



Safest People, Safest Places

Local Government Act 1972

A Meeting of the Combined Fire Authority for County Durham and Darlington Audit and Finance Committee will be held in the County Durham and Darlington Fire and Rescue Service Headquarters on Thursday 6 April 2023 at 10.00 am to consider the following business:-

PART A

1. Apologies for absence
2. Minutes of the previous meeting - Report of the Chair (Pages 3 - 6)
3. Corporate Governance Action Plan Update - Report of the Deputy Chief Executive (Pages 7 - 14)
4. Auditors Annual Report 2021 2022 - Report of External Audit (Pages 15 - 40)
5. Internal Audit Charter - Report of Head of Internal Audit (Pages 41 - 66)
6. Internal Audit Plan 2023/24 - Report of Head of Internal Audit (Pages 67 - 74)

PURSUANT to the provisions of the above named Act, **I HEREBY SUMMON YOU** to attend the said meeting

A handwritten signature in black ink that reads "Helen Lynch".

H LYNCH

Clerk to the Combined Fire Authority
for County Durham and Darlington

County Hall
Durham
DH1 5UL

**TO: The Members of the Combined Fire Authority for County Durham
and Darlington Audit and Finance Committee**

Durham County Councillors:

Councillors R Bell, J Blakey, A Batey, N Jones and B Kellett

Darlington Borough Councillors: Councillors Chris McEwan

Minutes of the **County Durham and Darlington Fire and Rescue Service Audit and Finance Committee meeting** held at Fire HQ on **26 January 2023 at 10:00hours**.

Present: Cllr R Bell (Chair)
Durham County Council: Cllr J Blakey
Cllr N Jones
Cllr B Kellett
Darlington Borough Council: Cllr Chris McEwan
Officers: Tony Hope
Internal Audit: David Mitchell
External Audit (Mazars): Campbell Dearden

Part A

1 Apologies

No apologies received.

2 Minutes of the Previous Meetings

The minutes of the previous meeting held on 30 November 2022 were agreed as a true record apart from one amend.

3 Progress Report – Report of Internal Audit

Members were presented with a report advising on the work undertaken by Internal Audit between 1 April 2022 and 31 March 2023.

D Mitchell highlighted amendments to the plan in respect of Data Quality and review of the MTFP.

Cllr Kellett queried why the Data Quality Audit has been deferred until 2023/24. T Hope explained that it was deferred to allow the publication of the HMICFRS inspection report so the results can be incorporated. T Hope noted that it was agreed to cancel the MTFP audit as it provided no added value. Cllr Kellett requested that extra context is added to the report to further explain the reasons behind the decisions made. D Mitchell agreed to feed this back to Nicola Cooke.

The report was **considered** and **noted**.

4 Progress Report – Report of External Audit

Members received an update on the work that had been undertaken by external audit.

C Dearden noted that it was not possible to issue a certificate formally closing the 2020/21 audit as a response was still outstanding from the National Audit Office regarding Whole of Government Accounts.

C Dearden confirmed that an unqualified opinion on the 2021/22 accounts was issued on the 30th November 2022 meaning that the Authority was one of only 11% of local authorities to receive an audit opinion by the specified deadline.

Cllr McEwan thanked the Finance team for ensuring information was submitted on time.

The report was **considered** and **noted**.

5 Forecast of Outturn 2022/23 – Estimate Based on Expenditure and Income to 31 December 2022 (Quarter 3)

T Hope presented a report providing an indication of the Service's revenue and capital financial outturn position based upon expenditure and income to the 31 December 2022.

T Hope explained that we have an improved position on the estimated forecast revenue outturn which will assist the service in covering costs within existing budgets.

Cllr Kellett queried the utilisation of agency staff to cover staff absences and vacant posts. T Hope explained that agency staff are predominantly used for admin and processing roles and not senior posts.

Cllr Blakey asked if there was an update regarding closure of the HQ building and migration of staff to the Service Training Centre in Bowburn. T Hope explained that the lease on the Service HQ is not due to come to end until July 2027. Alternative options are being considered which include relocation to Bowburn.

Cllr McEwan queried the forecasted overspend on vehicle running costs. T Hope advised that this was due to the increased cost of fuel.

6 Short Term Investments – Period 31 December 2022 (Quarter 3)

T Hope introduced a report on the performance of the Authority's short-term investments for the period ended 31 December 2022.

Cllr Bell queried the capital borrowing figure for the service. T Hope confirmed that capital borrowing is at £5m, the loan for which was taken out before the increase in interest rates.

The report was **noted**.

ACTION: T Hope to add context to the report.

7 Corporate Risk Register – Position at 31 December 2022

T Hope presented Members with details of the Corporate Risk Register as at 31 December 2022.

Cllr Kellett noted that he was keen to put pressure on Durham County Council regarding empty buildings. It was agreed that a report is to be presented to a future CFA meeting.

The report was **noted**

ACTION: K Lazzari to arrange for a report regarding empty buildings to be presented to a future CFA meeting.

8 Revenue and Capital Budgets 2023/24 and Medium-Term Financial Plan

T Hope introduced the report setting out the details of the provisional local government finance settlement for 2023/24 and to consider the revenue and capital budgets and Medium Term Financial Plan.

Members considered the report and in particular the level of increase in council tax for 2023/24. In view of the budget pressures facing the Authority and the forecast shortfall in funding in the Medium Term Financial Plan.

Cllr Kellett queried if there is a risk of Firefighters leaving the service for alternative employment with higher rates of pay. T Hope explained that there is a resilience plan in place to ensure that operational staffing does not fall under minimum levels.

Cllr McEwan noted that whilst increasing council tax is difficult, he is aware of the risks to front line services and the public's health and safety if council tax is not increased

Members agreed to recommend an increase in Band D council tax of £5 (4.6%) to the meeting of the Authority on 15 February 2023.

The report was **considered, noted and agreed.**

9 Outstanding Audit Recommendations Quarter Ended 31 December 2022 Appendix 3

Members were presented with outstanding audit recommendations for Quarter 3.

The report was **considered and noted.**

Actions

	Who	Action	Date
1	T Hope	to add context to the Short Investments report around Capital borrowing.	ASAP
2	K Lazzari	to arrange for a report regarding empty buildings to be presented to a future CFA meeting.	ASAP



Safest People, Safest Places

Audit and Finance Committee

6 April 2023

Corporate Governance Action Plan Update

Report of Deputy Chief Executive

Purpose of Report

1. To provide an update of the progress being made in relation to the actions arising from the development of the Authority's corporate governance arrangements.

Background

2. The Authority developed an action plan to progress the high priority actions identified during the production of the Annual Governance Statement (AGS) and reported as part of the final accounts for 2021/22.
3. The Authority continues to develop its governance arrangements and has procedures in place for monitoring actions arising from the 2021/22 final accounts. The effectiveness of internal audit has also been reviewed and a Code of Corporate Governance is in place and approved in line with CIPFA/SOLACE guidance.

Corporate Governance Action Plan

3. The Service Leadership Team (SLT) has responsibility for progressing key governance improvements that have been identified. These issues are reviewed quarterly, and progress is monitored to ensure that appropriate actions are being taken to mitigate any risks to effective governance.
4. The 2022/23 Corporate Governance Action Plan is attached at Appendix A. The action plan has been updated to reflect the position in relation to the action points on 28 February 2023.

Recommendation

5. Members are requested to **note and comment** on the contents of the report and the on-going work in relation to the corporate governance arrangements of the Authority.

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Corporate Governance Action Plan 2022/23

Appendix A

Action Ref	Finding	Associated Risk	Priority	Recommendation	Management Comment	Responsibility Timescale
01	<p>Public Sector Spending The impact of spending reductions in the public sector is a key governance issue for the Fire Authority. To set a balanced budget for the forthcoming financial year (2022/23) the Authority was required to draw £0.5M from its already limited reserves. Further savings during the period 2023/24 to 2025/26 will be required to balance the budget going forward. Alternative delivery options for services continue to be considered and implementation plans are being progressed. Implementation will be closely monitored to ensure that planned service changes and associated savings are realised.</p>	<p>The Authority fails to balance its budget and service provision deteriorates as a result.</p>	High	<p>The Authority should look to further progress its implementation plans and monitor them to ensure that it's in year budget is balanced and service delivery maintained.</p>	<p>To arrive at a balanced budget for next year 23/24 it will be necessary to draw an additional £0.571M from reserves. This is not sustainable on an on-going basis and alternative methods of service delivery need to be considered and agreed to balance the budget. There is also a great deal of uncertainty surrounding the level of inflation, pay awards and funding going forward.</p> <p>Several savings options have been developed to deal with shortfalls in funding. These options have been discussed with members at the Strategic Planning Days held in May and October 2022. The Community Risk Management Plan consultation seeks views on the proposal to ride with a crew of 4 on all wholetime fire appliances. This will save £0.750m per annum and assist in balancing the budget.</p>	<p>Deputy Chief Executive ONGOING</p>
02	<p>Assumptions Underpinning the Medium-Term Financial Plan The assumptions made in the medium-term financial plan, particularly around savings, inflation, pay awards, employer pension contributions and potential liabilities, future Government grants and income from council tax and business rates whilst based on the best information available are subject</p>	<p>The Authority fails to balance its budget over the medium to longer term and service provision deteriorates as a result.</p>	High	<p>The Authority should monitor, as intended, the assumptions made within its medium-term financial plan to ensure they accurately reflect the most up to date position known and enable corrective action to be taken</p>	<p>The MTFP assumptions are monitored on an on-going basis and have been updated during the preparation of the 2023/24 budget and MTFP.</p> <p>The latest pay offer to firefighters of 7% for 2022/23 and 5% for 2023/24 will place additional pressure on the current year's budget which was based on a 2% pay award. The 2023/24 budget and MTFP is based</p>	<p>Deputy Chief Executive ONGOING</p>

	to change from economic circumstances and public finances in general. This represents a potential risk to the Authority's medium-term financial plan which will be monitored closely to enable corrective action to be taken where necessary.			where required at the earliest opportunity.	<p>upon pay awards of 6% in 2022/23 and 5% in 2023/24 which considering current events is more realistic.</p> <p>Whilst it is impossible to predict what might happen in the future, alternative MTFP scenarios have recently been modelled to illustrate the impact of changes to the assumptions. Based on this modelling, the level of deficit over the MTFP period from 2024/25 onwards ranges from £1.2M best case to £2.8M worst case.</p> <p>The situation regarding pay awards and inflation is monitored closely and any impact on the budget would normally be managed using contingencies and/or reserves. Members will be kept informed if further corrective action is required.</p>	
03	<p>Changes to the Governance of public services in light of stated Government policy direction</p> <p>The Policing and Crime Act requires fire, police, and ambulance services to collaborate, where the proposed collaboration would be in the interests of their own efficiency and effectiveness and one or more of the other services take the same view. The legislation also makes provision for a Police and Crime Commissioner to take responsibility for the fire and rescue service in their area, as well as to take the additional step to create a single employer for police and fire. The government has also published a White Paper on Fire Reform which focusses on</p>	The Authority fails to comply with the requirements and wider implications of the Policing and Crime Act.	High	The Service should monitor as intended the impact of any changes that arise as a result of the Policing and Crime Act and act accordingly.	A White Paper on fire reform was published for consultation in May 2022 however we are still awaiting the outcome of the consultation and the governments proposed response. The proposals for reform suggest that in County Durham and Darlington fire governance could be mandated to transfer to the Police and Crime Commissioner. Close monitoring over the coming months will help the service understand more about the White Paper and potential impact which will allow for appropriate mitigating strategies and communications to be prepared in advance.	<p>Chief Fire Officer</p> <p>ONGOING</p>

	<p>three key areas: people, professionalism and governance. The Service will continue to monitor, at local, sub national and national level, the development and potential impact, of differing governance arrangements, the relevant underpinning statutory frameworks and current national negotiating machinery.</p>					
04	<p>Impact of Changes to the Firefighters Pension Scheme The service will closely monitor the impact of changes to the Firefighters Pension Scheme in terms of cost, business continuity, resilience and local industrial relations.</p>	<p>The Authority fails to balance its budget and service provision deteriorates as a result.</p>	High	<p>The Service should monitor as intended the impact of changes to the Firefighters Pension Scheme both in terms of cost and service delivery.</p>	<p>The proposals to address age discrimination in the Firefighters pension schemes resulting from the McCloud Sargeant case could lead to a significant increase in the level of employer's pension contributions and a range of staff retiring and accessing their pension earlier than anticipated.</p> <p>At the 16 February 2022 Fire Authority meeting, members agreed to pause the processing of immediate detriment cases until the full extent of liabilities falling on the Authority are known. There is a risk that the Authority could be liable for the tax charges relating to individuals who have previously retired.</p> <p>The recruitment strategy includes options to bring in replacement staff quickly, if necessary, to maintain operational response.</p>	<p>Deputy Chief Executive</p> <p>ONGOING</p>
05	<p>Collaboration Collaboration will continue to be addressed pro-actively in terms of collaborating with other Fire and</p>	<p>The Authority's collaboration aspirations are not achieved.</p>	High	<p>Opportunities for further collaboration should be investigated.</p>	<p>Members are supportive of further collaboration where this is in the interests of the Authority and provides value for money. The</p>	<p>Chief Fire Officer</p> <p>ONGOING</p>

	Rescue Services, the Police, Northeast Ambulance Service and other organisations. The government have placed an increased emphasis on collaboration with Blue Light Services and this is reflected in the Authority's governance structure in relation to collaboration.			Progress made across all Collaborative practices should be reported, for monitoring, to the Authority.	<p>Authority has signed a Statement of Intent with Durham Constabulary setting out our intention to work more closely together to enhance co-operation and collaboration. Progress is monitored through the Collaboration Delivery Board.</p> <p>Work is continuing with the development of further collaboration opportunities and a Statement of Intent has been signed to enable closer working with neighbouring FRS's.</p> <p>The Authority has approved a Collaboration Strategy and a Collaboration Register is in place to record details of individual collaboration initiatives. A formal process to review the outcomes of individual collaboration initiatives is currently being developed.</p>	
06	<p>Fire Service Inspectorate (HMICFRS)</p> <p>The Service will continue to closely monitor developments in relation to the Fire Service Inspectorate. At the conclusion of the current inspection an action plan will be developed to address the areas identified for improvement in the inspection report. Progress in completing the actions will be monitored by the Service Leadership Team and the Authority going forward.</p>	The Authority suffers reputational damage as a result of an adverse judgement from the new Fire Service Inspectorate.	High	The Service should look to increase its learning capacity further to receiving the outcomes of its inspection and through engagement with Durham Constabulary and the National Fire Chief's Council.	<p>The 2021/22 inspection is complete, and the Service has been rated as good across all 3 pillars – Effectiveness, Efficiency and People.</p> <p>An action plan will be developed to address the areas identified for improvement in the inspection report. Progress in completing the actions will be monitored by the Service Leadership Team and the Authority going forward.</p> <p>The service continues to engage with Durham Constabulary and the National Fire Chief's Council to share learning capacity.</p>	<p>Chief Fire Officer</p> <p>ONGOING</p>
07	<p>Independent Review of Building Regulations and Fire Safety</p> <p>The service will closely monitor developments following the publication of Dame Judith Hackitt's independent review</p>	Staffing resources are stretched, service provision deteriorates, and the Authority's suffers reputational damage as a result.	High	The Service should monitor as intended developments following the publication of Dame	<p>The Competency Framework for Fire Safety Regulators was published during February 2020 and Business Fire Safety (BFS) staff are working towards</p>	<p>Chief Fire Officer</p> <p>ONGOING</p>

	<p>into building regulations and fire safety following the Grenfell Tower fire. Changes to the regulatory requirements will have significant resource implications for the service as the government is committed to doing more to set and enforce high standards.</p>			<p>Judith Hackitt's independent review.</p>	<p>compliance with the training requirements of the framework.</p> <p>The additional contents of the Competency Framework for Fire Safety Regulators are included within the new BFS strategy.</p> <p>A new staff structure for BFS has been approved by the Service which will increase capacity in the BFS team.</p>	
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Auditor's Annual Report

County Durham and Darlington Fire and
Rescue Authority– year ended 31 March
2022

February 2023



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- 04** Other reporting responsibilities

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 County Durham and Darlington Fire and Rescue Authority. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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01

Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for County Durham and Darlington Fire and Rescue Authority (the Authority) for the year ended 31 March 2022. Although this report is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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



Opinion on the financial statements

We issued our audit report on 30 November 2022. Our opinion on the financial statements was unqualified.



Wider reporting responsibilities

We have not received the group audit instructions from the NAO and are therefore unable to complete our work on the Authority's Whole of Government Accounts return.

This means we are unable to issue our audit certificate formally closing the audit for the 2021/22 financial year.



Value for Money arrangements

In our audit report we reported that we had not completed our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Authority's arrangements.

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and whether they give a true and fair view of the Authority's financial position as at 31 March 2022 and of its financial performance for the year then ended. Our audit report, issued on 30 November 2022 gave an unqualified opinion on the financial statements for the year ended 31 March 2022.

Our Audit Completion Report, presented to the Authority's Audit and Finance Committee on the 28 September 2022 provides further details of the findings of our audit of the Authority's financial statements. This includes our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit.

Qualitative aspects of the Authority's accounting practices

We reviewed the Authority's accounting policies and disclosures and concluded they complied with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Authority's circumstances.

Draft accounts were received from the Authority on 21 June 2022, well in advance of the revised statutory deadlines and were of a good quality. The accounts were supported by good quality working papers and we received full co-operation from the Finance team in responding to our queries on a prompt basis.

Significant difficulties during the audit

We did not encounter any significant difficulties during the course of the audit and we have had the full co-operation of management.

03

Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Page 20

Overall summary



3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:



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



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



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

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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

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

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

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

Phase 2 - Additional risk-based procedures and evaluation

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

We outline the risks that we have identified and the work we have done to address those risks on page 10.

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

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

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

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Authority arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

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

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11	No	No	No
 Governance	14	No	No	No
 Improving economy, efficiency and effectiveness	18	No	No	No

Introduction

Audit of the financial statements

Commentary on VFM arrangements

Other reporting responsibilities and our fees

3. Commentary on VFM arrangements

Financial Sustainability

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



3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Page 24

How the Authority identifies significant financial pressures that are relevant to its short and medium-term plans

The Authority is required to set a balanced budget on an annual basis and to agree a reserves strategy to manage longer-term risk. A Medium Term Financial Plan (MTFP) has been developed covering a 4 year timeframe from 2021/22 to 2024/25. The Combined Fire Authority (CFA) holds a Strategic Planning Day where budget pressures are considered as well as the priorities within the Authority’s Community Risk Management Plan. This is supported by consultation with the public, staff, partners and other stakeholders.

The plan recognises the risks and uncertainties facing the Authority in terms of cost pressures, future funding arrangements, volatile income levels and potential variations in the costs of the delivery of demand led services in particular. Our review of the MTFP and associated assumptions identified no evidence of significant weaknesses in arrangements. The Authority has undertaken sensitivity analysis to determine the impact of the above assumptions on the budget. However, the Authority faces a number of pressures including uncertainty over the long term funding arrangements from Government, increased pay demands and inflation.

Budgets are monitored on a monthly basis and reported to Members via the Audit and Finance Committee, and the CFA. The Authority’s outturn report for 2021/22 showed a balanced budget position with £1.8m drawn from the modernisation earmarked reserve to facilitate capital works. This is a planned use of reserves to avoid the need for additional borrowing. The Authority’s earmarked reserves have reduced in total from £7.69m to £5.75m. General fund reserves have increased slightly from £1.459m to £1.51m in line with the agreed policy of maintaining the balance at 5% of the net expenditure.

Our work did not identify any evidence to indicate a significant weakness in arrangements..

How the Authority plans to bridge funding gaps and identifies achievable savings

The Authority completed scenario planning as part of the 2021/22 MTFP, modelling the worst, mid and best case scenarios and calculating any potential shortfall in funding for 2022/23. In the best case scenario, there is a shortfall of funding of £0.626m in 2022/23 rising to £0.964m in 2024/25; in the worst, this is £1.269m rising to £2.836m.

The Authority has identified a range of savings options it can take to offset the shortfall should it materialise. The total amount of identified savings is £8.35m although some of these would be more difficult to implement than others.

The MTFP has been updated for 2022/23 and we will consider this in more detail as part of our work on our 2022/23 value for money commentary. This forecasts a small overspend of £0.386m at quarter 2. In terms of reserves, the 2022/23 MTFP figures were compiled in February 2022 and at the year-end the Authority decided to finance capital from reserves to reduce borrowing and bring reserves more in line with historic levels. This planned use of reserves to finance capital is in line with previous years and the Authority recognises that they will not be able to keep using revenue reserves.

There will be a need for additional borrowing to support the capital programme rather than draw further on the Authority’s reserves and this is set out in the 2022/23 MTFP. This will be £3.1m in 2022/23 and a total of £9.8m across the MTFP to 2025/26. The costs of the additional borrowing is in line with the prudential code and is factored into the MTFP.

The 2022/23 MTFP recognises the shortfalls in funding (as in 2021/22) and there are a similar range of savings options available to balance the budget over the MTFP. Given the increasing pressure on pay and inflation, there is likely to be a need to implement some of the options from 2023/24 to ensure that there is no further significant draw on reserves. The Authority has a good record of delivering on its savings plan in previous years including the rationalisation of fire stations, revision of shift patterns and crewing levels and reductions in the senior management team.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

As noted above, the annual business planning process provides the link between finances and the Authority’s strategic and statutory priorities. The plan drives the resourcing and financial plans for the organisation, resulting in the annual budget.

The financial plans recognise the ongoing pressure the Authority faces and the impact on its reserves strategy. In-year monitoring reports detail the pressures faced by the Authority.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

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

The MTFP report highlights the implications on the workforce, equality, legal, human rights and risks. Saving plans are risk assessed to advise Members of the impact of implementation on the community and service delivery. The plan also considers the impact on the Community Risk Management Plan.

The Treasury Strategy is updated on an annual basis and sets out how the Authority manages risks and benefits associated with cash-flow and treasury management.

Risk management is also considered in terms of financial plans and Corporate and Operational risk-registers are regularly updated and reported to the Audit and Finance Committee and CFA throughout the year.

The Audit and Finance Committee and CFA consider the updated financial position at various stages throughout the year and allows for Member scrutiny and challenge. The financial plans for 2021/22 and 2022/23 were considered in February 2021 and February 2022 respectively.

The annual budget process includes reviewing the Authority’s reserves. We confirmed a review was completed in 2021/22 and 2022/23 to ensure funding set aside remains in line with strategic and statutory priorities. This is evidenced in the outturn reports presented to the Audit and Finance Committee and CFA during the financial year.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Authority identifies and manages risks to financial resilience

The financial plan recognises the risks and uncertainties facing the Authority in terms of cost pressures, future funding arrangements and potential variations in the costs of the delivery. Our review of the financial plan shows that there is no evidence that assumptions are unrealistic and that reserves are below the minimum required although they are at a relatively low level for an Authority of this size. The Authority has recognised that it cannot continue to draw on its reserves to manage the capital programme and has taken out additional borrowing over the MTFP.

The Authority has an established risk management framework and the Audit and Finance Committee receives regular risk management updates. These reports contain evidence of a clear summary of the Authority’s performance, detailing significant variances and providing adequate explanation of the causes.

As noted above, the Authority undertakes sensitivity analysis on its key assumptions and scenario planning across the MTFP. There are significant pressures in relation to pay and inflation and this will require additional savings to be implemented in 2023/24 to balance the MTFP. We are satisfied that there are saving plans in place and that the Authority has a good record of delivering on its plans in previous years.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

3. Commentary on VFM arrangements

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Governance

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



3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

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

County Durham and Darlington Fire and Rescue Authority has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government.

The Authority operates a risk management framework linked to the achievement of its strategic priorities, supports its decision-making processes and protects the Authority’s reputation and other assets. This creates a framework within which risks are identified and evaluated prior to mitigation plans being put in place. The Audit and Finance Committee has responsibility for monitoring and reviewing the risks, control and governance processes and associated assurance processes to ensure Internal Control systems are effective and that policies and practices are in compliance with statutory and other regulations and guidance. The Service Management Team and the Service Leadership Team also scrutinise risks monthly to ensure a corporate and cross cutting approach.

The role of the Audit and Finance Committee also includes considering the work of External Audit, Internal Audit and Finance Management and making recommendations concerning relevant governance aspects of the Constitution. The Authority has outsourced its internal audit and counter-fraud services to Durham County Council. The Internal Audit Plan and Head of Internal Audit Report is reviewed by the Audit and Finance Committee. As detailed in the plan, Internal Audit uses a risk-based approach to determine the priorities of the internal audit activity, consistent with objectives.

The Audit and Finance Committee received regular updates on the Audit Plan. Internal Audit reports highlight weaknesses and recommend actions where required to strengthen processes or procedures. These are regularly reported to the Audit and Finance Committee which holds management to account where weaknesses are identified. The Committee monitors management actions in response to recommendations and this is reported on a regular basis. The Committee challenges management if recommendations are not implemented within the agreed timeframe.

The Head of Internal Audit issued a Moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Authority in 2021/22 (Moderate in 2020/21). The moderate opinion provides assurance that there is a sound system of control in place however there are some weaknesses and evidence of ineffective controls.

The Authority has a framework of written procedures and controls. Central to these are detailed rules for decision making, and rules of procedure, including; a Constitution, Standing Orders, Contract Procedure Rules,

Financial Regulations, Member and Officer Codes of Conduct, and a Whistleblowing Policy. The Authority has a dedicated counter fraud response and strategy which includes fraud governance and arrangements to prevent, detect and pursue fraud including Anti-Fraud, Anti-Bribery & Anti-Corruption Policies.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

Financial regulations contain details on the overall annual budget preparation and a timetable is put in place. The financial plan recognises the risks and uncertainties facing the Authority in terms of future cost pressures, funding arrangements and potential variations in the costs of delivery. The plan is supported by consultation with other partners and stakeholders. The CFA holds a Strategic Planning Day where budget pressures are considered as well as the priorities within the Authority’s Community Risk Management Plan. The plan is supported by consultation with the public, staff, partners and other stakeholders.

The Finance Committee meets regularly throughout the budget setting process to monitor progress against timetable and consider savings options to ensure a balanced budget.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

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

The Authority produces a monthly budget monitoring reports to all budget holders and regular meetings are held with finance to discuss variances. Quarterly forecasts of outturn reports are presented to the Senior Leadership Team (SLT) and to the Audit and Finance Committee. Regular reports on performance are presented to Performance and Programme Board (PPB), SLT, Performance Committee and the CFA. A suite of performance indicators (PIs) is employed to measure both operational and corporate performance. Targets are set on an annual basis against SMART criteria and take account of longer-term trends and the potential for spikes in performance. In addition to setting a target level for relevant PIs, the Service also employs a system of tolerance limit triggers that allow under or over performance to be highlighted to the PPB when the PI goes beyond set tolerances, which vary depending on the indicator. Each PI has a total of four tolerance limit triggers, two each for both under and over performance. The performance report is by exception and highlights areas where performance was strong or required improvement.

The financial statements were submitted for audit in 2021/22 on 21 June 2022 – well ahead of the revised statutory deadline. Our audit of the financial statements did not identify any matters to indicate a significant weakness in the accuracy of the financial information reported or the process for preparing the accounts. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

We have reviewed the Authority’s minutes and confirmed there was regular reporting of the financial and performance position during the 2021/22 financial year. This included detail of movements in the budget and forecast outturn between quarters. The reports detailed the in-year pressures as well as planned mitigations. The outturn position was not significantly different to that reported to Members during the year.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

County Durham and Darlington Fire and Rescue Authority’s governance arrangements are set out in its Constitution. The Constitution sets out how the Authority operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people.

The Authority ensures that appropriate legal, financial, and other professional advice is considered as part of the decision-making process and observes specific requirements of legislation.

The Authority is transparent about how decisions are taken and recorded by:

- Ensuring that decisions are made in public and recording those decisions and relevant information and making them available publicly; and
- Having rules and procedures which govern how decisions are made.

The Authority has adopted a confidential reporting policy, details of which have been communicated to staff and are available electronically.

The Authority ensures that transparent and accessible arrangements are in place for dealing with complaints. The website includes facilities for complaints to be made against the Authority by the public and processes are in place to progress any complaints that are made. Information on Transparency is published on the Authority’s website and includes areas such as expenditure exceeding £500, register of contracts, policies, grants to voluntary, community and social enterprise organisations for example. The Authority also publishes relevant information relating to salaries, business interests and performance data on its website.

It has an Audit and Finance Committee that operates in accordance with guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Authority publishes information to the Authority and its Committees as part of established accountability mechanisms.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

The Authority acts upon the findings/recommendations of Internal Audit and External Audit Reports and is committed to the publication of transparent performance information. This includes but is not limited to:

- Budget reports;
- Operational performance reports;
- Medium-Term Financial Plan;
- Statement of Accounts;
- Annual Governance Statement;
- Statement of Assurance; and
- Information required under the Local Government Transparency Code.

Financial monitoring is completed throughout the period including outturn against budget and forecasting for the remainder of the period.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Authority monitors and ensures appropriate standards are maintained

The Constitution sets out how the Authority operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people. The Authority has in place a framework of written procedures and controls. Central to these are detailed rules for decision making, and rules of procedure, including; a Constitution, Standing Orders, Contract Procedure Rules, Financial Regulations, Member, Officer Codes of Conduct, and a Whistleblowing Policy.

The Authority ensures that appropriate legal, financial, and other professional advice is considered as part of the decision-making process and observes both specific requirements of legislation and general responsibility by Law.

Contract Procedure Rules require procurement decisions to comply with basic principles.

The Authority has written code of conducts in place for Members and Employees and a register of gifts and hospitality.

The Annual Governance Statement (AGS) is published and reviews the effectiveness of the Authority's Governance Framework.

A Treasury Management Strategy is approved each year with the current version approved in February 2022. There is no history of non-compliance with laws and regulations and treasury management activity.

We did not identify any areas of significant non-compliance with the CIPFA Code in terms of the financial statements.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

3. Commentary on VFM arrangements

Page 30

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



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

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

There are established processes in place for reviewing financial and performance information and using this to inform areas for improvement. Forecast of Outturn reports to the Senior Leadership team and the Audit and Finance Committee highlight variances for discussion including both revenue and capital.

The Authority’s Community Risk Management Plan (CRMP) underpins the vision ‘to deliver a professional, innovative and effective Fire and Rescue Service’ with the communities that they serve (see links in governance section).

The Performance Committee and the Authority consider reports on performance on a quarterly basis detailing performance against a suite of performance indicators and information on corrective action being taken. The indicators measure both operational and corporate performance and targets are set on an annual basis against SMART criteria and take account of longer-term trends and the potential for spikes in performance.

In addition to setting a target level for relevant indicators, the Service also employs a system of tolerance limit triggers that allow under or over performance to be highlighted to the PPB when tolerances are exceeded. Performance is presented from two perspectives, by comparison against the annual target levels, and by comparison with performance at the same point last year.

An overview across both operational and corporate key PIs at the end of quarter four for 2021/22 shows 63% of the strategic PIs met or exceeded their target level, while 56% of the strategic PIs either maintained or improved when compared to performance last year. The performance report is by exception and highlights areas where performance was strong or required improvement.

In addition, the Authority undertakes periodic budget revisions that are presented to the Authority. These identify where there are under / overspends and highlight mitigating activity where appropriate.

Areas of adverse performance feed into the Authority’s risk register where relevant.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

The Authority monitors detailed performance through the performance Committee and also receives regular summary reports on performance. Quarterly performance reports are provided to the Performance and Programme Board, the senior Leadership Team, the Performance Committee and the CFA.

One of the priorities is to reduce the risks to vulnerable people in communities through prevention work by operating a mutual referral pathway with partner agencies. The Authority aim to identify and target the most vulnerable members of our communities with the highest proportion of our Safe and Wellbeing Visits aimed at these individuals. Recent examples of this include the use of a number of datasets associated with elevated risk. This involves profiling geographical areas, businesses, dwellings and individuals by combining data from past incident activity and other demographic data such as age, deprivation and lone households.

The Authority is subject to review by Her Majesty’s Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS). The 2021/22 report was published in January 2023 and covered the following criteria:

- **Effectiveness** - *How effective is the fire and rescue service at keeping people safe and secure from fire and other risks?*
- **Efficiency** – *How efficient is the fire and rescue service at keeping people safe and secure from fire and other risks? and*
- **People** - *How well does the fire and rescue service look after its people?*

The Authority was rated as follows:

Effectiveness	Good
Efficiency	Good
People	Good

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

There was only one area out of 14 which ‘required improvement’ in relation to ‘protecting the public, through fire regulation’. The report found that the Authority does not always have the ability to investigate alleged fire safety offences with a view to prosecution; and that once prohibition notices are served, most aren’t followed up regularly to check compliance.

The other areas were all rated as ‘GOOD’. The report noted that overall, the service has improved since the last inspection, which is reflected in the gradings.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

The Service is a member of County Durham Partnership and Darlington Partnership and has a seat on each board. A collaboration register is in place to record and monitor progress of collaboration initiatives with partners. Partnerships and collaboration initiatives are monitored through PPB. The Authority actively pursue collaboration opportunities with the Police, Ambulance and other Fire Services.

Collaboration with neighbouring FRS’s continues - establishing a regional collaboration group which has been broadened out to include Cleveland FRS. This includes an agreement to share specialist appliances and promote additional opportunities for collaboration.

The Authority has a strong track record of collaboration with partners including:

- The building of the first quad station in the country at Barnard Castle which, when complete, will provide a joint facility for the Fire, Police, Ambulance and Mountain Rescue services;
- A joint facility with the Police at Belmont Training Centre for incident command training; and

- The provision of Community Safety Tri Responders at Stanhope where staff work for the Fire, Police and Ambulance services according to demand.

Durham Constabulary, the Great North Air Ambulance Service (GNAAS), Hazardous Area Response Team (HART) and other partners use the Fire’s state-of-the-art training centre at Bowburn, and the Authority share several of our Service estates’ premises with Durham Constabulary and North East Ambulance Service (NEAS).

The Authority use a collaborative approach with police colleagues for Fire Investigation, implementing the International Standardisation Organisation (ISO)17020 standard.

The Authority is also among leading members of emergency services in assisting the Home Office to deliver new technological solutions for emergency service communications on a new Emergency Services Network (ESN).

Our work did not identify any evidence to indicate a significant weakness in arrangements.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

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

County Durham and Darlington Fire and Rescue Authority has adopted procurement approval procedures which ensure that all procurements comply with its contract procurement rules. The Service has adopted a Whole Life Cycle Approach for managing the purchase of assets. The key aims of the procurement strategy are:

- Efficiency - Ensuring the Authority obtains maximum value from every pound that is spent through consistent and innovative procurement practice;
- Governance - Ensuring the Authority has appropriate and proportionate controls, systems and standards to manage procurement risk and to comply with legal requirements; and
- Improvement - Seeking new ways to develop and improve the Authority’s procurement activities and exploring how those activities can deliver the Authority’s ambitions.

This is supported by a Procurement Policy which helps to ensure conformity and consistency in procurement - ensuring that all goods and services entering the Service are subject to the appropriate checks, risk assessments, certification, documentation and staff training requirements. There are also procurement procedures which underpin the policy and strategy and ensure that it is adhered to on a day to day basis.

Any relevant professional standards are also asked for in the tender process and these are checked annually by the contract manager to make sure they are still in date.

All contracts are subject to legal review and the purchasing system ensures that procurement is carried out in a way which complies with all relevant legislative requirements.

All tenders have between 10% and 20% of the scoring set aside for social value and this is monitored by the contract manager and through contract meetings. In addition, the Authority addresses ethical supply chain issues through Sustainable Buying Standards, which are mandatory in all relevant Authority contracts.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

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

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

We have not exercised any of these statutory reporting powers

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

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data,

We have not yet received group instructions from the National Audit Office for 2021-22 therefore we are unable to issue our audit certificate until this work is completed.

4. Other reporting responsibilities and our fees

Page 36

Fees for work as County Durham and Darlington Fire and Rescue Authority's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Finance Committee in March 2022. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

Area of work	2020/21 fees	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice	£22,235	£22,235
Additional fees in respect of group consolidation (this is a well established recurring element of the fee)	£1,477	£1,477
Recurring increases in the base audit fee arising from regulatory pressures (as reported in the 2019/20 audit)	£4,747	£4,747
Additional fees in respect of the new VFM approach (recurring)	£5,000	£5,000
Additional fees in respect of new ISA540 requirements in relation to Accounting estimates and related disclosures (recurring)	£1,900	£1,900
Total fees	£35,359	£35,359

Fees for non-PSAA work

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

Introduction

Audit of the financial statements

Commentary on VFM arrangements

Other reporting responsibilities and our fees

Gavin Barker, Director – Public and Social Sector

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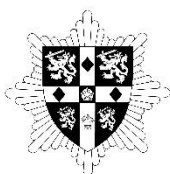
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County Durham and Darlington
Fire and Rescue Authority



Safest People, Safest Places

Audit and Finance Committee

06 April 2023

Internal Audit Charter

Report of the Head of Internal Audit

Purpose of the Report

1. The purpose of this report is to Audit and Finance Committee approval to the Internal Audit Charter to be applied to all reviews undertaken as part of the Internal Audit plan for 2023/24.

Background

2. The Public Sector Internal Audit Standards (PSIAS) as revised from 01 April 2017, define internal audit as,

‘an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.’

Internal Audit Charter

3. The Internal Audit Charter defines the Internal Audit Service’s purpose, authority and responsibility. It establishes Internal Audit’s position within the organisation, including the nature of the Chief Internal Auditor and Corporate Fraud Manager’s functional reporting relationship with the Audit and Risk Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the Internal Audit Charter resides with the Service Leadership Team and Audit and Finance Committee.
4. The Charter was considered by the Service Leadership Team on 15 February 2023. The Charter is subject to annual review by the Chief Internal Auditor and Corporate Fraud Manager. On this occasion, with no new revisions made to the PSIAS, it is considered that no amendments to the Charter are required.

Recommendation

5. It is recommended that, in considering the content of the report, the Committee:
 - **agrees** the Internal Audit Charter attached at Appendix 1

Nicola Cooke, Audit Manager, 03000 269665



County Durham and Darlington
Fire and Rescue Service

INTERNAL AUDIT CHARTER

**For the Provision of an Internal Audit Service to the County
Durham and Darlington Fire and Rescue Authority**

**April
2023**

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Introduction

1. The purpose of this Charter is to establish the terms of reference for the provision of the Durham County Council Internal Audit Service to the County Durham and Darlington Fire and Rescue Authority. The Charter outlines how the service will be delivered and developed. It sets out the purpose, authority and responsibility of Internal Audit.

Statutory Basis

2. Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which state that:

“A relevant authority must undertake an effective internal control audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”
3. The Public Sector Internal Audit Standards (PSIAS) and CIPFA’s Local Government Application Note, which came into effect April 2013, constitute proper practices to satisfy the requirements for larger relevant local government bodies as set out in the Accounts and Audit Regulations 2015. The PSIAS were updated on 01 April 2017 and the Charter reflects these changes.
4. Section 151 of the Local Government Act 1972 states that every local authority should make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs (The Chief Financial Officer (CFO)). CIPFA has defined proper administration in that it should include ‘compliance with the statutory requirements for accounts and internal audit’.
5. The CIPFA Statement on the Role of the Chief Financial Officer states that the CFO must:
 - Ensure an effective internal audit function is resourced and maintained
 - Ensure that the authority has put in place effective arrangements for internal audit of the control environment
 - Support internal audit arrangements and
 - Ensure the audit committee receives the necessary advice and information so that both functions can operate effectively
6. This Internal Audit Charter recognises the mandatory nature of the PSIAS including the definition of Internal Auditing, the Mission of Internal Audit, the Code of Ethics and the Standards themselves.

7. As required by the PSIAS, the group or body determined to fulfil the roles and responsibilities of the 'board' and 'senior management', as referred to in individual standards, are as set out in Appendix C of this Charter.

Definition

8. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Mission

9. The mission of the Internal Audit Service is "enhance and protect the Authority's organisational values by providing risk based and objective assurance, advice and insight".

Code of Ethics

10. Internal Auditors in the UK public sector organisations must conform to the Code of Ethics, (the Code), as set out in the PSIAS. The Code applies to both individuals and entities that provide internal auditing services.
11. The Code consists of 4 principles that are relevant to the profession and practice of internal auditing and set out the rules of conduct that describe behaviour norms expected of internal auditors to guide their ethical conduct. The four principles are integrity, objectivity, confidentiality and competency.
12. Internal auditors must also have regard to the Committee on Standards in Public Life, "Seven Principles of Public Life", those being:
 - Selflessness
 - Integrity
 - Objectivity
 - Accountability
 - Openness
 - Honesty
 - Leadership

Strategic Aims

13. Our overall strategy is to support the Authority in achieving its aims and objectives through the provision of a high quality internal audit service that gives management reasonable assurance on the effectiveness of the Authority's internal control environment and acts as an agent for change by making recommendations for continual improvement.

14. The service aims to be flexible, pragmatic and to work in collaboration with management to suit organisational needs. Through a risk based approach to audit planning, the service will make a positive contribution to corporate governance arrangements and assist management in developing a framework for achieving objectives within acceptable levels of risk.

Objectives of Internal Audit

15. Our primary objective is the provision of reasonable, not absolute, evidenced based assurance on the effectiveness of the whole of the Authority's risk management, control and governance environment to the Service Leadership Team and the Audit and Risk Committee.

16. The provision of our annual assurance opinion will be in compliance with professional guidelines and in accordance with the Accounts and Audit Regulations and will be included in the Authority's Annual Governance Statement which forms part of the Authority's published annual Statement of Accounts.

17. To determine the audit opinion the Internal Audit Service will review, appraise and report upon:

- The adequacy of risk identification, assessment and mitigation
- The adequacy and application of controls to mitigate identified risk
- The adequacy and extent of compliance with the Authority's corporate governance framework
- The extent of compliance with relevant legislation
- The extent to which the Authority's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money
- The quality and integrity of financial and other management information utilised within the Authority.

18. When presenting the annual audit opinion, the Head of Internal Audit will:

- Disclose any qualification to that opinion, together with the reasons for that qualification
- Present a summary of the audit work undertaken from which the opinion is derived, including reliance placed on the work of others
- Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement
- Compare the work actually undertaken to the work that was planned and summarise the performance of the internal audit service
- Present a statement on conformance with the PSIAS and the results of a Quality Assurance and Improvement Programme (QAIP) required by the PSIAS.

19. Other objectives include:

- Supporting the Section 151 Officer (Chief Finance Officer) in discharging his statutory duties for ensuring proper administration of the Authority's financial affairs.
- Championing good governance by helping to improve the Authority's risk management, control and governance processes by providing management with timely advice and guidance.
- Supporting the Audit and Risk Committee in fulfilling its governance responsibilities as detailed in the Committee's terms of reference set out in the Authority's Constitution.
- Supporting Officers and Members in identifying and understanding exposure to risk and providing advice on control design, techniques and strategies.
- Working with other assurance and review bodies to ascertain the extent to which reliance can be placed on the work of other auditors and inspectorates to maximise assurance and the effectiveness of audit resources available.
- Helping to promote a strong counter fraud culture across the Authority, through the development and effective implementation of the Authority's Anti-Fraud, Anti-Bribery and Anti-Corruption Policy.
- Providing quality services through the highest standards of professional practice, quality assurance systems and investment in staff.
- Be future focussed and continually add value to the organisation.

Outcomes of Internal Audit

20. Our main outcome is the provision of independent assurance to "those charged with governance", which within the Fire Authority is the Audit and Risk Committee, and Service Leadership Team on the effectiveness or otherwise of the Authority's risk management, control and governance arrangements and in so doing we contribute to:

- Improved identification and management of risks contributing to improved performance management and the successful achievement of the Authority's vision and priorities.
- Improved corporate governance through helping to support compliance with relevant legislation, the Authority's policies, plans and procedures.
- Improved accountability, safeguarding of Authority assets and interests and use of public resources
- Improved quality and reliability of financial and other management information used to support informed decisions

Independence, Objectivity and Authority

21. To be effective Internal Audit must operate independently and have unrestricted access to all records deemed necessary in the course of its work.
22. We have a right of access to all Members, employees, and agents of the Authority, including direct access to the Chief Fire Officer.
23. Internal Audit will remain free from interference by any element in the organisation including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of the necessary independent and objective standards.
24. Objectivity is maintained by ensuring that all internal auditors are free from any conflicts of interest and being free from direct management responsibility for the development, implementation or operations of any of the activities audited.
25. Internal Auditors will not be allocated to assurance reviews in areas where they have had a responsibility for, or have undertaken any significant advice and consultancy work.
26. The Head of Internal Audit can report directly to those charged with governance, officers or Members, at any level.
27. We have a right of access to all information relevant to the Authority's functions and services which is necessary to meet our responsibilities. This includes Authority information held by or managed by third parties on the Authority's behalf.
28. Our independence is achieved by reporting in our own name, ensuring that all Internal Auditors are free from any conflicts of interest and being free from direct management responsibility for the development, implementation or operations of systems.
29. As the Chief Internal Auditor and Corporate Fraud Manager also has responsibility within Durham County Council for corporate risk management, counter fraud and insurance services, arrangements will be made for any audit work to be carried out in these areas by a suitably experienced and qualified auditor. In these cases the Chief Internal Auditor and Corporate Fraud Manager will remove themselves from the review process of these audits and all findings and draft reports will be shared at their conclusion with both the Chief Internal Auditor and Corporate Fraud Manager and the Corporate Director, Resources in order to apply the necessary safeguards as set out in PSIAS standard 1112 where the Chief Audit Executive has roles beyond Internal Auditing.

Scope of Audit Work

30. Our role applies to all functions and services for which the Authority is responsible, including those delivered by its partners where appropriate.
31. In addition to the regular review of all key systems of internal control which forms the bulk of our assurance work, we will:
- Respond to requests for support, advice and guidance on implementing and/or improving best practice control procedures for current and new systems.
 - Promote the development and effective implementation of Control and Risk Self Assessments
 - Provide support, advice and guidance on risk and controls to staff involved in the design and implementation of new systems and processes.
 - Provide assistance on key projects, including attendance on project boards, and conduct specialist consultancy and value for money reviews. The scope of this work is agreed with management and is subject to having the necessary resources, skills and ensuring suitable assurance over our independence and objectivity.
 - Be alert in all our work to risks and exposure that could allow fraud or corruption to occur and to any indications that a fraudulent or corrupt practice may have been occurring.
 - Determine the most appropriate course of action by which fraud and irregularities should be investigated.
 - Review the effectiveness of the Authority's, and wherever possible its partners', corporate governance and risk management arrangements.
32. It must be noted that whilst Internal Audit will promote the Authority's Anti-Fraud policy to deter and prevent fraud, for example participating in the National Fraud Initiative, it does not have responsibility for the prevention and detection of fraud and corruption. We cannot guarantee that fraud or corruption will be detected in our work. Managing the risk of fraud and corruption is the responsibility of managers.

Strategic Audit Planning

33. The level of Internal Audit resources required to examine all of the Authority's activities exceeds those available each year. It is, therefore, essential that the work of internal audit is properly planned to ensure that sufficient work is undertaken each year to draw reasonable conclusions and assurance on the effectiveness of the Authority's risk management, control and governance arrangements.
34. Our strategic planning process aims to provide a reasonable level of independent review of the Authority's risk management, control and governance systems through periodic audit plans in a way which affords suitable priority to objectives and risks.

35. The starting point for our strategic planning is understanding the Authority's strategic aims and objectives, its corporate governance arrangements and the assurance framework in place by which those charged with governance gain confidence that any risks which may impact on the achievement of those aims and objectives are effectively identified, assessed and managed.

36. In consultation with service managers we will;

- Consider the Authority's risk across two categories:
 - a. **Strategic Risks** - these are the business risks that may arise both internally and externally from the Authority and should be included in Corporate and Service Strategic Risk Registers
 - b. **Tactical Risks** - these are the risks that arise directly from the core activities of delivering services that may not always be documented
- Identify key service delivery activities, and their objectives in supporting the delivery of Authority's strategic aims and objectives, on which assurance is required by those charged with governance (the Audit Universe)
- Review the Authority's assurance arrangements in place to clearly map out an integrated assurance framework of all known sources of assurance, independent or otherwise, and identify any gaps and duplication
- Assess the reliability of other assurance sources
- Regularly risk assess each key service activity, and key systems that supports the delivery of service objectives, to determine our priorities for reviewing tactical risks.

37. Strategic risk registers will inform but not drive the internal planning process and we will audit those risks where controls have been identified as the means of managing the risk. Priority will be given to those risks which have a high gross score and a low net score, where the effective management of the risk is heavily dependent on the identified controls, and there is little or no other source of assurance.

38. Assurance on the strategic risk of fraud and corruption will be provided each year with some specific targeted fraud prevention and detection reviews as part of a risk assessed counter fraud programme of work.

39. Tactical risks relating to key service activities and key systems will be audited over a 3, 4 or 5 year period dependent on an audit assessment of known risks and the reliability of other assurance sources. Some key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial systems, may be subject to annual review.

Annual Audit Plans

40. Annual audit plans will be developed to provide a reasonable level of independent assurance on both strategic and tactical risks to enable an annual opinion on the entire control environment to be given.
41. The preparation of the annual plan will also consider certain reviews at particular frequencies to fulfil statutory requirements.
42. In addition to our risk based assurance reviews, our annual audit plans will also include provision for our advice and consultancy role. This provision covers time set aside for reactive, proactive and value added work and may include:
- Proactive, responsive and innovative solutions to problems and opportunities to help the Authority achieve its business objectives
 - Timely response to ad hoc requests for advice on the identification, assessment and mitigation of risks through effective controls
 - Timely response to ad hoc requests for advice on the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks
 - Planned involvement in new initiatives or working groups established to help identify and access risk and design suitable controls
 - Undertaking VFM reviews.
 - Investigation of irregularities and suspected fraud and corruption
 - Grant certification work requiring independent assurance that grant terms and conditions have been met.
43. The level of audit resources required to deliver, at the very least, both a minimum level of independent assurance and adequate provision for advice and consultancy will be considered by the Head of Internal Audit. Minimum assurance levels will be informed by the maturity of the Authority's risk management arrangements and its risk appetite and the reliance that can be placed on other assurance sources. Any concerns the Head of Internal Audit has over the quantity and quality of skills available to deliver the required level of assurance, or to add value through its advice and consultancy work, will be referred to the Section 151 Officer, (Chief Financial Officer), and the Audit and Risk Committee for consideration.
44. Strategic and annual plans will be endorsed by the Service Leadership Team and approved and monitored by the Audit and Risk Committee.

Audit Approach

45. We will adopt a risk based approach to all our assurance work as outlined below:

Strategic Risk

Our reviews of strategic risks will provide assurance that:

- Risk management processes, defined by the Authority's risk management strategy and policy, are in place and are operating as intended
- Managers are responding to risks adequately and effectively so that those risks are reduced to an acceptable level
- The controls that managers have in place are successful in managing those risks

Tactical Risk

46. Our reviews of key service delivery activities and key systems will provide assurance on the effectiveness of

- Compliance with corporate governance arrangements
- Risk identification, assessment and business continuity
- The control environment to manage identified risks and to ensure that the Authority's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money
- Information governance (quality and integrity of financial and other management information and how it is used and communicated)

47. We will adopt a risk based approach to evaluate the effectiveness of controls designed to mitigate risks through substantive testing and/or compliance testing. Compliance testing will confirm if a control actually exists and substantive testing will provide assurance that the control is effective and / or is consistently applied. The level of testing will be relative to the impact and likelihood of the risk occurring due to a control weakness.

48. We will work with service managers to help embed effective risk management of tactical risks by supporting them to carry out a control and risk assessment (CRA) for each audit area subject to review in advance of each assurance audit.

49. We will agree the objectives and risks associated with each key system or service delivery area to be reviewed with the relevant service manager/key contact prior to the start of any audit to ensure that the scope and objectives of each review are focused on providing assurance on the high or significant risks identified through the CRA. Terms of reference will be issued to key contacts to formally agree the scope of each review, identify key risks, potential impact and expected key controls.

50. The key contact is the person who is authorised by the Principal Officers to agree resultant draft reports and the implementation of any proposed audit recommendations.
51. Terms of reference will confirm the scope of each review and the audit approach to be applied. This latter may vary due to the nature of the risk upon which assurance is required and the extent of reliance on other assurance sources.

Audit Reporting

52. All audit assignments will be the subject of formal reports and all assurance reviews will include an audit opinion.
53. Our reporting structure is designed to ensure that final versions of reports are agreed with managers and are both accurate and practical.
54. Towards the end of an audit we will arrange an exit meeting with the key contact where we will share and discuss our initial findings. The discussion will seek to eliminate any inaccuracies in our findings so that these can be resolved before a formal draft report is issued.
55. Draft reports will ask the key contact to provide a management response to the recommendations made and agree target implementation dates and responsible officers.
56. To assist managers in their response we categorise the importance of our recommendations as High, Medium, or Best Practice. Details of how we assess the importance of audit findings leading to these recommendation rankings are given in Appendix A.
57. It is the responsibility of managers to accept and implement internal audit findings and recommendations, or accept the risk resulting from not taking action.
58. We will also provide an overall assurance opinion on each audit review to help us inform our overall opinion required to support the Authority's Annual Governance Statement.
59. The determination of our audit assurance opinion is derived from the overall level of assurance, positive as well as negative, of the effectiveness of controls operating in each specific area reviewed and is informed by risk identified through our recommendation rankings.
60. Where a Limited assurance opinion is given controls are overall considered to be ineffective and require improvement to maintain an acceptable level of control. Further details of how we arrive at our assurance opinions are given in Appendix A.
61. Managers' responses to recommendations made in draft reports will be incorporated and reissued as finals. Copies of all final reports are shared with our External Auditors on request.

62. Wherever possible the circulation of audit reports will be agreed at the outset and will have due regard to confidentiality and legal requirements. Any information gained in the course of audit work remains confidential without limiting or preventing internal audit from meeting its reporting responsibilities to the wider organisation.
63. We will follow-up progress made by managers in responding to draft reports and on the implementation of all high and medium priority recommendations in final reports.
64. Progress on the implementation of agreed recommendations will be reported to the Audit and Risk Committee. Any significant recommendations overdue will be reported on an exception basis each quarter.
65. To ensure that adequate progress is made by management we request that management response is provided with 20 working days. If a response has not been received within this timescale the following escalation process will then be invoked
- A reminder will be sent to the key contact, and copied into the Head of Corporate Resources, requesting a response within the next 10 days
 - If a response is still not forthcoming, a second reminder will be issued direct to the relevant Principal Officer, advising that if a response is not received within the next 5 days the matter will be reported to the Chief Fire Officer.
 - All draft reports remaining outstanding at the end of each quarter will be reported to the Audit and Risk Committee.
66. We will report quarterly to the Head of Corporate Resources on progress made on delivering the agreed annual plan, overdue responses to draft reports, any significant issues arising from work and progress made by managers in implementing audit recommendations. An annual report will be presented to the Service Leadership Team summarising the position for the year.
67. To help focus attention on areas of significant risk, quarterly progress reports will include by exception details of all audits which provided limited assurance.
68. Where a limited assurance opinion is given, it is the intention of Internal Audit to follow up the audit within six months of issue to verify that the recommendations have been made in line with the agreed actions. A follow up report detailing progress made and any actions that are still to be completed will be prepared on completion of the review.
69. In accordance with the PSIAS, to maintain organisational independence, Internal Audit will report on the functionality of the audit service to Audit and Risk Committee:

Annual Audit Plan

Quarterly Internal Audit Progress reports:

- To consider progress made in delivering the agreed annual plan
- To inform members of significant issues arising from audit assurance work and the impact this may have if control weaknesses identified are not addressed
- To inform members of other audit work carried out or planned
- To consider progress made by managers in the implementation of audit recommendations drawing attention to significant risks not being effectively managed

Annual Audit Report to:

- Compare actual activity with planned work
- Provide an overall opinion on the control environment
- Provide a summary of work undertaken to formulate the annual opinion on the entire control environment, including reliance placed on work by other assurance bodies
- Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement.

Responsibilities of Managers

70. Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence.

71. We strive to build effective working relationships with all our stakeholders, internal and external, by encouraging an environment of mutual trust, confidence and understanding.

72. A key relationship is with managers. Managers at all levels need complete confidence in the integrity, independence and capability of internal audit.

73. Managers' role is to manage the risks facing their service and to maintain an adequate and effective system of internal control to mitigate these risks. Managers are also responsible for ensuring that staff are aware of the processes and procedures required to operate the control systems in place.

74. It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of fraud and irregularities. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

75. We will endeavour to plan our work so that it has a reasonable expectation of detecting significant control weaknesses and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

76. We encourage managers to maximise the effectiveness of the outcome of internal audit work by:

- Commenting on, and inputting to, strategic and annual audit plans.
- Carrying out control and risk self-assessments (CRSA) prior to each audit
- Agreeing terms of reference for each audit assignment to ensure attention is focused on areas of greatest risk or concern.
- Giving information and explanations that are sought during audit reviews.
- Providing access at all reasonable times to premises, personnel, documents and assets as necessary.
- Giving early notification of plans for change, including potential new initiatives, operational systems and processes.
- Ensuring key contacts provide responses to draft audit reports within the required timescales.
- Ensuring agreed actions arising from audit recommendations are carried out efficiently and on a timely basis
- Notifying internal audit of any suspected fraud, irregularity, improper use or misappropriation of the Authority's property or resources.
- Pending investigations and reporting, take all responsible steps to prevent further loss and to secure records and documents against removal or alteration.
- Acting in line with the Authority's disciplinary procedures.

Relationship with the Audit and Risk Committee

77. The Authority has adopted best practice in implementing an Audit and Risk Committee. This committee reports directly to the Fire Authority on matters it feels are relevant. Terms of Reference, reflecting best practice, have been agreed.

78. The existence of an independent and effective Audit and Risk Committee helps to convey to staff and the public the importance Members and Officers attach to risk management, corporate governance and internal control.

79. The Audit and Risk Committee is not just the concern of auditors as it has responsibility for ensuring that the Authority has good corporate governance arrangements in place to help deliver the best services to support the Authority's priorities, aims and objectives and ensure excellent use of resources.

80. Internal Audit is one of a number of areas of assurance that contribute to the Authority's corporate assurance framework. It does this by providing an opinion on the level of assurance the Authority can place upon the entire internal control environment and by making recommendations to improve it. This includes Internal Audit's evaluation of the effectiveness of the Authority's risk management and corporate governance arrangements.

81. It is important that the Authority seeks independent assurance about the mechanisms underpinning the various aspects of governance and one of the responsibilities of the Audit and Risk Committee is to review the functionality and effectiveness of Internal Audit.

Audit Resources, Skills and Service Quality

82. In order for Internal Audit to demonstrate high standards of professional conduct, the Internal Auditor must be impartial in discharging all responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity.

83. The service is required to operate in compliance with both the PSIAS and the LGAN. Policies and standard working practices have been put in place to ensure audit staff understand and comply with the PSIAS. An important element of the PSIAS is the requirement to undertake regular quality assurance assessments and maintain a (QAIP). A quality assurance framework, detailing the policies, procedures and working practices under which the service operates has been defined and documented in an Audit Manual.

84. The Head of Internal Audit is responsible for providing periodically a self-assessment on the effectiveness of the internal audit service and compliance with agreed procedures to ensure professional standards are maintained. Any areas of non-compliance with the standards and or the LGAN will be reported as part of the Annual Audit Report to the Service Leadership Team and the Audit and Risk Committee.

85. In accordance with the PSIAS, an external assessment will be carried out at least every five years. The results of this external assessment will also be reported to the Service Leadership Team and the Audit and Risk Committee.

86. The service is provided by Durham County Council's in house internal audit team. The staffing structure will, as far as possible, be comprised of a suitable mix of qualifications, experience and skills.

87. The Head of Internal Audit ensures internal audit resources are sufficient to meet its responsibilities and achieve its objectives. Resource requirements are reviewed annually in relation to draft annual audit plans. Resources will be considered in terms of available days and the skills and experience of audit staff.

88. Individual training needs are identified in accordance with the Council's Performance Appraisal Scheme and supplemented by regular audit skills assessments and post audit reviews. As well as basic training in audit techniques and the development of specialist skills, the service is committed to coaching and mentoring its staff and to providing opportunities for continuous professional development to all staff.

89. Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Better Governance Forum, Technical Information Service, Finance Advisory Network (FAN), County Chief Internal Auditor Network, the Institute of Internal Auditors as well as liaison with external audit and networking with other internal audit service providers.
90. The service will keep abreast of best audit practice by adhering to CIPFA's and the IIA's practice advisories and practice guides, where applicable, as well as networking with other internal audit service providers.
91. In this regard the service considers trends and emerging issues that could impact the Authority.
92. A suite of performance indicators (PI's) and targets has been developed to measure and monitor the performance and effectiveness of the service. The current PI's are detailed in Appendix B. PI's and targets will be reviewed annually.
93. In accordance with the requirements of the Accounts and Audit Regulations 2015, an annual review of the effectiveness of the internal audit service will be undertaken by the Audit and Risk Committee. This annual review will be informed by a service review carried out by the Head of Corporate Resources along with the outcome of the Quality Assurance and Improvement Programme and any internal or external assessments required by the PSIAS as reported by the Head of Internal Audit in the Annual Audit Report. By reviewing the service the Authority is able to gain assurance that the service maintains its independence and objectivity, that it is effective and conforms to the expected professional quality standards so that it can place reliance on its work and the annual audit opinion.
94. The outcome from the annual effectiveness review is reported to the Service Leadership Team and Audit and Risk Committee as part of the Annual internal Audit Report.

Approval and Review

95. The Head of Internal Audit will review this Charter annually to ensure that it is kept up to date and fit for purpose. The Charter is endorsed by the Service Leadership Team and approved by the Audit and Risk Committee. Any amendments will be reported to the Audit and Risk Committee for approval. A copy of the Charter will be made available on the Authority's intranet.

Key Contact

Head of Internal Audit

Tracy Henderson, Chief Internal Auditor and Corporate Fraud Manager

Tel: 03000 269 668

Email: tracy.henderson@durham.gov.uk

Address: Internal Audit, Risk and Corporate Fraud
Resources Directorate
Durham County Council
County Hall
Durham
DH1 5UE

Other Related Documents

Other related documents that should be read in conjunction with this Charter are the Authority's:

Code of Corporate Governance

Risk Management Strategy

Constitution – Financial Procedure Rules

Constitution – Codes of Conduct

Anti-Fraud and Anti-Corruption Policy

Confidential Reporting Code (Whistle Blowing Policy)

Findings

Individual findings are assessed on their impact and likelihood based on the assessment rationale in the tables below:

IMPACT RATING	ASSESSMENT RATIONALE
Critical	A finding that could have a:
	Critical impact on operational performance (Significant disruption to service delivery)
	Critical monetary or financial statement impact (In excess of 5% of service income or expenditure budget)
	Critical breach in laws and regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime)
	Critical impact on the reputation of the Authority (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
	Critical impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)
Major	A finding that could have a:
	Major impact on operational performance (Disruption to service delivery)
	Major monetary or financial statement impact (1-5% of service income or expenditure budget)
	Major breach in laws, regulations or internal policies and procedures (non compliance will have major impact on operational performance, monetary or financial statement impact or reputation of the service)
	Major impact on the reputation of the service within the Authority and/or complaints from service users
Minor	A finding that could have a:
	Minor impact on operational performance (Very little or no disruption to service delivery)
	Minor monetary or financial statement impact (less than 1% of service income or expenditure budget)
	Minor breach in internal policies and procedures (non compliance will have very little or no impact on operational performance, monetary or financial statement impact or reputation of the service)

LIKELIHOOD	ASSESSMENT CRITERIA
Probable	Highly likely that the event will occur (>50% chance of occurring)
Possible	Reasonable likelihood that the event will occur (10% - 50% chance of occurring)
Unlikely	The event is not expected to occur (<10% chance of occurring)

Overall Finding Rating

This grid is used to determine the overall finding rating.

LIKELIHOOD			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	M
	Minor	Major	Critical
	IMPACT	IMPACT	IMPACT

Priority of our recommendations

We define the priority of our recommendations arising from each overall finding as follows;

HIGH	ACTION REQUIRED, THAT IS CONSIDERED IMPERATIVE , TO IMPROVE THE CONTROL ENVIRONMENT SO THAT OBJECTIVES ARE NOT EXPOSED TO UNACCEPTABLE RISKS THROUGH LACK OF OR WEAKNESSES IN CRITICAL OR KEY CONTROLS.
Medium	Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls.
Best Practice	The issue merits attention and its implementation will enhance the control environment.

Overall Assurance Opinion

Based upon the ratings of findings and recommendations arising during the audit as summarised in risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

SUBSTANTIAL ASSURANCE	THERE IS A SOUND SYSTEM OF CONTROL. ANY WEAKNESSES IDENTIFIED EXPOSE SOME OF THE SYSTEM OBJECTIVES TO MINOR RISK.
Moderate Assurance	Whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk.
Limited Assurance	There are weaknesses in key areas in the system of control, which expose objectives to unacceptable levels of risk.

PERFORMANCE INDICATORS

APPENDIX B

EFFICIENCY	OBJECTIVE: TO PROVIDE MAXIMUM ASSURANCE TO INFORM THE ANNUAL AUDIT OPINION	
KPI	Measure of Assessment	Target & (Frequency of Measurement)
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage as at 31 st March	90% (Quarterly)
Timeliness of Draft Reports	% of draft reports issued within 20 working days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Quarterly)
Timeliness of Final Reports	% of final reports issued within 10 working days of receipt of management response Average time taken is also reported for information	95% (Quarterly)
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)
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% (Quarterly)
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (3 out of 5) where 1 is poor and 5 is very good Average score is also reported for information	100% (Quarterly) Overall average score
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)

Public Sector Internal Audit Standards

Definition of the terms 'Board' and 'Senior Management' for the purpose of Internal Audit Activity

STANDARD		REFERENCE TO BOARD OR SENIOR MANAGEMENT	PROPOSED BODY/GROUP TO FULFIL ROLE	
<i>Ref</i>	<i>Title</i>		<i>Senior Management</i>	<i>Board</i>
1000	Purpose, authority and responsibility	Senior Management and the board must approve the Internal Audit Charter	Service Leadership Team	The Audit and Risk Committee
1110	Organisational Independence	<p>The Chief Audit Executive (Head of Internal Audit (HIA)) must report functionality to the board:</p> <p>Functionality includes: Approving the Internal Audit Charter Approving the Risk Based Internal Audit Plan Receiving communications from the HIA on Internal Audit's activity and performance</p> <p>Approving decisions regarding the appointment and removal of the HIA and remuneration of the HIA.</p> <p>In the case of the Fire Authority where the Internal Audit Service is bought in from an external provider, this aspect of functionality is not applicable. However the underlying principle of this standard is to safeguard the independence of the HIA and the Audit Service by ensuring that the appointment of Internal Auditors is not inappropriately influenced by those subject to audit.</p>	The Service Leadership Team will have responsibility for the appointment of the internal audit service provider, but all decisions, with reasons, will be reported to the Audit and Risk Committee.	The Audit and Risk Committee

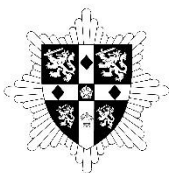
DEFINITIONS UNDER PSIAS

APPENDIX C

1130.C2	Impairment to Independence or Objectivity	Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement		The Audit and Risk Committee
1312	Quality Assurance and Improvement Programme (QAIP)	<p>External Assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The HIA must discuss with the board:</p> <ul style="list-style-type: none"> • The form of external assessments • The qualifications and independence of the external assessor or assessment, including any potential conflict of interests <p>NB The Public Sector requirement of this standard states, “The HIA must agree the scope of external assessments with an appropriate sponsor e.g the Accounting/Accountable Officer or Chair of the audit committee as well as with the external assessor or assessment team”</p>	Service Leadership Team	The Audit and Risk Committee
1320	Reporting the results of QAIP	The HIA must communicate the results of the quality assurance and improvement programme to senior management and the board .	Service Leadership Team	The Audit and Risk Committee
1322	Disclosure of Non-Conformance	Instances of non-conformance with the definition of Internal Auditing, the Code of Ethics or the standards impacts the overall scope or operation of the Internal Audit Activity, must be reported to the board by the HIA. More significant deviations must be considered for inclusion in the Annual Governance Statement.		The Audit and Risk Committee
2020	Communications and Approval	The HIA must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior	Service Leadership Team	The Audit and Risk Committee

		<p>management and the board for review and approval.</p> <p>Where the HIA believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.</p>		
2060	Reporting to Senior Management and the Board	The HIA must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must include significant risk exposures and control issues, including fraud risks governance issues and other matters needed or requested by senior management and the board.	Service Leadership Team	The Audit and Risk Committee
2600	Communicating the Acceptance of Risk	When the CAE concludes that management has accepted a low level of risk that may be unacceptable to the organisation, the CAE must discuss the matter with senior management . If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the board .	Service Leadership Team	The Audit and Risk Committee

NB. The role of Chief Audit Executive referred to in the Standards is that undertaken by the Manager of Internal Risk (Head of Internal Audit) but in practice, as per the SLA, the role of the Head of Audit for the Fire Authority will largely be undertaken by an Audit and Fraud Manager who will act as client relationship manager.



Safest People, Safest Places

Audit and Finance Committee

4 April 2023

Audit Plan 2023/24

Report of the Head of Internal Audit

Purpose of the Report

1. The purpose of this report is to provide the Audit and Finance Committee with an opportunity to view the content of the Internal Audit plan for the period 01 April 2023 to 31 March 2024.
2. The plan was considered and agreed by the Senior Leadership Team at its meeting on 15 February 2023.

Statutory Background to Internal Audit

3. The Treasurer as the Authority's Chief Financial Officer has a duty under S151 of the Local Government Act 1972 to maintain an appropriate framework of control over the Authority's financial affairs. Part of the process by which the S151 Officer meets that requirement is through assurances provided by Internal Audit.
4. Internal audit's function is established by the Accounts and Audit Regulations 2015, which are supported by professional standards for internal audit in the public sector and an advisory note specifically for local government in the United Kingdom.

Role of Internal Audit

5. Internal Audit is an assurance function that provides an independent and objective opinion to the Authority on governance, control, and risk management by evaluating their effectiveness in achieving the Authority's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
6. The Head of Internal Audit is required by professional standards to provide an opinion addressing governance, risk management and control and thereby to provide assurance that the risk to the objectives of County Durham and Darlington Fire and Rescue Authority are being adequately and effectively controlled.
7. The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the Head of Internal Audit to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and

control. Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.

8. The regulations therefore establish the requirement for an internal audit function and its provision of an opinion on governance, risk management and control processes, following public sector internal audit standards. Professional standards likewise mandate the provision of such an opinion. They also recognise that internal audit involves the provision of such an opinion. They also recognise that internal audit involves the provision of both assurance and consultancy services, but assurance is its primary function and any consultancy work must inform the assurance opinion.
9. The internal audit plan is designed to provide the evidence necessary to support an opinion on governance, risk management and control needs to encompass the following:
 - Coverage of the key components of each part of the opinion, namely, governance, risk management and control;
 - Sufficient coverage over operations as a whole so that a fair assessment may be made across the Service;
 - Coverage of the controls that serve to mitigate the most significant risks to an acceptable level;
 - Coverage of the controls that operate most broadly to mitigate the most significant risks in the greatest number of individual instances to an acceptable level; and
 - Follow up of the actions agreed by management to mitigate risks identified through previous audit activity.
10. Because the overall opinion covers a 12 month financial period, the evidence will relate to the controls in operation for that period.
11. External Audit also rely on the work of Internal Audit in terms of their own governance and assurance work, where applicable and also expect Internal Audit coverage to be adequate in terms of risk faced by the Authority.
12. The agreed aims and terms of reference for Internal Audit are included in the Internal Audit Charter, reviewed by Senior Leadership Team on 15 February 2023. The Charter identifies the service standards our customers can expect, how areas for audit review are determined, our audit approach and how we agree and report upon recommendations.

Responsibilities of Management

13. Internal Audit is a review and assurance activity and should not be seen as a substitute for introducing and maintaining good internal procedures. Managers in the Authority are responsible for establishing and maintaining a proper and effective control environment and for managing risk in areas for which they have responsibility. Control is an integral part of managing operations and as such Internal Audit independently reviews how effectively management discharges this aspect of its responsibilities by evaluating the effectiveness of systems of internal control and providing objective analysis and constructive recommendations. Management retain full ownership and responsibility for the implementation of any such recommendations.

Resources Available in 2023/24

14. The Internal Audit plan, set out in Appendix 1 of this report, is based on the level of Internal Audit resource incorporated in the Service Level Agreement between Durham County Council

and the Fire Authority covering the period 01 April 2023 to 31 March 2024 and will deliver 72 productive audit days in 2023/24.

15. In accordance with our agreed risk based audit approach the scope of each review will be determined in discussion with a nominated key contact as part of the preparation stage of the audit in order to identify and agree key risks and expected controls and to ensure that audit resources are used as effectively as possible.

Recommendation

16. It is recommended that in considering the content of the report, the Audit and Finance Committee:
 - Agrees the Internal Audit Plan for 2023/24 attached at Appendix 1 subject to any recommendations that they might like to make to amend / reinforce the plan.

Nicola Cooke, Audit Manager, 03000 269665

Appendix 1: Internal Audit Plan 2023/24

ASSURANCE REVIEWS	
Corporate Governance Risks	
Strategic Risk Management	1
Assurance Management - AGS	1
Partnerships	5
Counter Fraud	
Counter Fraud Awareness	1
NFI	2
Financial Management	
Key Financial Systems - Debtors, Creditors, Income, Bank Reconciliation and VAT	10
Payroll	8
Treasury Management	4
Operational Management	
Catering Arrangements	8
Stocks and Stores	5
ICT System Management	15
Management	
Audit Planning, Advice, Reporting and Follow Up	12
TOTAL	72

Appendix 2: Internal Audit Plan 2022/23 - Review Scopes

Review	RAG Rating	Scope	Days
Corporate Governance			
Strategic Risk Management	2022/23 Substantial	<p>Internal Audit is required to place an annual assurance over the Authority's Risk Management arrangements. Attendance at the Performance and Programme Board and Service Leadership Team is considered the most effective mechanism to achieve this.</p> <p>In addition, monitoring of the content and revision of the Strategic Risk Register at Audit and Finance Committee together with reviews of specific risks / activities associated with each audit undertaken provide additional assurance over arrangements in operation.</p>	1
Corporate Governance - AGS	2022/23 N/A	This work is aimed at ensuring the Authority receives annual assurance required to be able to fulfil its statutory responsibility to publish an Annual Governance Statement (AGS) alongside its Annual Statements of Accounts, providing external accountability for how the Authority conducts its business. It includes a review of the AGS to ensure it remains current and tracking of action taken by the Service in response to significant corporate governance issues and is considered the most effective mechanism to achieve this.	1
Partnerships	2018/19 Substantial	An assurance review that considers the risks associated with partnerships between the Authority and other bodies.	5

Counter Fraud			
Counter Fraud Awareness	2022/23 N/A	An activity aimed to provide proactive support to the Authority in raising Corporate Fraud Awareness.	1
NFI	NFI 2022/23 N/A	The Authority takes a proactive approach in relation to the prevention and identification of potential irregularity through participation within the National Fraud Initiative. Internal Audit acting in capacity of key contact extracts payments data in relation to pensions, payroll and creditors for submission to the Cabinet Office ensuring that this is done in line with data protection requirements. Internal Audit reviews feedback received from the exercise to identify any potential irregularities for the service to investigate before ensuring that outcomes from the investigation of matches are recorded on the NFI web application promptly and accurately.	2
Financial Management			
Key Financial Systems	2022/23 Substantial	Internal Audit is required to place an annual assurance over the Authority's Key Financial Systems. Review considers the management of risks associated with Income, Banking and Debtors, Ordering and Payments, Petty Cash, Company Credit Cards, Payroll, Treasury Management, Financial Planning and Budgetary Control arrangements.	10
Payroll	2021/22 Substantial	Internal Audit is required to place an annual assurance over the Key Financial Systems. This review considers the management of risks associated with Payroll it includes starters and leavers processes, adjustments to payments for promotions and honoraria, statutory and other deductions, and that payment is made in accordance with agreed timescales to Officers, staff and external bodies such as HMRC.	8
Treasury Management	2022/23 Substantial	An Assurance review that considers the management of risks associated with the Treasury Management function. It is an annual review that looks at evidence held in support of investments and loans processed in year, that these have been undertaken in accordance with the Treasury Management Policy and that transactions are correctly posted.	4
Operational Management			
Catering Arrangements	N/A	This activity has not been subject to a previous review. Scope to be confirmed.	8
Stocks and Stores	N/A	This activity has not been subject to a previous review. Scope to be confirmed.	5
ICT System Management	Various	Internal Audit is required to place an annual assurance over the Authority's IT Systems. Specific areas for review in 2023/24 are to be determined.	15

Planning and Reporting			
Audit Planning, Advice, Reporting and Follow Up	N/A	This activity supports the Authority through the provision of our quarterly progress and annual reporting arrangements to the Audit and Finance Committee. It includes regular progress meetings with the Head of Corporate Resources to discuss delivery of planned work and any issues of current importance and the verification of action taken by management in implementing agreed Internal Audit recommendations.	12
TOTAL			72

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