. Our opinion was not modified in respect of this matter.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider materiality throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) because of the nature of certain items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 1% of net assets available to pay benefits.	£27.862m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.836m
Specific materiality	Fund account based on 10% of benefits payable.	£12.682m



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL PENSION FUND

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the required assurance.</p>
<p>Valuation of unquoted investments for which a market price is not readily available</p> <p>As at 31 March 2020, the fair value of investments which were not quoted on an active market was £193 million, which accounted for 7% of the Fund's net investment assets. As prices for these investments are not quoted in active markets, the values used in the accounts are estimated by fund managers, mostly based on Net Asset Value statements, updated for cash movements where appropriate. This results in an increased risk of material misstatement.</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • agreed holdings from fund manager reports to the global custodian's report; • agreed the valuation to supporting documentation including investment manager valuation statements, distribution and capital statements and audited accounts of the underlying funds, where available; • where audited accounts were available, we checked that they were supported by a clear opinion; • we looked at the accounting policies within the accounts of the underlying funds to assess the methodology for asset valuation; • in light of market volatility caused by Covid-19, we compared year end values against updated investment manager valuations carried out post-year end; and • we considered how Fund Managers had evaluated the impact of Covid-19 when calculating the value of investments at year end and post-year end. 	<p>Our work provided the required assurance.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL PENSION FUND

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency	As part of the controls in place to identify related party transactions, members of the Audit Committee and Pension Fund Committee are requested to complete annual declarations of interests. There were a total of five instances where these forms were not completed for 2019/20.
Potential effects	Where declarations of interests are not known to those responsible for compiling the accounts, there is a risk that related party transactions could occur and not be identified for disclosure in the financial statements.
Recommendation	Declarations of interests should be completed by all those required at the end of each financial year.
Management response	The process for gathering declarations will be reviewed in the coming year.

As noted on page 7, the internal control recommendation regarding shared privilege accounts also relates to the Pension Fund, and as such it has not been duplicated here.



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL PENSION FUND

Prior year internal control recommendations

Description of deficiency	At the planning stage it was noted that while management reviews a risk register on a regular basis, the PF Committee Members had not reviewed the risk register since December 2016 and did not have plans to do so until March 2019. The Pension Fund Committee terms of reference, however, state that the Committee will review and monitor the Pension Fund Risk Register annually. This is not considered to be an opinion risk but has been highlighted so that the Committee could respond.
Potential effects	Inadequate oversight of risk management by the Pension Fund Committee.
Recommendation	The Council should ensure the review policy is complied with.
Position for 2019/20	The risk register was reviewed in March 2019 as planned, and then reviewed again at the March 2020 Committee meeting, in line with the requirement for an annual review.

As noted on page 9, the prior year internal control recommendation regarding review of active directory accounts and Resource Link password parameters also relates to the Pension Fund, and as such it has not been duplicated here.



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

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

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

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

Our auditor’s report, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The Constitution sets out the governance structure of the Council. The Corporate Risk Management Group is responsible for monitoring and highlighting the strategic risks.</p> <p>There is regular performance and financial reporting to the Cabinet using a consistent methodology which allows any over or under delivery to be identified. Finance reports highlight areas of significant pressure, such as in Children’s Services. Financial reporting provides detailed analysis of under and over spends of income and expenditure. Performance reports include staff indicators, such as sickness levels. Cabinet received regular updates on arrangements to address school deficit budgets and the High Needs budgets for 2020/21 and beyond.</p> <p>The Audit Committee met regularly during the year. The Audit Committee monitors the Council’s system of internal control. The Internal Audit plan has been delivered for the year and the Head of Internal Audit Opinion provided ‘moderate’ assurance. Internal Audit report directly to the Audit Committee. The Audit Committee receive regular reports tracking services progress in responding to Internal Audit recommendations. The Audit Committee challenges management to ensure recommendations are implemented and an Annual Governance Statement was approved by the Committee.</p> <p>A Medium Term Financial Plan (MTFP) (9) was in place for the year ended 31 March 2020. Performance against the plan was reported regularly to the Cabinet. MTFP (10) covering the period 2020/21 – 2023/24 was approved by the Council in February 2019. This set a balanced budget for the 2020/21 financial year, including fully identified savings of £8m. In light of the consequences of the COVID-19 pandemic the Council has revisited the assumptions in the MTFP and is monitoring the impact on the Council’s future finances.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>MTFP (10) was approved by full Council in February 2020. The plan set out the pressures faced by the Council in the coming year including demand and funding pressures. The plan included the need for savings over the medium term including £8m in 2020/21 and £32m over the life of the plan. The plan was developed and agreed prior to the COVID-19 pandemic and before the full consequences could be reasonably foreseen. The Council is now revisiting the MTFP in light of the pandemic and the anticipated economic consequences. This includes consideration of the key expenditure and income assumptions which is understandably difficult given the significant levels of ongoing uncertainty. Our VFM conclusion considers the arrangements in place for the 2019/20 financial year and recognises that the consequences of the pandemic impact on arrangements in the 2020/21 financial year.</p> <p>The 2019/20 outturn shows that this was a challenging financial year for some areas of Council. Demand pressures meant there were overspends in several service areas. One example is the High Needs budget. The Council developed a recovery plan and additional funding of £8.8m has been secured for 2020/21 but growing demand means this is likely to continue as a challenging area. Other pressures include maintained schools budgets. Several schools have set deficit budgets for 2020/21. The Corporate Director for Resources continues to work with individual schools and monitor the overall position of schools budgets.</p> <p>The pressures will continue alongside the financial difficulties and challenges created by the response to and recovery from the pandemic.</p> <p>Earmarked reserves decreased by £9.6m although this movement includes the creation of an additional COVID-19 Grant Support Reserve of £17.5m. The General Fund balance decreased by over £1.1m. This means overall useable reserves as at 31 March 2020 are £240.8m. The MTFP is based on the General Fund reserve being maintained within the Council's approved range of 5-7.5% of the Net Budget Requirement.</p> <p>Overall capital expenditure was lower than planned in the year by £7.5m which is 6.3% of total budget. The underspend has been carried into the 2020/21 budget.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
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Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Constitution details the arrangements for contracting with third parties and the Council has written procedures for procuring products and services. Significant partnerships such as the Better Care Fund are managed with the aim of ensuring no one party is able to disproportionately direct the culture and outcomes of the partnership. The Health and Well-being Board is responsible for the Durham Better Care Fund plan. Financial and health outcome performance of the plan is monitored.</p> <p>Where appropriate, partnerships are monitored through Council performance reporting arrangements. Area Action Partnerships are intended to give local residents a voice in how services are provided locally. Consultation with partners feeds into the Council's MTFP development.</p> <p>The County Durham Partnership is in place bringing together key partners in the County. This is leading the development of the County Durham Vision for where the Council aims to be by 2035.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Significant audit risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out in relation to this significant risk is outlined below.

Risk	Work undertaken	Conclusion
<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>In response to this risk we:</p> <ul style="list-style-type: none"> • reviewed arrangements for developing the MTFP; • considered the delivery of 2019/20 savings against plans; • reviewed the arrangements for future savings, including review of robustness of identified plans for 2020/21 and beyond; and • reviewed the arrangements for the Transformation Programme. 	<p>Our work provided sufficient assurance.</p> <p>Note that the impact of the COVID-19 pandemic means the Council will need to revisit the MTFP, including assumptions and future budget gaps. Our conclusion is based on arrangements in the 2019/20 financial year and recognises that the impact of COVID-19 was in March 2020. When setting the MTFP arrangements were in place to set a financial plan which reflected the circumstances at that time.</p>



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Ongoing
Other information published alongside the audited financial statements	Consistent
Pension Fund financial statements included in the Pension Fund Annual Report	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

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

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. At the time of issuing this report we have not submitted this information to the NAO. This was owing to a technical issue the OSCAR system which means the Council are unable to provide audit reports which are consistent in all respects with the data recorded in the OSCAR system. Her Majesty's Treasury (HMT) has indicated that it is working to correct the issue. However until this is done we have been instructed by the NAO that we are to not to sign off our WGA work until we have received an auditor report that we are satisfied is consistent with the Council's financial statements.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

Pension Fund financial statements included in the Pension Fund Annual Report

We examined the Pension Fund financial statements for the year ended 31 March 2020 included within the Durham County Council Pension Fund annual report. In our opinion, the Pension Fund financial statements within the Pension Fund's annual report are consistent with Pension Fund financial statements within the statement of accounts of Durham County Council for the year ended 31 March 2020, and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.



5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit Committee in February 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£193,030	210,430**
Delivery of audit work under the NAO Code of Audit Practice: Durham County Council Pension Fund	£19,957	24,457**
Fees for audit work carried out on 2019 triennial valuation membership data submission to the actuary	£7,125	£7,125
Fees for pension assurance work on behalf of auditors of employers within the Pension Fund	£11,380	£11,380
Certification of Housing Benefit Subsidy Claim	£18,800	£18,800
Other non-Code work		
• Skills Funding Agency	£3,850	£3,850
• Teachers' Pension	£4,900	£4,900

** At the time of preparing this report we are proposing additional fees to meet additional work required for property valuations (associated with COVID-19) and pension (material valuation uncertainty). The additional fee proposed is £17,400 for the County and £4,500 for the Pension Fund. Both fees are subject to Public Sector Auditor Appointments (PSAA) approval.



6. FORWARD LOOK

Financial outlook

The COVID-19 pandemic and the consequences of local and regional lockdowns and restrictions will have a significant impact on the UK economy for years to come. The pandemic has created significant uncertainties and pressures in the Council's medium term financial planning arrangements. Clarity over the impact will only be obtained when the virus has been brought under control and the impact on the economy becomes clearer. The Council is monitoring and updating plans but is anticipating future pressures in the income it receives. In particular, Collection Fund income is likely to be affected by any negative impact to the local and national economy. Public spending is also likely to be tightly controlled as the Government begins to manage the levels of borrowing incurred.

There is also uncertainty stemming from the UK's new trading arrangements with the European Union. While this may not directly impact on the Council's supply chains, the impact on the overall economy may create indirect pressures.

It is critical that the Council continues to monitor and refresh its medium term plan so that potential funding shortfalls can be identified as early as possible and mitigations identified to minimise the impact on services.

Operational challenges

The Covid-19 pandemic has had a significant impact on the services provided by the Council. Services have either been suspended or redesigned in order for them to be delivered in a safe manner for officers and users. The Council's office including County Hall have been largely closed since March 2020 so officers have had to adapt to working from home. It is likely that these measures will continue until the roll out of a vaccine and coronavirus is brought under control.

Aside from Covid-19, other key challenges faced by the Council include:

- successfully generating the savings necessary to deliver the medium term financial plan;
- responding to the demand and funding pressures faced in the Adult and Children services; and
- relocating County Hall and developing the Aykley Head site.

How we will work with the Council

In terms of the technical challenges around the production of the statement of accounts, we will continue to offer accounting workshops to finance officers, and the audit team will continue to share our knowledge of new accounting developments. We will also be on hand to discuss any issues as and when they arise.

Given the impact of COVID-19 on the 2019/20 reporting timetable, there is some uncertainty in respect of the 2020/21 completion dates. We will continue to work with the finance team to ensure timely completion of our audit work.

We will also share relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.



6. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are, however, significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources but we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is release. In particular we will communicate any increases in work which will impact on the audit fees charged.



6. FORWARD LOOK

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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Audit Strategy Memorandum

Durham County Council Council

Year ending 31 March 2021



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Appendix – Key communication points

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 Those 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.

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Durham Council (the Council) for the year to 31 March 2021. 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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. 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 does not relieve management or the Audit Committee, as Those Charged With Governance, of their responsibilities.



Fraud

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. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of Those Charged With Governance, including key management and Internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. 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 should not, however, be relied upon to identify all such misstatements.



Going concern

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting and the Director of Resources is responsible for carrying out an assessment of whether the presumption remains appropriate. As auditors, we are required to obtain sufficient appropriate audit evidence and conclude on the appropriateness of the Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



Value for money

We also carry out audit work to assess the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach in section 5 of this report.



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.



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

02

Section 02:

Your audit engagement team

2. Your audit engagement team



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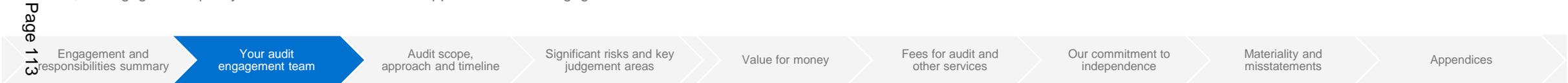
Joanne Greener

Assistant Manager

joanne.greener@mazars.co.uk

0191 383 6353

In addition, an engagement quality control reviewer has been appointed for this engagement.



03

Section 03:

Audit scope, approach and timeline

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 impacted 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.

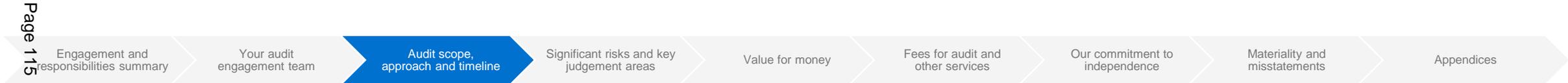
Audit approach

Our audit approach is risk based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. When 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 on the next page outlines the procedures we perform at the different stages of the audit.



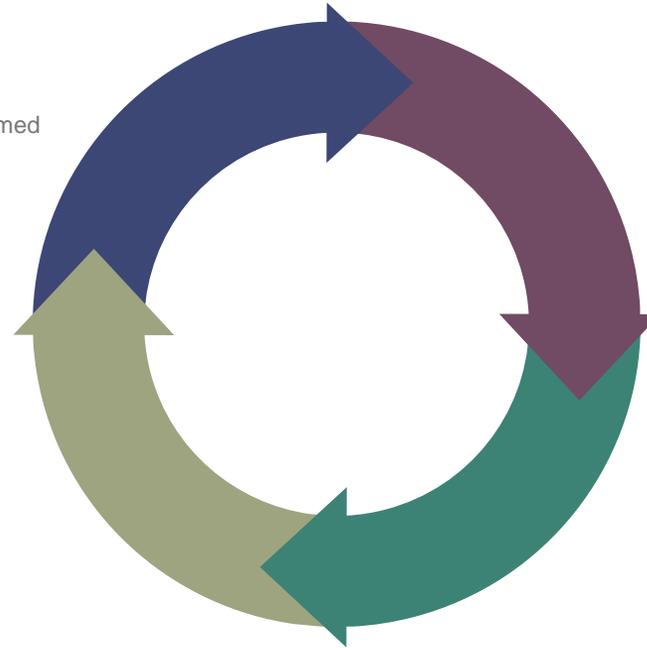
3. Audit scope, approach and timeline

Planning January – February

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion September

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the auditor’s report

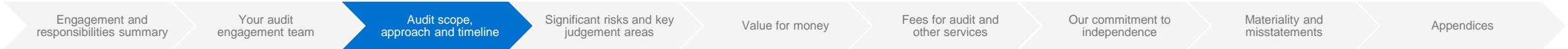


Interim February – April

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork June - September

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- ATS review of financial statements
- Clearance meeting



3. Audit scope, approach and timeline

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 on 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.

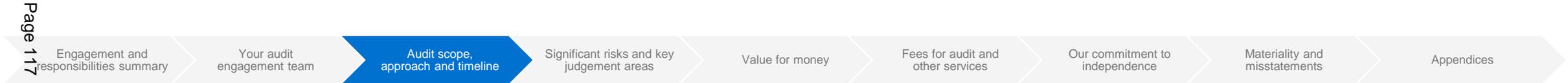
Management’s and our experts

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.

Item of account	Management’s expert	Our expert
Defined benefit liability	Actuary (Aon Hewitt)	NAO’s consulting partner (PWC)
Property, plant and equipment valuation	In-house valuer (with support of external valuer)	We will take into account any relevant information which is available from third parties
Financial instrument disclosures	Link Asset Services (formerly Capita)	No expert required.

Service organisations

International Auditing Standards (UK) (ISAs) 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.



04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other 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. The definitions of the level of risk rating are given 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.

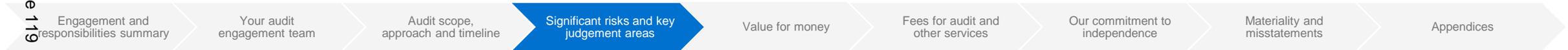
Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement (‘RMM’) at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include 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

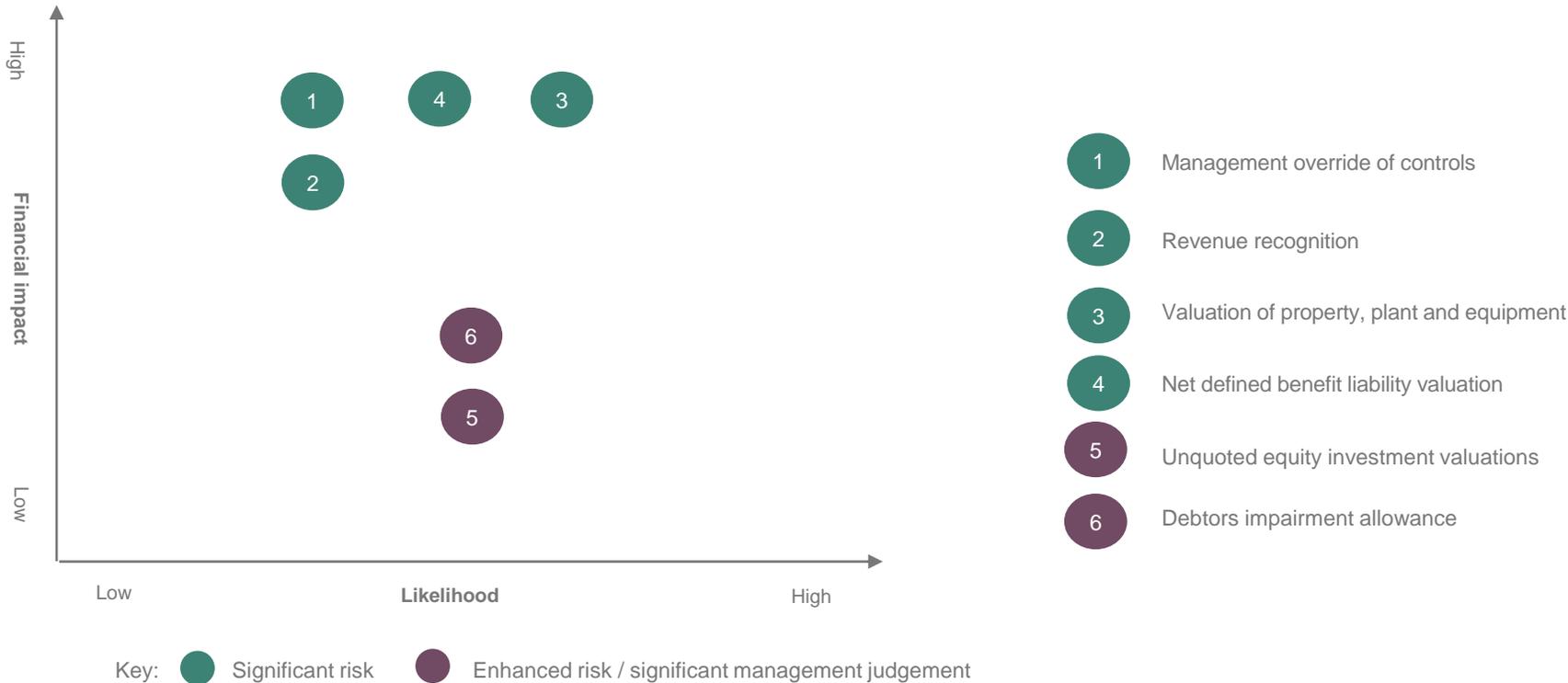
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the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



4. Significant risks and other key judgement areas

Summary risk assessment

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



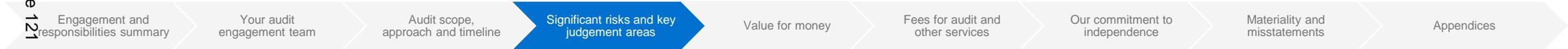
4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. 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

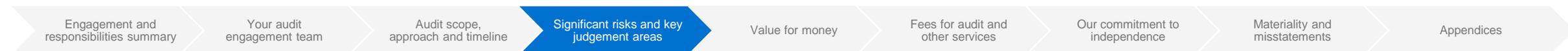
	Description	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries (meeting fraud risk characteristics) and significant transactions outside the normal course of business or otherwise unusual.



4. Significant risks and other key judgement areas

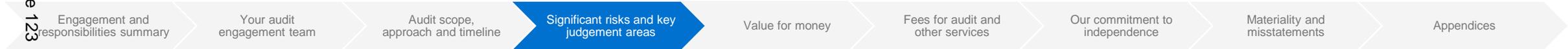
Significant risks

	Description	Fraud	Error	Judgement	Planned response
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 2020/21. We have identified income from fees and charges and other income 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; and • obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.
3	<p>Valuation of property, plant and equipment (PPE)</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 a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE as a results of the significant judgements and number of variables involved. 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 other key judgement areas

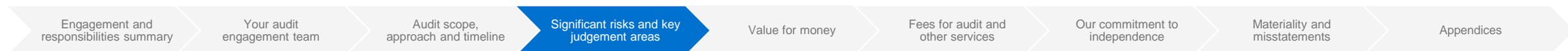
	Description	Fraud	Error	Judgement	Planned response
4	<p>Net defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant 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.



4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
5	<p>Unquoted equity investment valuations 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>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 Audit Practice.
6	<p>Debtors impairment allowance The Council has disclosed its impairment of debtors allowance as an area of estimation uncertainty.</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 Audit Practice, including any exemptions relevant to non-contractual debt.



05

Section 05: **Value for Money**

6. Value for money

The framework for our work

We are required to be satisfied that the Council has 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 and sets out criteria that we are required to consider.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings. While we are still required to be satisfied that the Council has proper arrangements in place, we will now report by exception in our auditor's report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Council's arrangements as part of our auditor's report.

Under the new Code, the key output of our work on arrangements will be a commentary on those arrangements which will form part of the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services.
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks.
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we will report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include: <ul style="list-style-type: none">• NAO guidance and supporting information;• information from internal and external sources including regulators;• knowledge from previous audits and other audit work undertaken in the year; and• interviews and discussions with staff and members.
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: <ul style="list-style-type: none">• significant weaknesses identified and our recommendations for improvement; and• emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

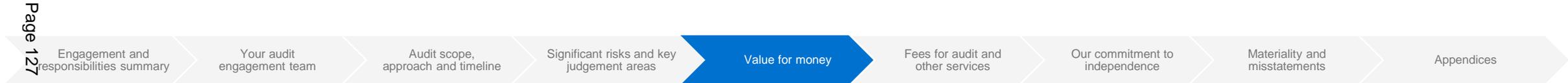


5. Value for money

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

We have not yet fully completed our planning and risk assessment work. We will report the results of our initial work to the Audit Committee on completion. This includes reporting any risk of significant weakness in arrangements that we identify.



06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Council's appointed auditor

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Scale fee ¹	£193,030	£193, 030
Fee variations – opinion	To be confirmed.	£17,400 ²
Fee variations – value for money ³	To be confirmed.	
Total	To be confirmed	£210,430

¹ This scale fee was initially set by PSAA in 2018.

² The additional audit cost in 2019/20 relates to additional testing of property valuations, enhanced pension liability procedures in response to increased regulatory expectations, and reporting of uncertainties in key estimates as a result of Covid-19.

³ The new Code of Audit Practice will lead to a substantial amount of additional audit work to support the new value for money report. Our review of the Code and supporting guidance notes has led us to estimate that the additional fee impact for Code audits will be at least £10,000 or 20% of the final 2019/20 fee. The actual fee will take into account the extent and complexity of any significant weaknesses in arrangements we identify.

Fees for non-audit 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.

Agreed upon procedures work	2020/21 Proposed Fee	2019/20 Actual Fee
Housing Benefits Subsidy	To be confirmed.	£18,800
Teachers' Pensions	To be confirmed.	£4,900
Skills Funding Assurance	To be confirmed.	£3,850

07

Section 07:

Our commitment to independence

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 FRC’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:

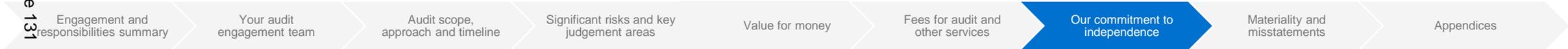
- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- 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, 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 in the table on the following page.

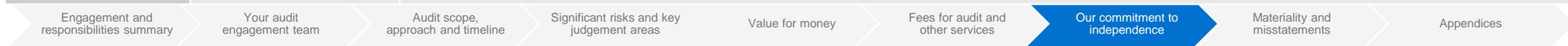
Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



7. Our commitment to independence

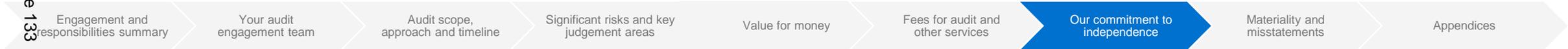
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Area	Perceived threat	Safeguards and procedures
Mazars renting office space at Salvus House, Durham	Self Review	The transaction does not result in the auditor providing accounting services to the Council. The transaction does not have a material impact on the financial statements
	Self interest	<p>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.</p> <p>Safeguards to mitigate the risk include:</p> <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	<p>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.</p> <p>Safeguards to mitigate the risk include:</p> <ul style="list-style-type: none"> • Mazars will refrain from any marketing activities on behalf of the Council.
	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.



7. Our commitment to independence

Area	Perceived threat	Safeguards and procedures
Assurance services: Housing Benefits Subsidy Assurance , Skills Funding Agency , Review of Subcontracting arrangements and Teachers' Pension return (if engaged)	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.
	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.



08

Section 08: **Materiality and other misstatements**

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	£28,015
Performance materiality	£22,412
Specific materiality:	
Senior officer remuneration	£5
Termination payments	£5
Members Allowances	£101
Trivial threshold for errors to be reported to the Audit Committee	£840

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
- make reasonable economic decisions on the basis of the information reported.

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

In planning our work 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.

Our provisional materiality is set based on a benchmark of 2% of Gross Revenue Expenditure (at 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 the Gross Revenue Expenditure (at Surplus/deficit on Provision of Services level) remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of Gross Revenue Expenditure (at Surplus/deficit on Provision of Services level). Based on the prior year gross expenditure we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £28m.

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

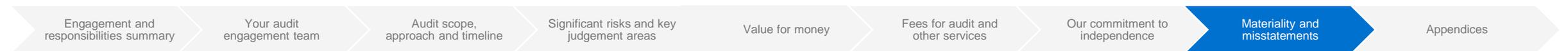
We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be 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 £0.840m 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 Audit Committee

The following three types of audit differences will be presented to Audit Committee:

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





Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor's Annual Report.

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements.
- The 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.

Key communication points at the completion stage to be included in our Audit Completion Report

- 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.
- Independence.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices

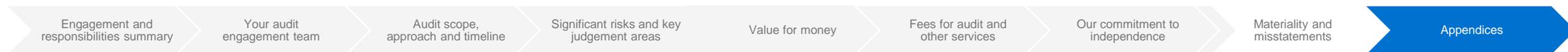
Appendix: Key communication points

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	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> • enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud. 	Audit Completion Report and discussion at Audit Committee, Audit Planning and Clearance meetings

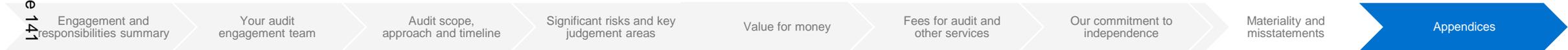
Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity. 	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities. 	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p>	<p>Audit Completion Report</p>



Appendix: Key communication points

Required communication	Where addressed
<p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.</p>	<p>Audit Completion Report and Audit Committee meetings</p>
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements. 	<p>Audit Completion Report</p>
<p>Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods</p>	<p>Audit Completion Report</p>
<p>Indication of whether all requested explanations and documents were provided by the entity</p>	<p>Audit Completion Report</p>



Mazars

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

Audit Strategy Memorandum

Durham County Council Pension Fund

Year ending 31 March 2021



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- 02** Your audit engagement team
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- 06** Our commitment to independence
- 07** Materiality and misstatements

Appendix – Key communication points

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 Pension Fund
County Hall
Durham
DH1 5UQ

February 2021

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for Durham County Council Pension Fund for the year ending 31 March 2021. 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 Pension Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns 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.

Client service is extremely important to us and we strive to 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

Mazars LLP

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

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: 839 8356 73

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01

Section 01:

**Engagement and
responsibilities summary**

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Durham County Council Pension Fund (the Pension Fund) for the year to 31 March 2021. 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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. 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 does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.



Consistency report

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



Going concern

The Pension Fund is required to prepare its financial statements on a going concern basis and to comply with the Code of Practice on Local Authority Accounting. The Corporate Director of Resources is responsible for the assessment of whether it is appropriate for the Fund to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of the Corporate Director of Resources' use of the going concern basis of accounting and the adequacy of disclosures made.



Fraud

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. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of Those Charged With Governance, management and Internal audit, as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. 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 should not, however, be relied upon to identify all such misstatements.



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 Pension 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.

02

Section 02:

Your audit engagement team

2. Your audit engagement team



Mark Kirkham
Engagement Partner

Mark.Kirkham@mazars.co.uk
0191 383 6300

Daniel Reay
Engagement Manager

Daniel.Reay@mazars.co.uk
0191 383 6346

In addition, an engagement quality control reviewer has been appointed for this engagement.

03

Section 03:

Audit scope, approach and timeline

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 impacted 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.

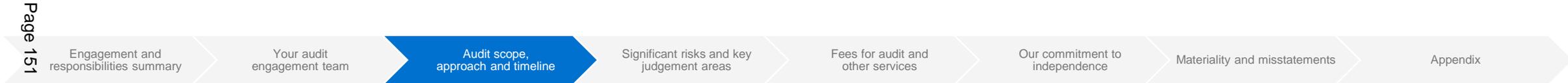
Audit approach

Our audit approach is risk based and primarily driven by the issues that 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 on the next page outlines the procedures we perform at the different stages of the audit.



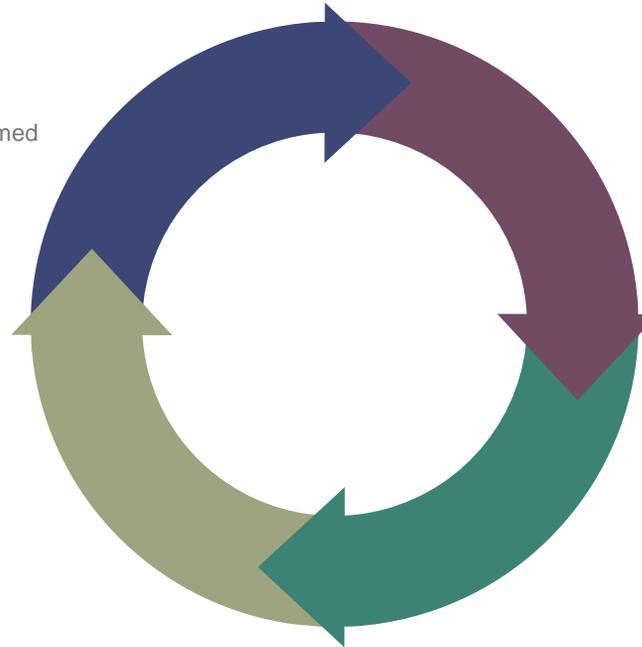
3. Audit scope, approach and timeline

Planning January – February

- Planning visit and developing our understanding of the Pension Fund
- Initial opinion assessment
 - Considering proposed accounting treatments and accounting policies
 - Developing the audit strategy and planning the audit work to be performed
 - Agreeing timetable and deadlines
 - Preliminary analytical review

Completion September

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
 - Agreeing content of letter of representation
 - Reporting to the Audit Committee
 - Reviewing subsequent events
 - Signing the auditor’s reports



Interim January – April

- Documenting systems and controls
- Performing walkthroughs
 - Interim controls testing including tests of IT general controls
 - Early substantive testing of transactions
 - Reassessment of audit plan and revision if necessary

Fieldwork June-July

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

3. Audit scope, approach and timeline

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 on 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 Pension Fund’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits.	Aon Hewitt	None
Financial instrument disclosures	Mercer Limited	None
Unquoted investments	CBRE	None

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Pension 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 Pension 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	

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other 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. The definitions of the level of risk rating are given 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 ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include 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

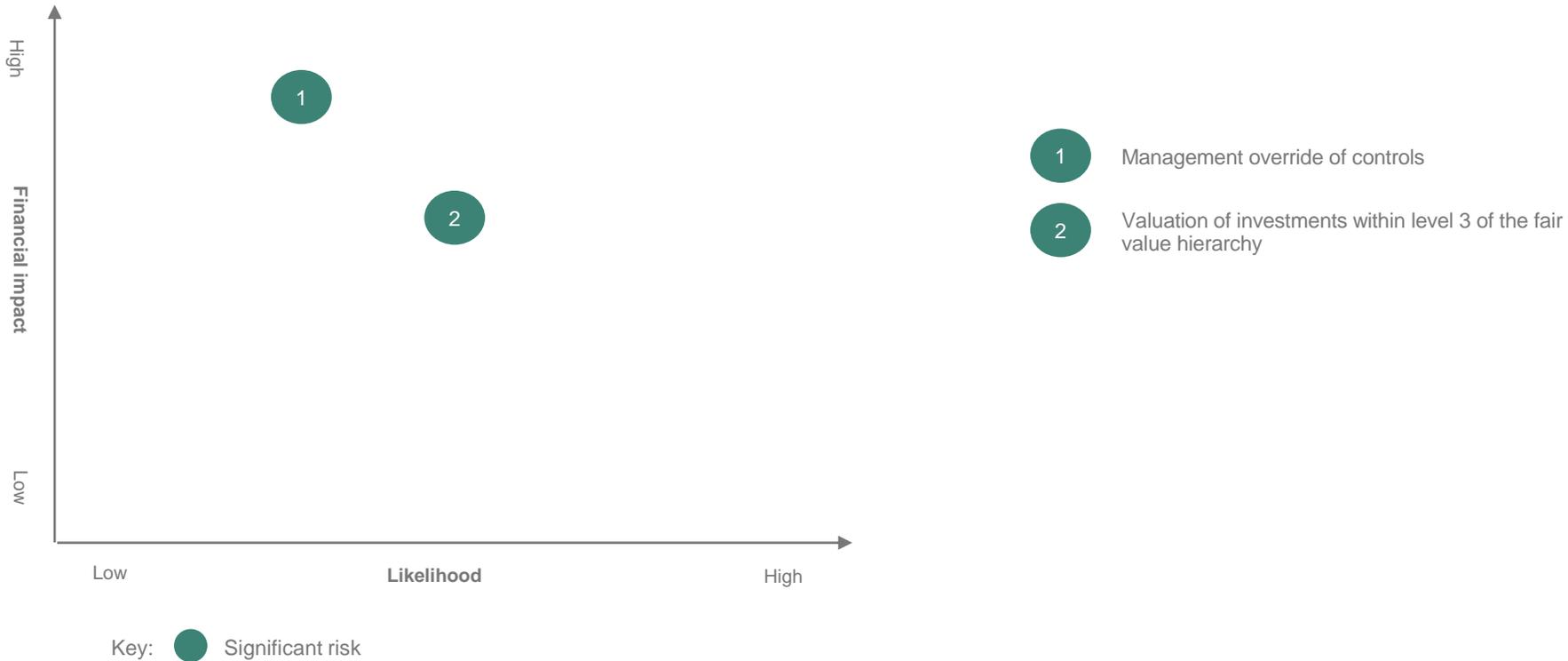
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the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



4. Significant risks and other key judgement areas

Summary risk assessment

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



4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. 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	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</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. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</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.



4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p>Valuation of investments within level 3 of the fair value hierarchy</p> <p>As at 31 March 2020 the fair value of investments which were not quoted on an active market was £186m, which accounted for 6.7 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>In line with our methodology we plan to address this risk by completing the following procedures over and above our standard audit programme:</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 the investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation; • agree the investment manager valuation to audited accounts or other independent supporting documentation, where available; • where audited accounts are available, check that they are supported by an unmodified opinion; • review the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager; and • compare valuations used in the accounts to more up-to-date valuations available at the time of audit which incorporate information up to or beyond 31 March.

Other key areas of management judgement and enhanced risks

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.



05

Section 05:

Fees for audit and other services

5. Fees for audit and other services

Fees for work as the Pension Fund’s appointed auditor

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Scale fee ¹	£19,957	£19,957
Fee variations - opinion	To be confirmed	£4,500 ²
Triennial valuation fee	£nil	£7,125 ³
Total	To be confirmed	

¹ This scale fee was initially set by PSAA in 2018.

² The additional audit cost in 2019/20 relates to enhanced procedures on unquoted investments in response to increased regulatory expectations. We will need to repeat these procedures for our 2020/21 audit and may need to respond to further recommendations from our regulator.

³ The additional fee in 2019/20 relates to work carried out on the process for submission of data to the actuary for triennial valuation purposes. This only occurs every three years, and will next take place in 2022/23.

Fees for non-PSAA work

At this stage we have not been separately engaged by the Fund to carry out additional work.

Fees for work as the Fund’s appointed auditor

During the year we have responded to requests received from employer body auditors to undertake a programme of work to provide assurance in respect of information held by the Fund, which is used by the actuary to calculate pension assets and liabilities for individual employers. The fees in the table above do not include fees of £11,380 chargeable to the Fund in relation to this programme of work. It is expected that the Fund will recharge these fees to the relevant employers. This approach is in line with the PSAA Terms of Appointment, and the expectation within NAO’s AGN01 General Guidance Supporting Local Audit.



06

Section 06:

Our commitment to independence

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 FRC'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 ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- 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, 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.

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



07

Section 07:

Materiality and other misstatements

7. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	31,451
Performance materiality	25,161
Specific materiality: Fund Account	14,069
Performance materiality: Fund Account	11,255
Trivial threshold for errors to be reported to the Audit Committee	944

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.

While 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.

Our provisional materiality is set based on investments reported to the Pension Fund Committee as at 30 September 2020. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that net assets remain the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



7. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 1% of net assets. Based on investments reported to the Pension Fund Committee as at 30 September 2020 we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £31m.

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 accumulate 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 £944k 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

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: Key communication points



Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements.
- The 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.

Key communication points at the completion stage to be included in our Audit Completion Report

- 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.
- Independence.

Appendix: 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	Where addressed
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With respect to misstatements: <ul style="list-style-type: none"> • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant. 	Audit Completion Report
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Appendix: Key communication points

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<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity. 	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities. 	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p>	<p>Audit Completion Report</p>

Appendix: Key communication points

Required communication	Where addressed
<p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.</p>	<p>Audit Completion Report and Audit Committee meetings</p>
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements. 	<p>Audit Completion Report</p>
<p>Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods</p>	<p>Audit Completion Report</p>
<p>Indication of whether all requested explanations and documents were provided by the entity</p>	<p>Audit Completion Report</p>



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*where permitted under applicable country laws.

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Audit Committee

25 February 2021

**Corporate Governance Review 2020/21
– Key Dates**



Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

- 1 To inform Audit Committee of the key dates for the corporate governance review for the 2020/21 financial year.

Executive Summary

- 2 This report informs Audit Committee of the key dates in the annual governance review for the 2020/21 financial year to enable the statutory deadline to be achieved.

Recommendation

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

Background

- 4 The Accounts and Audit Regulations 2015 require the Council to prepare an Annual Governance Statement, which is to accompany the Statement of Accounts.
- 5 Although Central Government intends to extend the deadline for publishing audited local authority accounts from 31 July to 30 September, the plan is to complete the Council's draft accounts by 31 May 2021, as in previous years. As a result, the draft Annual Governance Statement will also meet this deadline for approval by Audit Committee.

Key Dates

- 6 The key dates for the 2020/21 corporate governance review are in Appendix 2 of this report.

Author

Kevin Roberts

Tel: 03000 269648

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 2020/21 Key Dates

<u>Action</u>	<u>Date</u>
Draft Annual Governance Statement to Resources Management Team for consultation.	6/4/21
Complete Directors Assurance Statements approved by Directors.	6/4/21
Corporate Director of Resources to approve draft Annual Governance Statement (Resources Management Team).	20/4/21
Draft Annual Governance Statement to CMT for approval.	28/4/21
Draft Annual Governance Statement to Audit Committee for approval, along with the annual audit opinion, as part of the final accounts process.	June 2021 (date to be confirmed)
Final Annual Governance Statement to Audit Committee for approval and adoption.	30/7/21

Appendix 1: Implications

Legal Implications

The governance review process ensures that the Council discharges its statutory duties under the Local Government Act 1999 and the Accounts and Audit Regulations 2015 as set out at paragraphs 2 and 4 of the report. The Code of Corporate Governance enables the Council to demonstrate how it complies with the Delivering Good Governance in Local Government Framework 2016.

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.

Climate Change

There are no direct climate change implications, but good governance helps to avoid or minimise adverse impacts.

Human Rights

None

Crime and Disorder

None

Staffing

There are no impacts on staffing 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: Annual Governance Statement for the year April 2019 to March 2020 – Actions Update

Progress against each action is shown in the table below.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale	Update
1	MTFP and Financial Strategy Group for Education will monitor progress on the implementation of the strategic review of educational provision to ensure that the intended outcomes are achieved.	Optimising the achievement of intended outcomes with robust mechanisms for making decisions, which are reviewed continually (4.34).	Corporate Director, Children and Young People Services	March 2021	This action is on target. The Education Review Board was established in May 2020 and meets approximately monthly to monitor progress as intended.
2	Implement and embed the new Corporate Property and Land Service, as approved by CMT and members, adopting the corporate landlord model.	Developing the Council's capacity through effective use of assets and improving the use of resources (4.37 – 4.38).	Head of Corporate Property and Land	March 2021	This action is in progress. The recent establishment of the corporate property board is helping develop a more strategic approach to managing the estate along with the development of strategic policies for land and buildings. The response to COVID has impacted on the delivery of full implementation. It is anticipated that the new arrangements will be effectively embedded by December 2021.
3	Undertake a review of governance arrangements of the County Durham Partnership.	Engaging effectively with institutional stakeholders and developing formal and informal partnerships (4.21).	Head of Partnerships and Community Engagement	May 2020	This action is complete. In September 2020, the County Durham Partnership agreed a revised governance framework focussed on delivering the County Durham Vision 2035. This followed widespread consultation including the Thematic Partnership Boards, the Integrated Care Board, the Better Together Forum and members of each partnership.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale	Update
4	Review High Needs Special Educational Needs Provision (HN SEND), including development of a HN SEND Sustainability Plan, to bring this expenditure within Dedicated Schools Grant funding levels.	Improving the use of its resources to ensure that they are allocated in a way that realises outcomes effectively and efficiently (4.38)	Head of Education and Skills	March 2021	<p>This action is complete.</p> <p>The HNB five-year financial plan, which aims to recover the deficit and ensure that spending is kept to within available resources, was approved by Cabinet in July 2020. The SEND and Inclusion Resources Board meets monthly to oversee HNB spend and the Sustainability Plan, including consideration of any impacts from the coronavirus pandemic and the subsequent recovery period. A further report on progress is due to be presented to Cabinet in April 2021.</p>
5	The governance surrounding the Council's companies require refinement and efforts have begun to ensure all necessary documentation is in place and that key officers are aware of their roles and responsibilities with regards to the companies they are involved with.	Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements (3.14)	Head of Legal and Democratic Services	March 2021	<p>This action is complete.</p> <p>The Company Governance Group oversees the Council's Companies Governance arrangements on behalf of the Council. An update on the Group's work will be presented to CMT in March 2021. Training in March 2021 will ensure that those officers who work with, or who are appointed as, Directors understand roles and responsibilities, can identify and manage conflicts of interests and will provide resilience in the Council's resourcing of the Companies. The Group is also considering the Council's strategic approach to, and structure of, its' Companies and joint venture arrangements.</p>

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale	Update
6	Implement the actions identified in the Children's Social Care Services improvement plan agreed with Ofsted.	The Council welcomes peer challenge, reviews and inspections from regulatory bodies and seeks to ensure that recommendations are implemented (4.67).	Head of Children's Social Care	March 2021	<p>This action is ongoing and on target.</p> <p>There continues to be a well-established governance structure in place to support, monitor and update the improvement activity taking place within Children's Social Care following the ILACS inspection in 2019. This is led by the Social Care Quality Improvement Board, which is chaired by the Head of Children's Social Care and includes all senior managers from the Service. The programme includes the continued implementation of a new social work practice model ('Signs of Safety'), continued investment from the Council, a new sufficiency strategy for children looked after developed with the integrated commissioning unit and robust Performance and Quality Assurance Systems which help to provide insight and oversight of the progress being made and the difference we are making to the lives of children and families. The Ofsted ILACS framework continues to support regular engagement with Ofsted and the latest Annual Engagement Meeting was held in October 2020 with senior colleagues from Ofsted and the Children and Young Peoples Service Management Team to review progress against the improvement plan and also reflect on how the service has responded to the challenges of Covid-19. This was a positive meeting and also included discussion around some of our new improvement priorities such as the launch of the new leadership academy to strengthen high quality practice and an update on the new model of working for Children with a Disability, including transitions.</p>

Audit Committee

25 February 2021

**Strategic Risk Management Progress
Report for 2020/21
Review 3: 1 October – 31 December
2020**



Report of Corporate Management Team

Paul Darby, Corporate Director of Resources (Interim)

**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 2020.

Executive summary

- 2 This report supports the Council's Risk Management Strategy. Audit Committee monitors corporate governance, including risk management activity. Heads of service identify and manage risks that may impede Council objectives and provide assurance that effective controls are in place. Risks are reviewed three times each year, which contributes to improved performance, decision-making and governance.
- 3 The County Durham Plan risk has been removed from the risk register and there is an emerging risk in relation to demand for school support services. There continues to be significant uncertainty in terms of COVID-19 and the UK exit from the European Union.
- 4 On 31 December 2020, there were 29 risks on the strategic risk register. There are six key risks, relating to COVID-19, MTFP savings plans, Government funding, climate change, child safeguarding and vulnerable adults, for which key mitigating actions have been identified.

- 5 Performance against key indicators is set out to provide assurance that strategic risks are being effectively managed, and that officers and members are appropriately skilled in risk management.

Recommendation(s)

- 6 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

- 7 Each corporate director has a designated service risk manager to lead on risk management at a service grouping level. In addition, the Council has designated the Cabinet Portfolio holder for the Deputy Leader and Finance and the Corporate Director of Resources as member and officer risk champions respectively. Collectively, they meet with the Risk and Governance Manager as a Corporate Risk Management Group (CRMG). A summary setting out how the Council deals with the risk management framework is included in appendix 2.
- 8 Throughout this report, both in the summary and the appendices, all risks are reported as 'net risk' (after putting in place mitigating controls to the 'gross risk' assessment), which is based on an assessment of the impact and likelihood of the risk occurring with existing controls in place.

Current status of the risks to the Council

- 9 There continues to be significant uncertainty in terms of COVID-19 and the UK exit from the European Union.
- 10 On 31 December 2020, there were 29 risks on the corporate strategic risk register, one less than on 30 September 2020. During this period one risk was removed and none were added.
- 11 In summary, the key risks to the Council are:
 - (a) Failure/inability to respond to and recover from the COVID-19 pandemic, leading to high levels of staff absence, overwhelming pressure on services, and impacts on the safety and wellbeing of the wider community and economy.
 - (b) If timely and comprehensive savings plans are not in place across the council, required savings may not be achieved, necessitating extensive utilisation of reserves, which may have been depleted during the COVID-19 outbreak, to balance future years budgets.
 - (c) There is significant uncertainty in relation to future funding settlements from government, which will be impacted by the upcoming Comprehensive Spending Review and the Fair Funding Review.
 - (d) Risk that the Council fails, in its role as a community leader, to help partners, local businesses and communities make the necessary adaptations and mitigations in pursuit of the target of being a carbon-neutral County by 2050.
 - (e) Failure to protect a child from death or serious harm (where service failure is a factor or issue).

- (f) 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 3.

- 12 A list of all the Council's strategic risks as at 31 December 2020, aligned to the corporate themes in County Durham Vision 2035 and the Council Plan, is included in appendix 4.
- 13 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.
- 14 An emerging risk is the *Potential reduction in demand for DCC support services from schools that create collaborative arrangements/academy, leading to overcapacity in internal school support services*. This is being monitored and mitigations are outlined in appendix 5.
- 15 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 6.

Contact: Kevin Roberts

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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

Climate Change

There are no direct climate change implications, but effective risk management helps to avoid or minimise adverse impacts.

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: How the Risk Management Framework operates

The Cabinet and the Corporate Management Team have designated the Cabinet Portfolio Holder for the Deputy Leader and Finance and the Corporate Director of Resources as Member and Officer Risk Champions respectively. Together they jointly take responsibility 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.

Each service grouping also 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. Collectively, the risk champions, service risk managers and the Risk and Governance Manager meet as a Corporate Risk Management Group. This group 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.

An Audit Committee is in place, and one of its key roles is to monitor the effective development and operation of risk management and overall corporate governance in the Authority.

It is the responsibility of the Corporate Directors to develop and maintain the internal control framework and to ensure that their service resources are properly applied in the manner and to the activities intended. Therefore, 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 the external auditor and bodies such as Ofsted and Care Quality Commission may also provide some independent assurance of the controls in place.

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 and 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.

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.

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](#).

Appendix 3: 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.

On 31 December 2020, there were 29 risks on the corporate strategic risk register, one less than on 30 September 2020. During this period one risk was removed and none were added.

The following matrix profiles the strategic risks according to their net risk evaluation as at 31 December 2020. To highlight changes in each category during the last period, the number of risks on 30 September 2020 is shown in brackets.

Overall number of Strategic Risks on 31 December 2020

Impact					
Critical	1 (1)		4 (4)		1 (1)
Major		5 (5)	4 (5)	1 (1)	
Moderate			10 (10)	3 (3)	
Minor					
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

In the above matrix, the risk assessed as Critical/Highly Probable is, “There is significant uncertainty in relation to future funding settlements from government, which will be impacted by the upcoming Comprehensive Spending Review and the Fair Funding Review.”

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

Closed Risks

- 1 *Future strategic direction of the Council and the County will be adversely impacted if the County Durham Plan is not adopted.*

On 21 September 2020, the Inspector published his final report on the local plan examination, which concluded that the County Durham Plan was sound subject to Main Modifications being made. The Plan, incorporating all modifications, was adopted by Full Council on 21 October 2020 **(REG)**.

Other Issues

- 2 *Risk of a suspension notice under Regulation 37, Environmental Permitting Regulations 2016, leading to a partial cessation of operations at Mountsett Crematorium.*

A temporary cremator was installed in July 2020. This equipment is being used in the first instance to minimise the use of the two permanent cremators, which were originally programmed for replacement starting in March 2021. Due to the current COVID-related restrictions for international travel, the start date has been put back to June 2021, meaning that the first installation will be complete in September 2021 and the second in December 2021.

Officers from the Council are continuing to liaise with Pollution Control representatives.

The net risk evaluation is a moderate impact – in the form of a suspension notice, reduced capacity and reputational damage – with a possible likelihood.

3 *Potential adverse effects of "EU Exit" on the economy, safety and welfare of the County.*

Following the United Kingdom's exit from the European Union (EU) on 31 January 2020, the 11-month transition period which, largely kept arrangements the same, expired on 31 December 2020. Instead, a new trade agreement between the UK and EU was concluded on 30 December 2020 and came into effect on 1 January 2021.

The agreement affects the flow of products, services, information and people between the two trading parties, and in turn the cost and regulation of products, goods and services.

The net risk evaluation is a moderate impact with a possible likelihood **(NCC)**.

Key Risks

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

Key Risks Matrix

Net Impact					
Critical			Risk 1 COVID-19 Risk 2 Savings Plans Risk 5 Child Safeguarding Risk 6 Vulnerable Adults		Risk 3 Government Funding
Major				Risk 4 Climate Change	
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 leading on the risk	Range of impact (cross-cutting or service-specific)	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	Corporate Management Team	Cross-cutting	Excellent Council	Failure/inability to respond to and recover from the COVID-19 pandemic, leading to high levels of staff absence, overwhelming pressure on services, and impacts on the safety and wellbeing of the wider community and economy.	Critical	Possible	The Council's response is being led by the Director of Public Health, supported by an internal planning group, which is linked to planning arrangements at local, regional and national levels. Formal internal governance arrangements to oversee and manage risk are in place. Longer-term risks will be identified and managed, including recovery of service delivery back to business as usual, dealing with the impact on future local government funding from central government and the economic impact on County Durham.		This risk is long term.

Risk ID	Service leading on the risk	Range of impact (cross-cutting or service-specific)	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
2	RES Risk Owner: Jeff Garfoot	Cross-cutting	Excellent Council	If timely and comprehensive savings plans are not in place across the council, required savings may not be achieved, necessitating extensive utilisation of reserves, which may have been depleted during the COVID-19 outbreak, to balance future years budgets.	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.
3	RES Risk Owner: Jeff Garfoot	Cross-cutting	Excellent Council	There is significant uncertainty in relation to future funding settlements from government, which will be impacted by the upcoming Comprehensive Spending Review and the Fair Funding Review.	Critical	Highly Probable	Sound financial forecasting is in place based on thorough examination of the Government's "red book" plans alongside forecasting of council expenditure and income especially in relation to the areas impacted by COVID-19.		This will be a significant risk for at least the next 4 years.

Ref	Service leading on the risk	Range of impact (cross-cutting or service-specific)	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
4	NCC Risk Owner: Alan Patrickson	Cross-cutting	Long and independent lives	Risk that the Council fails, in its role as a community leader, to help partners, local businesses and communities make the necessary adaptations and mitigations in pursuit of the target of being a carbon-neutral County by 2050.	Major	Probable	One of the key mitigations is the Climate Emergency Response Plan 2020-2022, incorporating over 100 projects. The scale, duration and complexity of the programme means that sustained oversight, monitoring and review are essential. Environment and Sustainable Communities Overview and Scrutiny Committee will review performance against the plan and make recommendations for the revision of targets.		This risk is long term.
5	CYPS Risk Owner: Helen Fergusson	Service-specific	Connected communities	Failure to protect a child from death or serious harm (where service failure is a factor or issue)	Critical	Possible	Durham Safeguarding Children Partnership has been established in line with the statutory requirements set out in 'Working Together 2018'. Partnership learning through scrutiny mechanisms and learning reviews underpins training for front line staff and regular staff supervision takes place. A review of the partnership arrangements is in progress.		This risk is long term.

Ref	Service leading on the risk	Range of impact (cross-cutting or service-specific)	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
6	AHS Risk Owner: Lee Alexander	Service-specific	Long and independent lives	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. Following allegations of abuse at Whorlton Hall Hospital, an independent review the Council's safeguarding adults processes has been commissioned. Any learning will inform actions to reframe and develop practice.		Nationally there has been an increased awareness of potential vulnerabilities relating to adults with care and support needs. High profile exposures heighten awareness of adult safeguarding concerns. This risk is long term.

Appendix 4: List of all Strategic Risks (per Corporate Theme)

Based on the net risk assessment as at 31 December 2020, the following tables highlight the risks for each Corporate Theme in County Durham Vision 2035 and the Council Plan.

Corporate Theme – Excellent Council

Ref	Service leading on the risk	Range of impact (cross-cutting or service-specific)	Risk
1	CMT	Cross-cutting	Failure/inability to respond to and recover from the COVID-19 pandemic, leading to high levels of staff absence, overwhelming pressure on services, and impacts on the safety and wellbeing of the wider community and economy.
2	RES	Cross-cutting	If timely and comprehensive savings plans are not in place across the council, required savings may not be achieved, necessitating extensive utilisation of reserves, which may have been depleted during the COVID-19 outbreak, to balance future years budgets.
3	RES	Cross-cutting	There is significant uncertainty in relation to future funding settlements from government, which will be impacted by the upcoming Comprehensive Spending Review and the Fair Funding Review
4	REG	Cross-cutting	Potential serious injury or loss of life due to the Council failing to meet its statutory, regulatory and best practice responsibilities for property and land.
5	NCC	Cross-cutting	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.
6	RES	Cross-cutting	Potential violence and aggression towards members and employees from members of the public
7	NCC	Cross-cutting	Demand pressures on the Community Protection inspections and interventions arising from the COVID-19 pandemic and EU Exit may lead to an adverse impact on public health and safety in Co Durham.
8	RES	Cross-cutting	Failure to consider equality implications of decisions on communities leading to successful legal challenge and delays in implementation
9	RES	Cross-cutting	Serious breach of Health and Safety Legislation
10	RES	Cross-cutting	Potential significant size and scope of the liabilities of equal value claims
11	NCC	Cross-cutting	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation
12	RES	Cross-cutting	If the Council suffered a major cyber-attack, then it may be unable to effectively deliver essential services.

Ref	Service leading on the risk	Range of impact (cross-cutting or service-specific)	Risk
13	RES	Cross-cutting	Due to the current economic climate, COVID-19 (grants, hardship reliefs, scams) and amount of change occurring across the Council, there is potential for increases in fraud and corruption.
14	NCC	Cross-cutting	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.
15	RES	Cross-cutting	Potential breach of the Data Protection Act 2018
16	REG	Service-specific	Serious injury or loss of life due to Safeguarding failure (Transport Service)

Connected Communities

Ref	Service leading on the risk	Range of impact (cross-cutting or service-specific)	Risk
17	CYPS	Service-specific	Failure to protect a child from death or serious harm (where service failure is a factor or issue)
18	NCC	Service-specific	Potential progressive land slippage near the A690 may develop to an extent where a major road closure is necessary for repairs to be undertaken.

Long and Independent Lives

Ref	Service leading on the risk	Range of impact (cross-cutting or service-specific)	Risk
19	NCC	Cross-cutting	Risk that the Council fails, in its role as a community leader, to help partners, local businesses and communities make the necessary adaptations and mitigations in pursuit of the target of being a carbon-neutral County by 2050.
20	AHS	Service-specific	Failure to protect a vulnerable adult from death or serious harm (where service failure is a factor or issue).
21	AHS	Service-specific	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.
22	CYPS	Service-specific	Inability to recruit and retain children's social workers and social work managers may seriously inhibit the delivery of services.
23	CYPS	Service-specific	Volatile and high-cost, demographic demands of children looked after on the Children's Social Care budget may result in adverse impacts on the budget and service delivery.
24	CYPS	Service-specific	Increasing demand on the Dedicated Schools Grant budget for High Needs Block special educational needs services and inclusive education services may result in adverse impacts on finance and service delivery.
25	NCC	Service-specific	Risk of a suspension notice under Regulation 37, Environmental Permitting Regulations 2016, leading to a partial cessation of operations at Mountsett Crematorium.
26	AHS	Service-specific	Risk that the Council is subject to legal challenge by Providers in relation to application of its Residential Care Charging Policy and Deferred Payment Policy.

More and Better Jobs

Ref	Service leading on the risk	Range of impact (cross-cutting or service-specific)	Risk
27	CYPS	Service-specific	Potential financial and other pressures threaten the viability of some educational providers
28	CMT	Cross-cutting	Potential adverse effects of "EU Exit" on the economy, safety and welfare of the County.
29	RES	Cross-cutting	Risk that Council does not fully respond to the drivers of financial hardship caused by the economic impacts of the coronavirus pandemic and wider determinants of poverty to help alleviate the impacts on County Durham residents.

Appendix 5: 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	School Support Services	Potential reduction in demand for DCC support services from schools that create collaborative arrangements/ academy, leading to overcapacity in internal school support services.	Richard Crane	There is still uncertainty about the impacts and CMT is monitoring developments. Preliminary mitigations include the Monitoring, Intervention and Improvement Protocol, and regular visits and liaison with school heads.

Appendix 6: 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% (3 times pa)	100%	100%
Risk mitigation is being implemented as planned	Risk actions on high-scoring risks implemented within target date	Target N/A (3 times pa)	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 (3 times pa)	None	None
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)	None	None
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	No training provided in this period due to the COVID-19 response.	No training provided in this period due to the COVID-19 response.
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%	No training provided in this period due to the COVID-19 response.	No training provided in this period due to the COVID-19 response.

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Audit Committee

25 February 2021

Revised Risk Management Policy and Strategy



Report of Corporate Management Team

Paul Darby, Corporate Director of Resources (Interim)

Councillor Alan Napier, Deputy Leader and Portfolio Holder for Finance

Purpose of the Report

- 1 For Audit Committee to approve the revised Risk Management Policy and Strategy

Executive summary

- 2 A revised version of the Risk Management Policy and Strategy is presented for approval. Two minor changes have been made to the document to reflect changes in governance arrangements.

Recommendation(s)

- 3 Audit Committee is requested to approve the revised Risk Management Policy and Strategy.

Background

- 4 The Risk Management Policy and Strategy, which has been developed in line with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016, contains a requirement that it should be reviewed annually.
- 5 Two minor changes have been made to the document, which was last updated in February 2020, to reflect changes in governance arrangements, and these are indicated with grey highlighter: -
 - (a) Reference to the Partnership Governance Framework has been removed because there is a collection of individual formal partnership arrangements rather than a formal, overarching framework.
 - (b) Reference to the risk management database named in the previous version of the strategy has been removed as its' use has been discontinued.
- 6 Audit Committee is requested to approve the revised version in **appendix 2**.

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

Climate Change

There are no direct climate change implications, but effective risk management helps to avoid or minimise adverse impacts.

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: Revised Risk Management Policy and Strategy

Version Date	Version Ref.	Revision History	Reviser	Approved By	Review Date
25 February 2021	9.0	Two minor revisions to reflect changes in governance arrangements.	Dave Marshall	Audit Committee	February 2022

Risk Management Policy Statement

As a modern local authority, Durham County Council is committed to delivering quality services to its communities and is aware that some risks are inherent in innovative service delivery.

The County Council needs to operate within the statutory framework and it recognises risk management is an integral part of all activities and decision making as set out in the Risk Management Strategy, which defines key roles and responsibilities and is reviewed annually, to maintain robust, integrated and effective risk management arrangements.

The Council also needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the creation and protection of value, and achievement of objectives. Risk should be considered and addressed as part of all decision-making activities.

In managing hazards and risks, the Council supports a structured and focused approach facilitated through its Risk Management Strategy.

In line with the Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives guidance 'Delivering Good Governance in Local Government Framework', the Council's key purpose in relation to risk management is to establish and maintain a systematic strategy, framework and process for managing risk. This will be delivered by following the principles of: behaving with integrity; demonstrating strong commitment to ethical values; respecting the rule of law; openness; engaging comprehensively with institutional stakeholders; and engaging with individual citizens and service users effectively.

BSO31000:2018 (Risk Management Guidelines) lists the following principles in its guidance on the characteristics of effective and efficient risk management, communicating its value and explaining its intention and purpose. The principles are the foundation of managing risk and should be considered when establishing the organisation's risk management framework and processes.

- Integration with all organisational activities.
- A structured and comprehensive approach for consistent and comparable results.
- Processes that are customised and proportionate to internal and external context.
- Appropriate and timely involvement of stakeholders.
- Responsiveness to changes and events in an appropriate and timely manner.
- Best available information (timely, clear and available to relevant stakeholders).
- Consideration of human and cultural factors.
- Continual improvement through learning and experience.

Risk Management Strategy

Aim

The aim of the risk management policy and strategy is to embed risk management into the culture, ethos, policies and practices of the Council.

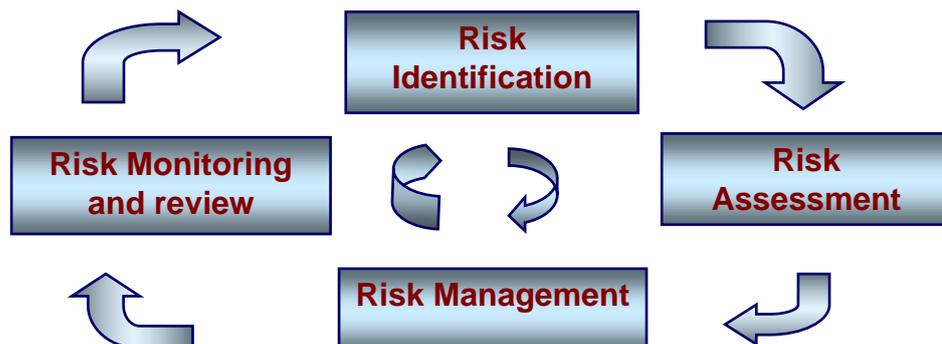
Strategic Objectives

In achieving this aim, we will meet the following strategic objectives:

- Effectively support the Council's Corporate Governance Framework.
- Enable informed, transparent and risk-managed decision making.
- Demonstrate improved outcomes as a result of risk management, including the successful delivery of innovative and challenging projects.
- Inform local communities and other stakeholders of the key risks faced by the Council, and, where appropriate, how it will manage those risks.
- Raise awareness of the need for risk management by all those connected with the delivery of services, including partners.
- Enable the Council to anticipate and effectively respond to changing conditions.
- Ensure that the approach to managing risk is proportionate to the risk involved and provides value for money.
- Meet statutory and best practice requirements in relation to risk management.
- Ensure that all parties understand their roles and responsibilities, and are adequately skilled to perform these roles.
- Consider risks relating to partnerships and collaborative working arrangements to mitigate joint risks.

To deliver these objectives

A systematic approach to the identification, prioritising and mitigation of risk according to the likelihood of occurrence and potential impact on the Council's services will be undertaken. The systematic approach will adopt the following cycle:



- Processes, procedures, roles and responsibilities to support this strategy will be documented in the Risk Management Manual.
- A Member Risk Champion will act as risk management sponsor among elected Members.
- An Officer Risk Champion will act as risk management sponsor among Council officers.
- The Corporate Risk Management Group will oversee the direction and progress of business risk management across the Council.
- Risk management training will be undertaken to ensure that all staff and Members:
 - involved in the council's risk management arrangements receive relevant training and guidance.
 - whether new or promoted, receive risk management awareness training in their induction.
 - effectively undertake their roles and responsibilities for risk management.
- Arrangements will be in place for identifying and managing new and emerging risks.
- Reports supporting a Key Decision will disclose details of the significant risks associated with that decision.
- The Council will work closely with partners to mitigate joint risks.
- For partnerships and collaborative working, services will identify, assess and manage the risk to the Council, ~~using guidance set out in the Partnership Governance Framework~~. Key areas of concern will be reported to service management teams and where applicable to the Corporate Management Team.
- Named owners will be assigned to each risk and will be accountable for ensuring that adequate mitigation of that risk is in place.
- The Council will determine the risk appetite, which represents the maximum exposure to risk that it is prepared to tolerate.
- Based on the appetite for risk, management will either tolerate, treat or transfer the risk, or where appropriate, terminate the activity which causes the risk to occur.
- Corporate and service strategic risk registers will be compiled with each risk linked to the relevant strategic objective and analysed in terms of likelihood and impact, with a prioritised action plan to direct its risk management activity.
- ~~Strategic risks will be recorded on Magique, the Council's Risk Management Software.~~

- Risk management will be embedded in the Council's corporate business processes, including:
 - strategic and service planning
 - financial planning
 - policy making and review
 - performance management
 - project management
 - decision making
 - procurement
 - bids for external funding
 - managing partnerships
- Services consider risks as part of the service planning process and whether any actions resulting from these should be included in the Service Plan. Where these risks are assessed as significant enough to be managed by Corporate Management Team or service management teams, they will be recorded in the corporate and service strategic risk registers.
- Service management teams will review their strategic risks three times each year.
- Corporate Management Team and Cabinet will review the strategic risks of the Council three times each year.
- Reports outlining the status of strategic risks will be produced three times each year to the Cabinet, Corporate Management Team and the Audit Committee.
- To supplement the reviews outlined above, the Audit Committee Chair and Vice-Chair will be given formal briefings by officers, as is necessary, on any risk issues arising between reviews. These briefings will be informed by consultation with Audit Committee members, heads of service and other risk owners.
- The Audit Committee will take appropriate action to ensure that corporate and service strategic risks are being actively managed.
- Internal Audit will ensure that the Audit Plan includes a review of control systems for operational and strategic risk.
- The Council will measure the performance of risk management against measurable outcomes, including finance, service performance, reputation, good governance, stakeholder benefits and lessons learned, and will benchmark risk management performance against other organisations.
- Risk management will contribute to the overall corporate governance framework of the Council, including the Annual Governance Statement and the Code of Corporate Governance.
- Resources will be allocated to embed risk management across the Authority.
- The Risk Management Policy and Strategy will be reviewed at least annually.

Audit Committee

25 February 2021



**Head of Internal Audit Annual Opinions:
Addressing the Risk of a Limitation of
Scope**

Ordinary Decision

**Report of Stephen Carter, Interim Chief Internal Auditor and
Corporate Fraud Manager**

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To provide Members with information about some recently issued guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in relation to Head of Internal Audit (HIA) Annual Opinions: Addressing the Risk of a Limitation of Scope.

Executive Summary

- 2 The guidance recognises that the considerable impact of COVID-19 on all public services has raised a question for internal auditors as to whether they will be able to undertake sufficient work to gain assurance during 2020/21 to issue an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This in turn is one of the sources of assurance that the Council relies on for its annual governance statement.
- 3 While the limitation of any scope will only be formally published in 2021 as part of the HIA's annual report, the guidance addresses the importance of early identification of the risk. It suggests mitigating actions to be taken now to avoid a limited scope where possible. If a limited scope does become necessary, the guidance suggests possible wording to be used in the HIA's report.

Recommendation

- 4 It is recommended that Members note the contents of this report.

Background

- 5 Recent guidance published by CIPFA in relation to Head of Internal Audit (HIA) Annual Opinions: Addressing the Risk of a Limitation of Scope recognises that the considerable impact of COVID-19 on all public services and has raised a question for internal auditors as to whether they will be able to undertake sufficient work to gain assurance during 2020/21 to issue an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 6 While the limitation of any scope will only be formally published in 2021 as part of the HIA's annual report, the guidance attached as Appendix 2 addresses the importance of early identification of the risk. The guidance identifies key requirements for local government bodies and provides mitigating actions to be taken now detailed under the following headings to avoid a limited scope where possible as well as possible wording to be used in the HIA's report if a limited scope does become necessary.
 - Key requirements for local government bodies;
 - Detailed guidance to support implementation;
 - Planning adequate assurance to support the annual opinion;
 - Engagement between the leadership team, audit committee and HIA;
 - Making effective use of internal audit resources;
 - Early identification of a limitation of scope;
 - Understanding the consequences of a limitation of scope; and
 - Suggested wording of the limitation
- 7 The HIA has reviewed the guidance to ensure recommended practices are being followed. It is not envisaged that a limitation of scope on the HIA's annual report would be required.

Next Steps

- 8 Members to be kept informed of any further developments regarding this matter.

Contact: Stephen Carter Tel: 03000 269665

Appendix 1: Implications

Legal Implications

The Accounts and Audit Regulation 2015 (Part 2, Section 5) states a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.

Completion of the Annual Internal Audit Opinion ensures compliance with both the Public Sector Internal Audit Standards 2017 and the Accounts and Audit Regulations 2015.

Furthermore, internal audit assists the Corporate Director of Resources in fulfilling their duties under Section 151 of the Local Government Act 1972 which requires each Local Authority to make arrangements for the proper administration of their financial affairs.

Finance

There are no direct 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

None.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

The key risk is that the Chief Internal Auditor and Corporate Fraud Manager is unable to deliver an annual opinion to inform the Annual Governance Statement. To mitigate this risk, a defined process exists within the Service to carry out effective performance management and as such assurance is reflected in reports to the Audit Committee. Any issues with performance would be reported to the Audit Committee where further action would be agreed and overseen.

Procurement

None.

CIPFA Guidance to Internal Auditors and the Leadership Team and Audit Committee of Local Government Bodies

Head of Internal Audit Annual Opinions: Addressing the Risk of a Limitation of Scope

Introduction and rationale for the guidance

The impact of COVID-19 on all the public services has been considerable and for internal auditors it has raised the question of whether they will be able to undertake sufficient internal audit work to gain assurance during 2020/21. This is a key consideration to fulfil the requirement of the Public Sector Internal Audit Standards (PSIAS) for the head of internal audit (HIA) to issue an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This opinion is in turn one of the sources of assurance that the public body relies on for its annual governance statement.

CIPFA recognises that local government bodies are struggling with considerable challenges and are having to make difficult decisions on how best to use their available staff and financial resources to meet critical needs. However, the professional and regulatory expectations on local government bodies to ensure that their internal audit arrangements conform with PSIAS have not changed. In this difficult situation, heads of internal audit will need to consider whether they can still issue the annual opinion or whether there will need to be a limitation of scope. A limitation of scope arises where the HIA is unable to draw on sufficient assurance to issue a complete annual opinion in accordance with the professional standards. This is an issue not only for the HIA but also for the leadership team and the audit committee who normally rely on that opinion. It may also have wider consequences for stakeholder assessments of the organisation.

While the limitation of scope will only be formally published in 2021 as part of the HIA's annual report, this guidance addresses the importance of early identification of the risk. It suggests mitigating actions to be taken now to avoid a limited scope where possible. If a limited scope does become necessary the guidance suggests possible wording to use in the report.

Status of the CIPFA guidance

This guidance is prepared by CIPFA for internal auditors working in or for local government in the UK. CIPFA is the Relevant Internal Audit Standard Setter (RIASS) for local government and works with the other UK RIASS¹ to mandate the PSIAS across the public sector. This guidance has been shared with the other RIASS and other members of the Internal Audit Standards Advisory Board including the Chartered Institute of Internal Auditors. Other sectors should look to the appropriate RIASS for guidance.

This guidance is a sector specific requirement for local government in the UK.

¹ The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health and Social Care in respect of the health sector in England (excluding foundation trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

Key requirements for local government bodies

The key requirements that heads of internal audit, leadership teams and audit committees should follow are set out below and are supported by additional explanation.

1. The HIA should plan to obtain sufficient assurance to support the annual opinion, taking into account both internal audit work and other sources of assurance. The reliance the HIA is placing on other sources of assurance should be disclosed in the overall opinion.
2. The HIA, leadership team and audit committee should review and discuss internal audit capacity where there are concerns and develop an action plan to mitigate the risk.
3. The HIA should make best use of their audit resources to maximise assurance.
4. Where the HIA considers that a limitation of scope is likely, the leadership team and audit committee should be advised promptly. The HIA should set out the likely consequences assessed and advise on remedial action to avoid a limitation of scope.
5. The HIA annual report should contain a clear explanation of any limitation of scope along with its causes and plans to address the situation going forward.
6. Where the HIA annual report and opinion contains a limitation of scope the authority should state this in the annual governance statement.

Detailed guidance to support implementation

Planning adequate assurance to support the annual opinion

Just as in more normal times the HIA should plan audit work to ensure that sufficient assurance will be available to support the annual opinion. This guidance will not go into details about risk-based audit planning but it emphasises that the professional requirements of PSIAS have not changed. It is likely that internal audit plans will be more fluid than normal as a result of the impact of the pandemic on the organisation. Head of internal audit should already have agreed new audit priorities to cover the new risks and changes from the impact of COVID-19 and that work will provide support for the annual opinion.

CIPFA recognises that the impact of COVID-19 and the capacity of the organisation to respond will vary as a result of a number of factors. Alongside direct internal audit work the HIA can also place reliance on other assurance providers, as set out in PSIAS 250. However it is important to recognise that the quality and availability of that other assurance may also be impacted adversely by the pandemic in some organisations. These factors are likely to be beyond the control of the HIA.

The factors impacting on the availability of assurance from internal audit and other sources of assurance include:

- the changing risks and impacts on the organisation itself
- whether key governance, risk management and internal control arrangements have deteriorated or been maintained
- changes to the resource base of internal audit, whether staff or budget related
- demands on internal audit for any advisory or non-audit support that will not directly support the HIA opinion
- operational disruptions that impact on the access of internal auditors to key staff, information or systems resulting in greater inefficiency and reduced outputs.

Where an organisation has adopted a comprehensive assurance framework then this may be used by the HIA to support the opinion, if those other sources of assurance are demonstrated to be robust. CIPFA's [Financial Management Code](#) (FM Code), which is applicable to all UK local government bodies, has

assurance as one of its key principles. Principle C of the FM Code clearly sets out the responsibility of the leadership team to establish and support appropriate arrangements:

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

The CIPFA [Statement on the Role of the Head of Internal Audit](#) also emphasises the responsibility of the leadership team for establishing wider frameworks of assurance and accountability.

Engagement between the leadership team, audit committee and HIA

The PSIAS require regular communication and engagement with the leadership team and audit committee on the development of the internal audit plan (PSIAS 2010 and 2020), its execution (PSIAS 2060) and the results of the audit engagements (PSIAS 2400). Each organisation will have its own agreed arrangements in place that will also take into account the terms of reference of the audit committee. The CIPFA [Position Statement on Audit Committees in Local Authorities and Police](#) (2018) sets out the responsibility for the audit committee to provide oversight of the independence, performance and professionalism of internal audit.

PSIAS 2030 requires the HIA to ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. If the HIA believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, the consequences must be brought to the attention of the leadership team and audit committee promptly. The CIPFA *Statement on the Role of the Head of Internal Audit* is clear that to perform their role effectively the HIA must lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively (Principle 4).

It is the responsibility of the organisation's leadership team to provide the HIA with the resources, expertise and systems necessary to perform their role effectively. Therefore it is essential for there to be meaningful engagement between the HIA, leadership team and audit committee. If the HIA has concerns about the quantity or calibre of internal audit resources available or there are other operational barriers to the delivery of the audit plan, they should assess the impact and likely consequences for the annual opinion and work with the leadership team and audit committee to find solutions to bridge the gap.

Making effective use of internal audit resources

When delivering the risk-based audit plan the HIA, supported by the leadership team, should make every effort to make best use of available internal audit resources over the remainder of the year. Possible actions could include:

- Streamlining audit processes to increase capacity.
- Narrowing the focus of audit scopes to examine only key risks
- Filling vacant audit posts, whether permanently, on a temporary basis or buying in audit expertise from an external provider.
- Exploring opportunities for internal secondments or other support for the audit team from non-internal audit staff who can nevertheless undertake some internal audit work.
- Evaluating any requests for advisory work and prioritising assurance work and advisory work that supports the annual opinion.
- Avoiding diversion of internal audit staff on to counter fraud work, or other non-core audit work, beyond that which is already accommodated within the plan.
- Increasing communication with client services to help ensure good co-operation from client services and avoid unnecessary delays in undertaking engagements.

Where the internal audit service provides services to partner bodies or on a commercial basis then agreements in place may provide little scope to amend resourcing in the short term.

Early identification of a limitation of scope

A limitation of scope arises where the HIA is unable to draw on sufficient assurance to issue a complete annual opinion. This should not be confused with an adverse opinion, which arises when sufficient work has been completed to enable the HIA to conclude that arrangements are not adequate and effective.

There are three possible scenarios for a limitation of scope:

1. The HIA has obtained insufficient assurance across each of the three aspects of the opinion: governance, risk management and internal control, and is therefore unable to issue an opinion.
2. The HIA has obtained insufficient assurance across one of the three aspects of the opinion. The limitation of scope will be restricted to that aspect only.
3. The HIA has obtained insufficient assurance across a significant subset of risk or area of operation that is material. An example might be where there were significant engagements set out in the plan that the audit service could not complete.

Where one of these situations is a risk then the HIA should take steps to inform the leadership team and audit committee of it as soon as possible and identify the underlying reasons. As part of the discussions with the leadership team and audit committee the HIA should identify the following:

- the extent of limitation of scope that is likely
- the reasons for limitation being necessary
- remedial steps planned or sought to minimise the extent of the limitation
- consequences of not addressing the risk that a limitation of scope will impact on the opinion.

Understanding the consequences of a limitation of scope

The primary consequence is that the leadership team and those charged with governance do not receive independent assurance that the framework of governance, risk management and control is adequate and effective. Without this assurance the organisation should consider the risk of significant control weaknesses, inefficiencies or poor performance remaining unidentified. In addition, opportunities for improvement may be lost. While internal audit can only offer reasonable assurance, not a 100% guarantee, the presence of that reasonable assurance is rightly valued.

Other consequences to consider:

- The organisation will need to highlight the limitation in its annual governance statement when referring to the HIA opinion
- Where the reason for the limitation also results in significant non-conformance with PSIAS during the year, then the HIA must report that as part of the quality assurance and improvement programme (QAIP) (PSIAS 1320). The results of the QAIP must be included in the annual report (PSIAS 2450). CIPFA's view is that if the limitation of scope is so significant that the HIA cannot provide an annual opinion that fulfils the PSIAS requirement then it is likely that there are other areas of non-conformance. Taken as a whole the internal audit service may no longer conform with PSIAS.
- The internal audit team is only able to state that they conform with the PSIAS if the results of the QAIP can demonstrate that. So if the last EQA concluded that the service conformed, but this year's QAIP demonstrates that the internal audit service does not, then it cannot claim to conform with PSIAS. Non-conformance should be considered for inclusion in the annual governance statement.

- Non-conformance with the PSIAS should also be taken into account when assessing the strength of assurance and the organisation's compliance with the CIPFA FM Code.
- If the internal audit service bids for or supplies its services to other organisations or partner bodies then losing conformance with the standards may have commercial consequences.
- The organisation's external auditor may take the limitation on the audit opinion or non-conformance with PSIAS into account when reviewing overall governance arrangements under the value for money or best value scope of the external audit. Different external audit arrangements apply across the UK and audit committees may wish to discuss this matter with their local auditors to understand the consequences.
- Internal audit will have a smaller than anticipated knowledge base to support future audit planning. The HIA will need to consider the implications for planning and resources as a consequence.
- Outside bodies who may have looked to the internal audit opinion as evidence for the organisation's sound governance may draw adverse inferences from the reported opinion.

Suggested wording of the limitation

In the annual report the HIA should detail the impact of COVID-19 on internal audit and the underlying causes of the limitation of scope. It should set out steps taken to mitigate or compensate, for example where additional reliance has been placed on other assurance providers.

The PSIAS do not specify the wording to use for the opinion section within the annual report but it should be clearly linked to the PSIAS requirement of *the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control*. The suggested wordings below apply when there is a need to accommodate a limitation of scope.

Type of limitation	Suggested wording
<p>The HIA has obtained insufficient assurance across each of the three aspects of the opinion: governance, risk management and internal control, and is therefore unable to issue an opinion.</p>	<p>The results of the work carried out by internal audit, taken together with other sources of assurance, are not sufficient to support an HIA annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This opinion is a requirement of PSIAS.</p> <p>The results of internal audit work concluded during the year and a summary of where it is possible to place reliance on the work of other assurance providers is presented in the annual report but this does not result in a comprehensive opinion.</p> <p>This limitation of scope has arisen because of... [reasons]</p> <p>To avoid similar limitations in future the HIA plans to... [actions].</p>
<p>The HIA has obtained insufficient assurance across one of the three aspects of the opinion: governance, risk management and internal control. The limitation of scope will be restricted to that aspect only.</p>	<p>The results of the work carried out by internal audit, taken together with other sources of assurance, are not sufficient to support an HIA annual opinion on the overall adequacy and effectiveness of the organisation's framework of [specify one of governance, or risk management or control].</p> <p>The results of internal audit work concluded during the year and a summary of where it is possible to place reliance on the work of other assurance providers in respect of [governance or risk management or control] is presented in the annual report but this does not result in an opinion on this aspect.</p> <p>[The HIA can then present their opinion on the remaining two aspects required.]</p> <p>This limitation of scope has arisen because of... [reasons]</p> <p>To avoid similar limitations in future the HIA plans to... [actions].</p>
<p>The HIA has obtained insufficient assurance across a significant subset of risk or area of operation that is material.</p>	<p>The HIA opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control is [set out opinion].</p> <p>The HIA opinion however must exclude [specify area excluded] as there is insufficient assurance available for the HIA to offer reasonable assurance.</p> <p>This limitation of scope has arisen because of... [reasons]</p> <p>To avoid similar limitations in future the HIA plans to... [actions].</p>

Note it is possible for the HIA to separate out their annual opinions on governance, risk management and control if it is more meaningful to do so. This might arise for example where one aspect was significantly weaker than the other.

Ensuring there is a robust plan for future years

The HIA, leadership team and audit committee should work together to ensure that internal audit will be sustainable in 2021/22 and onwards. Specifically, they should ensure that the HIA can develop a risk-based plan that will support the annual opinion. Regular reporting and monitoring should take place to ensure that achievement of the plan is on track.

Where the organisation has identified weaknesses in any assurance arrangements beyond internal audit then the leadership team should develop appropriate improvement plans and the audit committee should monitor these regularly.

For further information please contact Diana Melville, Governance Advisor CIPFA

diana.melville@cipfa.org

**Approved by the Public Financial Management Board, CIPFA
19 November 2020**

Audit Committee**25 February 2021****Internal Audit Progress Report Period
Ended 31 December 2020****Report of Stephen Carter, Interim 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 2020 to 31 December 2020 as part of the 2020/21 Internal Audit Plan.

Executive Summary

- 2 The report provides Members with the progress that has been made in achieving the Internal Audit Plan for 2020/21 for the period up to 31 December 2020 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 31 December 2020;
 - (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;

Recommendations

- 4 Members are asked to note:
- (a) The amendments made to the annual Internal Audit Plan;
 - (b) The work undertaken by Internal Audit during the period ending 31 December 2020;
 - (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 Plan for 2020/21, covering the period 1 April 2020 to 31 March 2021, was approved by the Audit Committee, as two separate six-month plans, on 29 June 2020 and 26 November 2020.

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 2020 and, where applicable, also gives the resultant assurance opinion.
- 8 A summary of the status of audits 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)	5	2	5	0	3
Children and Young People's Services (CYPS) *Excluding Schools	3	6	7	1	7
Neighbourhoods and Climate Change (NCC)	6	3	3	1	9
Regeneration, Economy and Growth (REG)	11	1	2	1	8
Resources (RES)	27	0	26	3	31
Schools	1	0	0	0	8
TOTAL	53	12	43	6	66

- 9 A summary of the final internal audit reports issued in this quarter is presented in Appendix 3.
- 10 The total number of productive days available to Internal Audit during 2020/21 is 3,456. As at 31 December 2020, the service had delivered 2,588 productive days, representing 75% of the total plan. The target at the end of the quarter was for 67.5% to be delivered, therefore performance has exceeded the target.

- 11 Whilst the overall performance of the service in relation to productive days delivered is considered to be strong, remote working has provided challenges in delivering reviews within the timescales originally planned. When considered along with additional testing of core financial systems data and additional assurance work directly related to COVID related payments, this has had a cumulative effect in reducing the overall number of individual audits delivered than would normally be expected, which has necessitated a prioritisation of coverage.
- 12 Using the percentage of audit reviews delivered as an additional indicator of performance would equate to a confirmed delivery of 40% of the annual audit plan as at 31 December 2020, though this rises to 64% when work in progress which is expected to be completed by year-end is taken into account. This scope of coverage will be sufficient to be able to issue an opinion and a separate report on the Agenda addresses this issue.

Internal Audit activity in the quarter

Amendments to the Approved Internal Audit Plan

- 13 The following three 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
Neighbourhoods and Climate Change	Atlantic Geoparks (Claim 2)	Grant	Certification not required.
Neighbourhoods and Climate Change	LoCarbo (Claim 2)	Grant	Certification not required.
Resources	Council Tax – Billing and Refunds	Key System	Service request to defer the review and include in the scope of the Council Tax – Liability review planned for 2021/22.

- 14 Four unplanned reviews were added to the Internal Audit Plan in the quarter.

Service Grouping	Audit	Audit Type	Reason
Resources	School Holidays Meal Voucher Scheme	Assurance	Service request to add review of a new payments process.
Resources	Covid Winter Fund	Advice and Consultancy	Service request to add review for arrangements around CYPS support for families in need.
Resources	Covid Winter Fund – Verification Process (February 2021 Return)	Assurance	Service request to add review of the arrangements put in place.

Service Grouping	Audit	Audit Type	Reason
Resources	Covid Winter Fund – Verification Process (April 2021 Return)	Assurance	Service request to add review of the arrangements put in place.

Outstanding Management Responses to Draft Internal Audit Reports

- 15 There are no responses to draft internal audit reports overdue at the time of writing.

Survey Response Rate

- 16 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 2020.

Service Grouping	Surveys issued	Surveys returned	% returned	Av. score
Adult and Health Services (AHS)	2	2	100	4.8
Children and Young People's Services (CYPS) *Excluding Schools	3	2	67	5.0
Neighbourhoods and Climate Change (NCC)	3	3	100	4.5
Regeneration, Economy and Growth (REG)	3	3	100	4.5
Resources (RES)	28	27	93	4.8
Schools	8	3	38	4.1
TOTAL	47	40	85	4.7

Responses to Internal Audit Findings and Recommendations

- 17 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.
- 18 A summary of progress on the actions due, implemented and overdue, as at 31 December 2020, is given in the table overpage.

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)	70	70	0 (0%)	0	0
Children and Young People's Services (CYPS) [Excluding Schools]	200	190	10 (5%)	10	0
Neighbourhoods and Climate Change (NCC)	41	35	6 (15%)	6	0
Regeneration, Economy and Growth (REG)	111	105	6 (5%)	6	0
Resources (RES)	403	371	32 (8%)	32	0
TOTAL	825	771*	54 (7%)	54	0

* Includes five high priority actions to be confirmed as implemented at follow up.

- 19 It is encouraging to note that, of the 825 actions due to be implemented, 771 (93%) have been implemented.
- 20 Details of the actions that are overdue, following their agreed original target dates, are included at Appendix 6.

Limited Assurance Audit Opinions

- 21 There have been no audits, finalised in this quarter, which have been issued with a 'limited assurance' opinion.

Performance Indicators

- 22 A summary of actual performance, as at the end of December 2020, 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:	Stephen Carter	Tel: 03000 269665
	Paul Monaghan	Tel: 03000 269662

Appendix 1: Implications

Legal Implications

The Accounts and Audit Regulation 2015 (Part 2, Section 5) states a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.

Furthermore, Internal Audit assists the Corporate Director of Resources in fulfilling their duties under Section 151 of the Local Government Act 1972 which requires each Local Authority to make arrangements for the proper administration of their financial affairs.

Finance

There are no direct 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 and Heads of Service.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

There are no direct implications on climate change as a result of this report, however the Internal Audit Service ensures that it considers climate change and sustainability in the recommendations that are made.

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 2020

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
2019 / 2020 audits brought forward into plan					
Adult and Health Services	Adult Care	Caldicott Compliance (Social Care Direct - Data Protection)	Assurance	Final	Moderate
Adult and Health Services	Commissioning	Commissioning of Learning Disability Services	Follow Up	Final	N/A
Chief Executive	Communications and Marketing	Policy on Advertising and Sponsorship	Advice and Consultancy	In Progress	
Children and Young People's Services	Children's Social Care	Contract Monitoring Arrangements - Independent Fostering Services	Assurance	In Progress	
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Troubled Families Programme - Claim 05 (March 2020)	Grant Certification	Complete	N/A
Children and Young People's Services	Education - Schools	SFVS	Assurance	Complete	N/A
Children and Young People's Services	Education - Schools	Arrangements for the allocation of Pupil Premium Funding and its application in schools	Assurance	In Progress	
Neighbourhoods and Climate Change	Environment	Fuel Stocks and Stores	Assurance	Final	Limited
Neighbourhoods and Climate Change	Environment	Atlantic Geoparks 1	Grant	Final	N/A
Neighbourhoods and Climate Change	Environment	InnovateUK	Grant	Final	N/A
Neighbourhoods and Climate Change	Technical Services	Highways Maintenance - Capital Programme	Advice and Consultancy	Final	N/A
Neighbourhoods and Climate Change	Partnerships and Community Engagement	Community Grants Sample	Assurance	Final	Moderate
Regeneration, Economy and Growth	Corporate Property and Land	New Headquarters - Contract Management	Assurance	Preparation and Planning	
Regeneration, Economy and Growth	Corporate Property and Land	Assets of Community Value	Advice and Consultancy	In Progress	
Regeneration, Economy and Growth	Culture, Sport and Tourism	Management of Gym Memberships	Advice and Consultancy	Final	N/A
Resources	Legal & Democratic Services	Scheme of Delegation	Assurance	Final	Substantial
Resources	People and Talent Management	Disciplinary Policy	Assurance	Final	Moderate
Resources	Corporate Finance and Commercial Services	Capital Accounting	Assurance	Not yet started	
Resources	Corporate Finance and Commercial Services	Review of Commercial Services	Assurance	Not yet started	
Resources	Corporate Finance and Commercial Services	Contract Management	Assurance	Final	Moderate
Resources	Finance and Transactional Services	Creditor Payments - Overarching Report	Key System	Final	Substantial
Resources	Finance and Transactional Services	Creditors - Receipting of goods	Key System	Final	Moderate
Resources	Finance and Transactional Services	Creditors - Extended Testing (Exceptions)	Key System	Final	Substantial
Resources	Finance and Transactional Services	Creditors - Extended Testing (Manually scanned invoices paid late)	Key System	Final	Substantial
Resources	Finance and Transactional Services	Creditors - Extended Testing (Holds cleared but invoice not paid)	Key System	Final	Substantial
Resources	Finance and Transactional Services	Creditors - Extended Testing (Unpaid Invoices more than 30 days old)	Key System	Final	Substantial
Resources	Finance and Transactional Services	Payroll	Key System	In Progress	
Resources	Finance and Transactional Services	Payroll: Access to Data - Records	Key System	Final	Substantial
Resources	Finance and Transactional Services	Payroll - Mileage Expenses	Key System	Final	N/A
Resources	Finance and Transactional Services	Debtors - Overarching Report	Key System	Final	Moderate
Resources	Finance and Transactional Services	Debtors - Extended Testing (Credit Notes)	Key System	Final	Moderate
Resources	Finance and Transactional Services	Debtors - Extended Testing (Write Offs)	Key System	Final	Moderate
Resources	Finance and Transactional Services	Debtors - Extended Testing (VAT analysis)	Key System	Final	Moderate
Resources	Finance and Transactional Services	Debtors - Extended Testing (Outstanding Balances)	Key System	Defer to 2021/22	
Resources	Finance and Transactional Services	Cash Management - Overarching Report	Key System	Final	Moderate
Resources	Finance and Transactional Services	Cash Management - Crook CAP	Key System	Defer to 2021/22	
Resources	Finance and Transactional Services	Cash Management - Bishop Auckland Registrars	Key System	Final	Moderate
Resources	Finance and Transactional Services	Budgetary Control and Financial Reporting	Key System	Final	Moderate
Resources	Finance and Transactional Services	Deputy and Appointee Team - Compliance with Office of Public Guardianship	Assurance	Final	Moderate
Resources	Finance and Transactional Services	Fuel Cards	Assurance	Draft Report	
Resources	Finance and Transactional Services	Agency System	Assurance	Final	Moderate
Resources	Digital and Customer Services	Vulnerability Management	Assurance	In Progress	
Resources	Digital and Customer Services	ICT Purchasing	Assurance	Not yet started	
Resources	Digital and Customer Services	ICT Governance	Assurance	Draft Report	
Resources	Transformation	GDPR Compliance - Data Breaches	Assurance	Final	Moderate
Resources	Transformation	Freedom of Information	Assurance	Final	Moderate

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2020

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
2020/21 plan					
Adult and Health Services	Adult Care	Direct Payments	Assurance	Preparation and Planning	
Adult and Health Services	Adult Care	AzeusCare Implementation - Project Board	Advice & Consultancy	In Progress	
Adult and Health Services	Commissioning	Post Contract Arrangements (Deferred from 2019/20)	Assurance	Not yet started	
Adult and Health Services	Commissioning	Integration of Health and Care in County Durham	Advice & Consultancy	In Progress	
Adult and Health Services	Public Health	Pharmoutcomes - Data Matching	Advice & Consultancy	In Progress	
Adult and Health Services	Public Health	COVID-19 Test and Trace Service Support Grant	Grant Claim	Not yet started	
Adult and Health Services	Public Health	Staff Flu Programme Project Planning Group	Advice & Consultancy	Complete	
Adult and Health Services	Commissioning	Workforce Development Fund	Grant Claim	In Progress	
Adult and Health Services	Adult Care	AzeusCare Implementation - Task Groups	Advice & Consultancy	Preparation and Planning	
Adult and Health Services	Adult Care	Caldicott Compliance	Assurance	Not yet started	
Adult and Health Services	Commissioning	Alliance Contracting Steering Group	Advice & Consultancy	In Progress	
Adult and Health Services	Commissioning	Personalisation – Alternative Commissioning Arrangements (Deferred from 2019/20)	Assurance	Not yet started	
Adult and Health Services	Commissioning	Commissioning of Residential Care	Advice & Consultancy	Not yet started	
Children and Young People's Services	Children's Social Care	Adoption Payments	Assurance	Preparation and Planning	
Children and Young People's Services	Children's Social Care	Special Guardianship and Child Arrangement Orders (Deferred from 2019/20)	Assurance	Draft Report	
Children and Young People's Services	Children's Social Care	Placement Resource Panel (PRP) Arrangements	Advice & Consultancy	Final	N/A
Children and Young People's Services	Children's Social Care	Liquidlogic - Board Meetings	Advice & Consultancy	In Progress	
Children and Young People's Services	Children's Social Care	Liquidlogic Developments	Advice & Consultancy	In Progress	
Children and Young People's Services	Commissioning	Home to School Transport Review	Advice & Consultancy	Preparation and Planning	
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Troubled Families Programme: Claim 01 - June 2020	Grant Certification	Complete	N/A
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Troubled Families Programme: Claim 02 - September 2020	Grant Certification	Complete	N/A
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Troubled Families Data Cleansing and Claim Return Administration Process	Advice & Consultancy	In Progress	
Children and Young People's Services	Education and Skills	Academy Transfer Arrangements	Assurance	Preparation and Planning	
Children and Young People's Services	Operational Support	Caldicott Group	Advice & Consultancy	In Progress	
Children and Young People's Services	Education - Schools	School Programme (governance and financial management)	Assurance	4 Substantial 3 Moderate 1 Limited 0 N/A	
Children and Young People's Services	Education - Schools	School Follow Up of previous Limited Assurance Opinion Reports			
Children and Young People's Services	Education - Schools	Audit of School Voluntary Funds	Fund Certification	35 Complete	
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Aycliffe Secure Services - Physical Security	Assurance	Final	Substantial
Children and Young People's Services	Education - Schools	Troubled Families Programme: Claim 03 - November 2020	Grant Certification	Complete	N/A
Children and Young People's Services	Education - Schools	Troubled Families Programme: Claim 04 - February 2021	Grant Certification	Not yet started	
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	High Needs Budget	Follow Up	Preparation and Planning	
Children and Young People's Services	Education and Skills	SFVS	Assurance	In Progress	
Children and Young People's Services	Education and Skills	School Attendance Enforcement (Deferred from 2019/20)	Assurance	Preparation and Planning	
Children and Young People's Services	Education and Skills	Governor Training	Advice & Consultancy	Preparation and Planning	
Children and Young People's Services	Education and Skills	Developing Financial Management Standards in Durham Schools	Advice & Consultancy	Not yet started	
Children and Young People's Services	Operational Support	Caldicott Compliance	Assurance	Not yet started	
Neighbourhoods and Climate Change	Community Protection Services	Fees and Charges	Assurance	Not yet started	
Neighbourhoods and Climate Change	Community Protection Services	Civil Penalties	Assurance	Not yet started	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2020

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Neighbourhoods and Climate Change	Environment	Utility Bills - Contract Management (<i>Deferred from 2019/20</i>)	Assurance	Not yet started	
Neighbourhoods and Climate Change	Environment	Rebus (Claim 1)	Grant	Final	N/A
Neighbourhoods and Climate Change	Environment	AONB Partnership - Atlantic Geoparks (Claim 1)	Grant	In Progress	
Neighbourhoods and Climate Change	Environment	Carbon Connects (Claim 1)	Grant	Final	N/A
Neighbourhoods and Climate Change	Environment	SME Power (Claim 1)	Grant	Final	N/A
Neighbourhoods and Climate Change	Environment	Trade Waste	Assurance	Defer to 2021/22	
Neighbourhoods and Climate Change	Environment	Pest Control	Assurance	Defer to 2021/22	
Neighbourhoods and Climate Change	Technical Services	Local Transport Capital Block funding for NECA	Grant	Final	N/A
Neighbourhoods and Climate Change	Technical Services	Plant Returns	Assurance	In Progress	
Neighbourhoods and Climate Change	Partnerships and Community Engagement	Community Grants Sample (COVID-19 Area Budgets)	Assurance	In Progress	
Neighbourhoods and Climate Change	Environment	Durham Heritage Coast	Advice and Consultancy	Draft Report	
Neighbourhoods and Climate Change	Environment	Fuel Stocks and Stores	Follow Up	Not yet started	
Neighbourhoods and Climate Change	Technical Services	Charging Arrangements	Advice and Consultancy	Not yet started	
Neighbourhoods and Climate Change	Environment	LoCarbo (Claim 1)	Grant	Preparation and Planning	
Neighbourhoods and Climate Change	Environment	LoCarbo (Claim 2)	Grant	Cancelled	
Neighbourhoods and Climate Change	Environment	Rebus (Claim 2)	Grant	Preparation and Planning	
Neighbourhoods and Climate Change	Environment	AONB Partnership - Atlantic Geoparks (Claim 2)	Grant	Cancelled	
Neighbourhoods and Climate Change	Environment	Carbon Connects (Claim 2)	Grant	Preparation and Planning	
Neighbourhoods and Climate Change	Environment	InnovateUK	Grant	Not yet started	
Regeneration, Economy and Growth	Corporate Property and Land	Asset Valuation - Pre Valuation Data Quality Checks	Assurance	Final	Substantial
Regeneration, Economy and Growth	Development & Housing	Section 106	Assurance	Not yet started	
Regeneration, Economy and Growth	Development & Housing	Bishop Auckland Heritage Action Zone	Grant	Final	N/A
Regeneration, Economy and Growth	Development & Housing	Disabled Facilities Grant	Grant	Final	N/A
Regeneration, Economy and Growth	Business Durham	County Durham Growth Fund	Assurance	Not yet started	
Regeneration, Economy and Growth	Business Durham	Local Growth Fund - Durham City Incubator (Salvus House)	Grant	Final	N/A
Regeneration, Economy and Growth	Business Durham	Stephanie (Claim 1)	Grant	Not yet started	
Regeneration, Economy and Growth	Transport and Contract Services	Local Transport Capital Block Funding	Grant	Final	N/A
Regeneration, Economy and Growth	Transport and Contract Services	Bus Subsidy Ring Fenced Grant	Grant	Final	N/A
Regeneration, Economy and Growth	Transport and Contract Services	On Street and Off Street Parking	Assurance	Not yet started	
Regeneration, Economy and Growth	Culture, Sport and Tourism	CLUK Income Share Agreement	Assurance	Draft Report	
Regeneration, Economy and Growth	Development & Housing	Property Re-Purpose Loans	Advice and Consultancy	Final	N/A
Regeneration, Economy and Growth	Culture, Sport and Tourism	Leisure Centre Timesheets (Follow Up)	Follow Up	Not yet started	
Regeneration, Economy and Growth	Corporate Property and Land	Asset Valuation - Valuation Calculations	Assurance	In Progress	
Regeneration, Economy and Growth	Corporate Property and Land	Milburngate Development Governance	Assurance	Not yet started	
Regeneration, Economy and Growth	Business Durham	Business Recovery Grants	Advice and Consultancy	Not yet started	
Regeneration, Economy and Growth	Culture, Sport and Tourism	Compliance with Leisure Centre procedures on holidays and TOIL (<i>Deferred 2019/20</i>)	Assurance	Not yet started	
Regeneration, Economy and Growth	Culture, Sport and Tourism	Stanley Bowls	Advice and Consultancy	Not yet started	
Regeneration, Economy and Growth	Culture, Sport and Tourism	One Life Contract	Assurance	Not yet started	
Regeneration, Economy and Growth	Culture, Sport and Tourism	Theatre Asset / Inventory Review	Advice and Consultancy	Not yet started	
Resources	Legal & Democratic Services	Fee Recovery	Advice and Consultancy	In Progress	
Resources	Corporate Finance and Commercial Services	MTFP Arrangements	Assurance	Defer to 2021/22	
Resources	Corporate Finance and Commercial Services	Journal Transfers	Key System	Final	Substantial
Resources	Corporate Finance and Commercial Services	Bank Reconciliation	Key System	Final	Substantial
Resources	Corporate Finance and Commercial Services	Short Term Investments	Key System	Final	Substantial
Resources	Corporate Finance and Commercial Services	Finance Durham	Assurance	Not yet started	
Resources	Corporate Finance and Commercial Services	Leases	Assurance	Defer to 2021/22	
Resources	Finance and Transactional Services	Section 256 Agreements	Grant	Not yet started	
Resources	Finance and Transactional Services	Revenues and Benefits Reconciliations	Assurance	Final	Substantial

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2020

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Finance and Transactional Services	Enforcement Programme Board	Advice and Consultancy	In Progress	
Resources	Finance and Transactional Services	Better Care Fund and Improved BCF	Grant	Not yet started	
Resources	Finance and Transactional Services	Creditors - Supplier Masterfile (<i>Deferred from 2019/20</i>)	Key System	Final	Substantial
Resources	Finance and Transactional Services	Creditors - Processing of Payments through Azeus	Assurance	Not yet started	
Resources	Finance and Transactional Services	Procurement Cards - Projects	Assurance	In Progress	
Resources	Finance and Transactional Services	Payroll - Recruitment and Selection: Identification Verification	Key System	Not yet started	
Resources	Finance and Transactional Services	Welfare Rights	Follow Up	Not yet started	
Resources	Finance and Transactional Services	Cash Management	Key System	Not yet started	
Resources	Digital and Customer Services	IT Asset Management	Advice and Consultancy	In Progress	
Resources	Digital and Customer Services	Backup Procedures	Assurance	In Progress	
Resources	Digital and Customer Services	Software Licences	Advice and Consultancy	In Progress	
Resources	Digital and Customer Services	Digital Durham	Grant	Final	N/A
Resources	Strategy	Police and Crime Panel	Grant	Final	N/A
Resources	Transformation	Local Transport Revenue Block Funding (Blue Badge New Criteria Implementation)	Grant	Final	N/A
Resources	Corporate Finance and Commercial Services	COVID-19 Procurement Analysis	Assurance	Not yet started	
Resources	Finance and Transactional Services	COVID-19 Expenditure Analysis	Assurance	Final	Substantial
Resources	Finance and Transactional Services	COVID-19 Small Business Rates Relief	Assurance	In Progress	
Resources	Finance and Transactional Services	COVID-19 Business Rates 5% Discretionary Scheme	Advice and Consultancy	In Progress	
Resources	Finance and Transactional Services	COVID-19 Retail, Hospitality and Leisure Grant Fund	Assurance	In Progress	
Resources	Finance and Transactional Services	COVID-19 Council Tax Reduction Hardship Scheme	Assurance	Not yet started	
Resources	Corporate Finance and Commercial Services	Developing School Financial Arrangements	Advice and Consultancy	In Progress	
Resources	Digital and Customer Services	Accessibility Working Group	Advice and Consultancy	In Progress	
Resources	Legal & Democratic Services	Company Governance Group	Advice and Consultancy	In Progress	
Resources	Finance and Transactional Services	COVID-19 Test and Trace Support Payment Scheme	Advice and Consultancy	In Progress	
Resources	Finance and Transactional Services	COVID-19 Test and Trace Support Payment Scheme	Assurance	Not yet started	
Resources	Corporate Finance and Commercial Services	Income Guarantee Return	Advice and Consultancy	Draft Report	
Resources	Legal & Democratic Services	RIPA Officers group	Advice and Consultancy	In Progress	
Resources	Corporate Finance and Commercial Services	Potentially Violent Persons Register	Assurance	In Progress	
Resources	Finance and Transactional Services	Service Level Agreement Board (SLAB)	Advice and Consultancy	In Progress	
Resources	Finance and Transactional Services	Review of SLA Charging Arrangements	Advice and Consultancy	Not yet started	
Resources	Finance and Transactional Services	Creditors - Overarching Report	Key System	In Progress	
Resources	Finance and Transactional Services	Integrated Payments Project Team	Advice and Consultancy	In Progress	
Resources	Finance and Transactional Services	Petty Cash and Payment Card Workstream	Advice and Consultancy	In Progress	
Resources	Finance and Transactional Services	Payroll - Overarching Report	Key System	Not yet started	
Resources	Finance and Transactional Services	ResourceLink Programme Board	Advice and Consultancy	In Progress	
Resources	Finance and Transactional Services	Payroll - Preparation and Corrections (<i>Deferred from 2019/20</i>)	Key System	Not yet started	
Resources	Finance and Transactional Services	Business Rates - Overarching Report	Key System	Not yet started	
Resources	Finance and Transactional Services	Business rates - Liability	Key System	Not yet started	
Resources	Finance and Transactional Services	Housing Benefit and Council Tax Reduction - Overarching Report	Key System	Not yet started	
Resources	Finance and Transactional Services	Housing Benefit and Council Tax Reduction - New Claims and Change in	Key System	Not yet started	
Resources	Finance and Transactional Services	Enforcement Programme Workstreams	Advice and Consultancy	Not yet started	
Resources	Finance and Transactional Services	Council Tax - Overarching Report	Key System	Not yet started	
Resources	Finance and Transactional Services	Council Tax - Billing and Refunds	Key System	Defer to 2021/22	
Resources	Finance and Transactional Services	Debtors - Overarching Report	Key System	Not yet started	
Resources	Finance and Transactional Services	Miscellaneous Income Working Group	Advice and Consultancy	In Progress	
Resources	Digital and Customer Services	Business Continuity for ICT	Advice and Consultancy	Not yet started	
Resources	Digital and Customer Services	Digital Programme Project Management Framework	Advice and Consultancy	Not yet started	
Resources	Transformation	Information Governance Group	Advice and Consultancy	In Progress	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2020

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Finance and Transactional Services	School Holidays Meal Voucher Scheme	Assurance	In Progress	
Resources	Finance and Transactional Services	Covid Winter Fund - CYPS support for families in need	Advice and Consultancy	In Progress	
Resources	Finance and Transactional Services	Covid Winter Fund - Verification Process (February 2021 Return)	Assurance	Not yet started	
Resources	Finance and Transactional Services	Covid Winter Fund - Verification Process (April 2021 Return)	Assurance	Not yet started	

FINAL REPORTS ISSUED IN PERIOD ENDING 31 DECEMBER 2020

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS)		
Aycliffe Secure Services Physical Security	Assurance review of the arrangements in place to mitigate against the risk of unauthorised access to the secure area and/or unauthorised items being taken into buildings and secure areas.	Substantial
Placement and Resource Panel	Advice and consultancy review of the governance arrangements in place.	N/A
Troubled Families Programme	Verification of grant claim for the period September 2020 to November 2020.	N/A
REGENERATION, ECONOMY AND GROWTH (REG)		
Bus Subsidy Ring Fenced Grant	Grant Certification	N/A
Local Growth Fund – Durham City Incubator (Salvus House)	Grant Certification	N/A
RESOURCES (Res)		
Creditors – Overarching Report	Overarching assurance review combining the outcomes from individual Creditors reviews carried out through the year.	Substantial
Creditors – Holds Cleared but invoices not Paid (Extended Testing)	Assurance review of the arrangements in place to mitigate against the risk of invoices not being paid when the hold has been cleared.	Substantial
Creditors – Unpaid invoices more than 30 days old (Extended Testing)	Assurance review of the arrangements in place to mitigate against the risk invoices more than 30 days old not being paid.	Substantial
Payroll – Access to Data	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Business critical data is lost, or cannot be restored, in the event of a disaster; - Users have access to data which they do not require; - Information governance arrangements are inadequate. 	Substantial

RESOURCES (Res) Contd.		
Covid-19 Expenditure Analysis	Assurance review of the arrangements in place to mitigate against the risk of inappropriate or unauthorised expenditure being recorded as Covid-19 related.	Substantial
Scheme of Delegation	Assurance review of the arrangements in place to mitigate against the risk of decisions being made which are not lawful or do not comply with the Council's Constitution, Financial and Contract Procedures Rules or any other relevant Procedures and Policies:	Substantial
Short Term Investments	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - The Treasury Management function does not comply with internal policies, professional guidance, statute and regulations; - Inappropriate investments are made or investments made are not repaid; - Investment opportunities are not taken or DCC is unable to meet its obligations due to poor planning; - Poor decisions are made due to a lack of appropriate technical skills in the analysis of money markets; - Treasury Management targets, e.g. for budgeted investment income, are not achieved. 	Substantial
Debtors – Overarching Report	Overarching assurance review combining the outcomes from individual Debtors reviews carried out through the year.	Moderate
Debtors – Credit Notes (Extended Testing)	Assurance review of the arrangements in place to mitigate against the risk credit notes being used in an inappropriate way.	Moderate
Debtors – Write Offs (Extended Testing)	Assurance review of the arrangements in place to mitigate against the risk of write off being used in an inappropriate way.	Moderate
Debtors – VAT Analysis (Extended Testing)	Assurance review of the arrangements in place to mitigate against the risk of VAT being incorrectly recorded.	Moderate
Cash Management – Overarching Report	Overarching assurance review combining the outcomes from individual Cash Management reviews carried out through the year.	Moderate
Budgetary Control and Financial Reporting	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Budgets are not effectively managed by the budget holder; - Budgets are significantly under/over-spent and variances are not reported or acted upon, including those at the year-end; - The accounting system does not have the appropriate functionality to enable effective monitoring of the budget. 	Moderate

RESOURCES (Res) Contd.		
Contract Management	<p>Assurance review of the arrangements in place to mitigate against the risks of:</p> <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; - Arrangements to provide for continuing services needs after the termination or expiry of the contract are not in place; - Contract management arrangements are not in place for the end of a contract and the transition to a new provider with a new contract; - The contract has been varied inappropriately and without regard to the Council's Contract Procedure Rules and / or the Public Contract Regulations 2015. 	Moderate
Agency System	<p>Assurance review of the arrangements in place to mitigate against the risks of:</p> <ul style="list-style-type: none"> - Services are not delivered as there is insufficient staff resources, staff resource cannot be sourced in an appropriate time frame or staff do not have the appropriate skills, knowledge or experience; - Payments for agency workers are inaccurate or not timely; - Additional expenditure is incurred through agency workers being employed when not required, retained for longer than required, or for periods over which alternative arrangements are more economical; - Expenditure on agency workers is not effectively managed as the system does not provide appropriate information; - Agency workers engaged are not eligible to work in UK. 	Moderate

	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)					
2017/18					
High	10	10	0	0	0
Medium	19	19	0	0	0
Total	29	29	0	0	0
2018/19					
High	0	0	0	0	0
Medium	36	36	0	0	0
Total	36	36	0	0	0
2019/20					
High	0	0	0	0	0
Medium	4	4	0	0	0
Total	4	4	0	0	0
2020/21					
High	0	0	0	0	0
Medium	1	1	0	0	0
Total	1	1	0	0	0
Overall Total	70	70	0	0	0
CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS)					
2017/18					
High	2	2	0	0	0
Medium	63	61	2	2	0
Total	65	63	2	2	0
2018/19					
High	1	1	0	0	0
Medium	72	72	0	0	0
Total	73	73	0	0	0
2019/20					
High	0	0	0	0	0
Medium	58	50	8	8	0
Total	58	50	8	8	0
2020/21					
High	0	0	0	0	0
Medium	4	4	0	0	0
Total	4	4	0	0	0
Overall Total	200	190	10	10	0
NEIGHBOURHOODS AND CLIMATE CHANGE (NCC)					
2018/19					
High	0	0	0	0	0
Medium	17	17	0	0	0
Total	17	17	0	0	0
2019/20					
High	0	0	0	0	0
Medium	11	10	1	1	0
Total	11	10	1	1	0
2020/21					
High	1	0	1	1	0
Medium	12	8	4	4	0
Total	13	8	5	5	0
Overall Total	41	35	6	6	0
REGENERATION, ECONOMY AND GROWTH (REG)					
2017/18					
High	0	0	0	0	0
Medium	35	33	2	2	0
Total	35	33	2	2	0
2018/19					
High	0	0	0	0	0
Medium	33	31	2	2	0
Total	33	31	2	2	0
2019/20					
High	2	2	0	0	0
Medium	37	35	2	2	0
Total	39	37	2	2	0
2020/21					
High	1	1	0	0	0
Medium	3	3	0	0	0
Total	4	4	0	0	0
Overall Total	111	105	6	6	0
RESOURCES (RES)					
2017/18					
High	9	9	0	0	0
Medium	146	145	1	1	0
Total	155	154	1	1	0
2018/19					
High	3	3	0	0	0
Medium	106	101	5	5	0
Total	109	104	5	5	0
2019/20					
High	0	0	0	0	0
Medium	107	93	14	14	0
Total	107	93	14	14	0
2020/21					
High	0	0	0	0	0
Medium	32	20	12	12	0
Total	32	20	12	12	0
Overall Total	403	371	32	32	0
TOTAL COUNCIL					
2017/18					
High	21	21	0	0	0
Medium	263	258	5	5	0
Total	284	279	5	5	0
2018/19					
High	4	4	0	0	0
Medium	264	257	7	7	0
Total	268	261	7	7	0
2019/20					
High	2	2	0	0	0
Medium	217	192	25	25	0
Total	219	194	25	25	0
2020/21					
High	2	1	1	1	0
Medium	52	36	16	16	0
Total	54	37	17	17	0
OVERALL TOTAL	825	771	54	54	0

Performance Indicators as at 31 December 2020

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)	75% at 31 December 2020
Timeliness of Draft Reports	% of draft reports issued within 30 calendar days of end of fieldwork/closure interview	90% (Quarterly)	100% (46 out of 46)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response	95% (Quarterly)	100% (50 out of 50)
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 of 4.7
Customers providing feedback Response	% of customers returning satisfaction returns	70% (Quarterly)	85%
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

Audit Committee

25 February 2021



Emergent Internal Audit Plan 2021/2022

Report of Stephen Carter, Interim 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 2021/2022 (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 2021/2022 Internal Audit Plan.

Executive Summary

- 3 This report sets out the first formal iteration of the Internal Audit Plan for 2021/22 and describes:
 - (a) The basis of the plan;
 - (b) The approach taken to develop the plan; and
 - (c) The key characteristics which include:
 - Impact of COVID-19
 - The scale and pace of change
 - The structure of the plan
 - The content of the plan
 - The scale of the plan
- 4 The draft initial plan is set out for consultation and comment by the members of the Audit Committee.
- 5 The final version will need to be considered and approved by the Audit Committee at its meeting in June 2021 and will then be monitored throughout the year.

Recommendation

- 6 Members are requested to comment on the proposed direction and process for the development of the emergent Internal Audit Plan 2021/22 attached at Appendix 2, which will be brought back for formal approval in June 2021.

Background

- 7 From April 2013, the Chartered Institute of Public Finance and Accountancy (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.
- 8 These PSIAS were further revised in 2017 and set out the standards for Internal Audit and have been adopted by the service in Durham.
- 9 The principles in the PSIAS are consistent with the previous CIPFA Code for Internal Audit that applied across Local Government prior to April 2013. 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

- 10 The PSIAS (section 2010) 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.
- 11 These principles have been applied in the development of the emergent 2021/22 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 service works closely with the Council's Risk Management and Governance Team. The Audit 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 Local Authority 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

- 12 The approach to audit planning in the Council for 2021/2022 has been based largely, but not exclusively, on the following:
- i. Review of the Strategic Risk Register
 - ii. Review of the assurance map compiled during the year taking into account the work of other assurance providers.
 - iii. Cumulative audit knowledge and experience.
 - iv. Findings and outcomes from audit and investigation work in 2020/21 and earlier years.
 - v. Engagement with Heads of Service and their management teams.
 - vi. Engagement with audit colleagues across the North East and Local Authority Chief Auditor Network.
 - vii. Engagement with the Risk, Insurance and Governance teams within the Audit and Risk Management Division.
- 13 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

Impact of COVID-19

- 14 The initial surge in COVID-19 cases in the UK happened in early March 2020, though its impact has continued to be felt throughout the whole of 2020/21.

In supporting the national economy, Government introduced a range of economic support measures including numerous Covid-19 stimulus packages available to both residents and local businesses. Grants distributed by Durham County Council alone in the year exceeded £100M and Internal Audit played an important role in both supporting the Council in establishing new arrangements to process these schemes and through post-payment assurance work in looking to verify that payments had been made to genuine people and businesses who needed financial support during the Covid restrictions.

- 15 Whilst there remains work to be undertaken in providing necessary assurance in relation to the above matters and estimated days have been allocated within the 2021/22 to accommodate this, exact requirements are subject to change and therefore difficult to forecast. It is hoped, however, that with vaccines now being made available to those most vulnerable in our society and with an intended rollout across the population through the spring and summer, additional resource will be significantly less than that required in 2020/21.

Scale and Pace of Change

- 16 Austerity continues to be high on the agenda for local government. 2018/19 saw the first financially failing Councils, some issuing a section 114 notice, others providing only statutory services and auditors issuing warnings on the financial management of others.
- 17 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.
- 18 The National Audit Office 'Financial sustainability of local authorities 2018' report quantifies and details actions 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.
- 19 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 and must be reflected in the Internal Audit Plan.
- 20 Internal audit planning therefore must take into account the above changes, while also considering that:
- i. Austerity is a driver for change – where there is change, there is risk.
 - ii. With workforce cuts and re-organisations, there is a risk of dissatisfied staff and a loss of experience.
 - iii. Cutting costs can also lead to cutting of control; and

- iv. The organisation needs to be more inventive, which needs to be taken into account when conducting audits.
- 21 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 2021/2022 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.
- 22 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 were 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 pro-active 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.
- 23 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.
- 24 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.

- 25 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 2020/2021 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

- 26 There are four different types of audit activity in the plan.
- i. Key System
 - ii. Assurance Review
 - iii. Advice and Consultancy
 - iv. Grant Certification
- 27 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

- 28 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.
- 29 There is time allocated to developing systems and supporting service groupings with new initiatives and any changes in service delivery.
- 30 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, Economy and Growth (REG)
 - Neighbourhoods and Climate Change (NCC)
 - Resources (RES)

- 31 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 June and throughout the year.

Scale of the Plan

- 31 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.
- 32 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 4,126 days. The detail of this allocation is shown in the table below.

Estimated Gross Days Available	4,126.0
Non – Productive Time (Annual Leave, Sickness, Training, Office Duties etc.)	864.5
Productive Time – not allocable to services, e.g. Audit Planning, Supporting Audit Committee, Quality Assurance and Contingency	1,127.0
Productive Days 2021 / 2022	
Audit days required to complete and close audit reports relating to 2020/21	278.5
Adult and Health Services (AHS)	204.0
Children and Young People Service (CYPS)	216.0
Neighbourhoods and Climate Change (NCC)	108.0
Regeneration, Economy and Growth (REG)	245.0
Resources (RES)	401.0
Schools	200.0
Durham Police and Crime Commissioner / Durham Constabulary	158.0
Durham and Darlington Fire & Rescue Authority	71.0
Pension Fund	51.0
Durham Joint Crematorium	19.0
Mountsett Joint Crematorium	19.0
Aim High Academy Trust	15.0
Beamish Museum	54.0
Peterlee Town Council	29.0
Spennymoor Town Council	23.0
Monk Hesledon Parish Council	2.0
Shotton Parish Council	1.5
Horden Parish Council	11.0
Trimdon Parish Council	2.5
Durham City Charter	6.0
Association of North East Councils	20.0
TOTAL GROSS DAYS REQUIRED	4,126.0

Emergent Plan Content

- 33 Within this framework an emergent work programme of potential work has been developed. This is based on an assessment of risk.
- 34 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 – Published in June 2013 and updated in March 2017

Strategic Internal Audit Plan – Reviewed and updated January 2021

Other useful documents

None

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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.

Climate Change

There are no direct implications on climate change as a result of this report, however the Internal Audit Service ensures that it considers climate change and sustainability in the recommendations that are made.

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.

EMERGENT INTERNAL AUDIT PLAN - SERVICE GROUPING BREAKDOWN

APPENDIX 2

Service Grouping	Service	Audit Title	Estimated Days
Adult and Health Services	Adult Care	Hawthorn House (Financial Systems Review)	5
Adult and Health Services	Adult Care	Continuing Health Care and Free Nursing Care (Deferred from 2019/20)	20
Adult and Health Services	Adult Care	Section 117 Process (Deferred from 2019/20)	10
Adult and Health Services	Adult Care	Adaptations - Funded through Disabled Facilities Grant (DFG)	10
Adult and Health Services	Adult Care	Direct Payments	15
Adult and Health Services	Commissioning	Commissioning of Domiciliary Care	10
Adult and Health Services	Commissioning	Commissioning of Mental Health Services	10
Adult and Health Services	Commissioning	Personalisation - Alternative Comm Arrangements	10
Adult and Health Services	Commissioning	Commissioning of Residential Care	10
Adult and Health Services	Public Health	COVID-19 Test and Trace Service Support Grant	3
Adult and Health Services	Public Health	Post Contract Arrangements	10
Adult and Health Services	Public Health	Stop Smoking Service	10
Adult and Health Services	Public Health	Suicide Early Alert	10
Adult and Health Services	Adult Care	AzeusCare Implementation - Project Board/Design Authority	5
Adult and Health Services	Adult Care	AzeusCare Implementation - Task Groups	20
Adult and Health Services	Adult Care	Shared Lives	10
Adult and Health Services	Adult Care	Social Care Direct	10
Adult and Health Services	Adult Care	Integration of Health and Care in County Durham	5
Adult and Health Services	Public Health	Pharmoutcomes - Data Matching	5
Adult and Health Services	Public Health	Public Health claims processed via Pharmoutcomes (NRT,ABI and Sup Consumption)	15
Adult and Health Services	Commissioning	Alliance Contracting Steering Group	1
TOTAL ESTIMATED DAYS FOR ADULTS AND HEALTH SERVICES			204
Children and Young People's Services	Children's Social Care	Placement Resource Panel (PRP) Arrangements	10
Children and Young People's Services	Children's Social Care	Review of CYPS Locality Office Petty Cash Arrangements	10
Children and Young People's Services	Children's Social Care	New Lea Children's Home (Deferred from 2019/20)	5
Children and Young People's Services	Children's Social Care	Moorside Children's Home (Deferred from 2019/20)	5
Children and Young People's Services	Children's Social Care	Tow Law Children's Home (Deferred from 2019/20)	5
Children and Young People's Services	Children's Social Care	Coxhoe Children's Home	5
Children and Young People's Services	Children's Social Care	Local Adoption Governance	10
Children and Young People's Services	Commissioning	Disability Commissioning Arrangements (Short Breaks)	10
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Family Centres (Deferred from 2019/20)	10
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	One Point Hubs (Deferred from 2019/20)	10
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Pupil Referral Unit	7
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Aycliffe Secure Services Contract with YJB	10
Children and Young People's Services	Education and Skills	Adult Learning and Skills Service (Deferred from 2019/20)	10
Children and Young People's Services	Education and Skills	Durham Supported Employment Service	10
Children and Young People's Services	Education and Skills	Synergy - Audit of access to data arrangements	10
Children and Young People's Services	Children's Social Care	Supervised Spend Leaving Care Service	10
Children and Young People's Services	Children's Social Care	Liquidlogic - Board Meetings	2
Children and Young People's Services	Children's Social Care	Liquidlogic Developments	10
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Troubled Families Programme	10

EMERGENT INTERNAL AUDIT PLAN - SERVICE GROUPING BREAKDOWN

APPENDIX 2

Service Grouping	Service	Audit Title	Estimated Days
Children and Young People's Services	Education and Skills	SFVS	10
Children and Young People's Services	Education and Skills	Governor Training	3
Children and Young People's Services	Education and Skills	Developing Financial Management Standards in Durham Schools	2
Children and Young People's Services	Education and Skills	Kickstart	10
Children and Young People's Services	Operational Support	Caldicott Compliance	10
Children and Young People's Services	Operational Support	Caldicott Group	2
Children and Young People's Services	Commissioning	Home to School Transport - Advice	5
Children and Young People's Services	Commissioning	Home to School Transport - Assurance	15
TOTAL ESTIMATED DAYS FOR CHILDREN AND YOUNG PEOPLE'S SERVICE			216
Neighbourhoods and Climate Change	Community Protection Services	Online Licence Applications	7
Neighbourhoods and Climate Change	Community Protection Services	Intelligence Handling	10
Neighbourhoods and Climate Change	Community Protection Services	Anti Social Behaviour	10
Neighbourhoods and Climate Change	Environment	SME Power (Claim 2)	5
Neighbourhoods and Climate Change	Environment	Neighbourhood Wardens	10
Neighbourhoods and Climate Change	Environment	Trade Waste	10
Neighbourhoods and Climate Change	Environment	Pest Control	10
Neighbourhoods and Climate Change	Technical Services	Compliance with Construction, Design and Maintenance Procedures - Review of Self Assessment	5
Neighbourhoods and Climate Change	Environment	LoCarbo	5
Neighbourhoods and Climate Change	Environment	Rebus	5
Neighbourhoods and Climate Change	Environment	AONB Partnership - Atlantic Geoparks	5
Neighbourhoods and Climate Change	Environment	Carbon Connects	5
Neighbourhoods and Climate Change	Environment	SMEPower (Claim 3)	5
Neighbourhoods and Climate Change	Environment	InnovateUK	2
Neighbourhoods and Climate Change	Technical Services	Local Transport Capital Block Funding for NECA	4
Neighbourhoods and Climate Change	Partnerships and Community Engagement	Community Grants	10
TOTAL ESTIMATED DAYS FOR NEIGHBOURHOODS AND CLIMATE CHANGE			108
Regeneration, Economy and Growth	Corporate Property and Land	New Headquarters - Contract Management	10
Regeneration, Economy and Growth	Corporate Property and Land	Milburngate Development Governance	10
Regeneration, Economy and Growth	Development and Housing	Financial Assistance Policy and Private Sector Housing	10
Regeneration, Economy and Growth	Development and Housing	Housing Solutions	10
Regeneration, Economy and Growth	Development & Housing	International Relations	10
Regeneration, Economy and Growth	Development & Housing	Gypsy, Roma and Traveller Sites	10
Regeneration, Economy and Growth	Development & Housing	Local Lettings Agency Governance	10
Regeneration, Economy and Growth	Business Durham	Local Growth Fund - Grow On Space (Explorer)	5
Regeneration, Economy and Growth	Transport and Contract Services	Public Right of Way	6
Regeneration, Economy and Growth	Transport and Contract Services	Telecare Services & Care Connect	10
Regeneration, Economy and Growth	Culture, Sport and Tourism	Events Management	10
Regeneration, Economy and Growth	Culture, Sport and Tourism	Learn to Swim	2
Regeneration, Economy and Growth	Culture, Sport and Tourism	Gala Hospitality and Catering	10
Regeneration, Economy and Growth	Culture, Sport and Tourism	Theatre Asset / Inventory Review	10
Regeneration, Economy and Growth	Corporate Property and Land	Asset Valuation	20

EMERGENT INTERNAL AUDIT PLAN - SERVICE GROUPING BREAKDOWN

APPENDIX 2

Service Grouping	Service	Audit Title	Estimated Days
Regeneration, Economy and Growth	Development and Housing	Planning Applications	10
Regeneration, Economy and Growth	Development and Housing	Choice Based Letting Scheme	10
Regeneration, Economy and Growth	Development and Housing	Disabled Facilities Grant	6
Regeneration, Economy and Growth	Business Durham	Stephanie	5
Regeneration, Economy and Growth	Business Durham	Business Recovery Grants	10
Regeneration, Economy and Growth	Transport and Contract Services	Local Transport Capital Block Funding	3
Regeneration, Economy and Growth	Transport and Contract Services	Bus Subsidy Ring Fenced Grant	5
Regeneration, Economy and Growth	Transport and Contract Services	Integrated Passenger Transport - Contracts	10
Regeneration, Economy and Growth	Culture, Sport and Tourism	Rolling Programme of Leisure Centres	15
Regeneration, Economy and Growth	Culture, Sport and Tourism	CLUK Income Share Agreement	7
Regeneration, Economy and Growth	Culture, Sport and Tourism	Stanley Bowls	1
Regeneration, Economy and Growth	Culture, Sport and Tourism	Beamish Museum - Grant Review	10
Regeneration, Economy and Growth	Culture, Sport and Tourism	Bowes Museum - Grant Review	10
TOTAL ESTIMATED DAYS FOR REGENERATION, ECONOMY AND GROWTH			245
Resources	Legal & Democratic Services	Coroner	10
Resources	Legal & Democratic Services	Electoral Services (Election Payments)	10
Resources	Corporate Finance and Commercial Services	CIPFA Financial Management Code	2
Resources	Corporate Finance and Commercial Services	MTFP Arrangements	10
Resources	Corporate Finance and Commercial Services	Leases	15
Resources	Corporate Finance and Commercial Services	Contract Management	15
Resources	Corporate Finance and Commercial Services	Off Contract Spend	10
Resources	Finance and Transactional Services	Domiciliary Care Working Party	2
Resources	Finance and Transactional Services	Payroll - Preparation - Corrections	10
Resources	Finance and Transactional Services	Council Tax - Quality Assurance and Appeals	10
Resources	Finance and Transactional Services	Cash Management - Crook CAP	4
Resources	Finance and Transactional Services	Deputies and Appointees - Personal Allowance Payments (<i>Deferred from 2019/20</i>)	15
Resources	Digital and Customer Services	Change Management	7
Resources	Digital and Customer Services	Unix - Linux Security	9
Resources	Digital and Customer Services	Mobile Device Security	10
Resources	Strategy	Data Quality	15
Resources	Transformation	Transformation	2
Resources	Transformation	Data Protection	10
Resources	Legal and Democratic Services	Registrars	10
Resources	Legal and Democratic Services	RIPA Officers Group	1
Resources	Legal & Democratic Services	Company Governance Group	2
Resources	Corporate Finance and Commercial Services	Developing School Financial Arrangements	5
Resources	Corporate Finance and Commercial Services	Banking Arrangements	7
Resources	Corporate Finance and Commercial Services	Contract Procedure Rules	10
Resources	Corporate Finance and Commercial Services	Health and Safety	10
Resources	Finance and Transactional Services	Section 256 Agreements	10

EMERGENT INTERNAL AUDIT PLAN - SERVICE GROUPING BREAKDOWN

APPENDIX 2

Service Grouping	Service	Audit Title	Estimated Days
Resources	Finance and Transactional Services	Financial Assessments	20
Resources	Finance and Transactional Services	Better Care Fund	5
Resources	Finance and Transactional Services	Creditors	20
Resources	Finance and Transactional Services	Petty Cash and Payment Card Workstream	2
Resources	Finance and Transactional Services	Payroll	20
Resources	Finance and Transactional Services	Payroll - System Implementation	2
Resources	Finance and Transactional Services	Business Rates - System Access	6
Resources	Finance and Transactional Services	Housing Benefits and Council Tax Reduction - Overarching Report	1
Resources	Finance and Transactional Services	Housing Benefits and Council Tax Reduction - Accuracy Award Indicator	10
Resources	Finance and Transactional Services	Housing Benefits and Council Tax Reduction - System Access	6
Resources	Finance and Transactional Services	Housing Benefits and Council Tax Reduction - Supported Accommodation	10
Resources	Finance and Transactional Services	Enforcement Programme Board	2
Resources	Finance and Transactional Services	Enforcement Programme Workstreams	5
Resources	Finance and Transactional Services	Council Tax - Overarching Report	1
Resources	Finance and Transactional Services	Council Tax - Liability (include Billing and Refunds in scope)	10
Resources	Finance and Transactional Services	Council Tax - System Access	6
Resources	Finance and Transactional Services	Cash Management	10
Resources	Finance and Transactional Services	Debtors	20
Resources	Digital and Customer Services	SharePoint	10
Resources	Digital and Customer Services	Digital Durham	2
Resources	Strategy	Equality, Diversity and Community Cohesion	10
Resources	Transformation	Information Governance Group	2
TOTAL ESTIMATED DAYS FOR RESOURCES			401

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

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