



Audit Committee

Date **Thursday 21 February 2013**
Time **10.00 am**
Venue **Committee Room 1A, County Hall, Durham**

Business

Part A

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

1. Apologies for Absence
2. Minutes of the meeting held on 22 November 2012 (Pages 1 - 8)
3. Declarations of interest, if any
4. Risk Management Update - Quarter Ending December 2012 - Report of Corporate Director, Resources (Pages 9 - 24)
5. Integrated Services - One Point Risk Update - Verbal Report of the Head of Finance
6. Action Plan for Corporate Governance Improvements - Report of Corporate Director, Resources (Pages 25 - 28)
7. Action Plan 2011/12 Audit of Accounts Update - Report of Corporate Director, Resources (Pages 29 - 40)
8. 2011/12 Annual Grant Report - Report of the External Auditor (Pages 41 - 54)
9. Co-opted Members to the Audit Committee - Report of Corporate Director, Resources (Pages 55 - 58)
10. Internal Audit Progress Report Quarter Ending December 2012 Update - Report of Manager of Internal Audit and Risk (Pages 59 - 92)
11. Sale of Windlestone Hall - Joint Report of External Auditor and Manager of Internal Audit and Risk Management (Pages 93 - 126)
12. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
13. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

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

14. Internal Audit Progress Report Quarter Ending December 2012 Update
- Report of Manager of Internal Audit and Risk (Pages 127 - 144)
15. Overdue Audit Recommendations - Report of the Manager of Internal Audit and Risk (Pages 145 - 148)
16. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration

Colette Longbottom
Head of Legal and Democratic Services

County Hall
Durham
13 February 2013

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

Councillor E Bell (Chairman)
Councillor O Temple (Vice-Chairman)

Councillors C Carr, B Harrison, M Hodgson, L Marshall, B Myers,
R Ord and D J Southwell

Co-opted Members:

T Hoban and K Larkin-Bramley

Contact: Jackie Graham

Tel: 03000269704

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in **Committee Room 1A - County Hall, Durham** on **Thursday 22 November 2012 at 10.00 am**

Present:

Councillor E Bell in the Chair

Members of the Committee:

Councillors R Ord, and D J Southwell

Co-opted Members:

Mr T Hoban and Ms K Larkin-Bramley

Apologies:

Apologies for absence were received from Councillors C Carr, B Myers and K Larkin-Bramley

Also Present:

C Banks (Mazars)

1 Minutes

The Minutes of the meeting held on 27 September 2012 were agreed as a correct record and signed by the Chairman.

Consideration was given to all current items on the Committee's Action Plan (for copy of action plan see file of Minutes). Several items on the Plan were considered later in the meeting, the position with others was provided and dates were set when these would be reported back to Committee. The Plan would be updated accordingly.

2 Declarations of Interest

Declarations of interest were provided by Members of the Committee. A generic declaration of interest would be recorded given that Members were school governors, members of various Committees of the Council, former District Councillor's and bodies such as the Probation Board, Fire Authority and Police Authority.

3 Single Asset Register Phase 2

The Committee considered a report of the Corporate Director, Resources that provided an update on the second phase of the development of the Single Asset Register (for copy see file of Minutes).

Mr I Herberson, Assistant Finance Manager, Corporate Finance informed Members that Phase 1 was completed last year and the Statement of Accounts had received a qualified opinion. Phase 2 would take on board the main priorities from a consistency point of view as the hand over from district councils held different values.

Councillor Southwell queried the valuation of properties and was assured that they were valued by an Internal Valuer at the current market value. The Corporate Director, Resources added that some tenants are given a Right to Buy discount and that a report looking at the best model for managing housing stock would go to Cabinet on 19 December 2012.

Councillor Ord asked for guidance on the process for selling land and property on the open market and how prices are arrived at. The Chairman suggested that a report come back to the next meeting on the process of determining valuations.

Resolved:

That the prioritisation of phase 2, and the work plan in Appendix 2 which aims to complete the housing module of the single asset register by 15 February 2013 be noted.

4 Council Tax Collection Performance and Provision for Bad Debts

The Committee considered a report of the Corporate Director, Resources which gave an overview of in year Council Tax collection performance for 2012/13 and an update on the collection rate for 2010/11 and 2011/12, together with an update on the Council Tax provision for bad and doubtful debts calculation (for copy see file of Minutes).

Members were assured that processes were in place to collect £250m in 2012/13, based on a collection rate of 98.5% which in turn would balance budgets. Performance had improved since the introduction of new systems.

The Committee discussed the impact of single occupancy and were informed that all County Council tenants would be informed. The risks had been identified as to where tenants would be moved to and the impact on Council Tax collections.

Resolved:

That the in year and overall Council Tax collection performance as outlined in the report, together with the update on the provision for bad and doubtful debts, be noted.

5 Earmarked and General Reserves – Briefing Note

The Committee considered a briefing note of the Corporate Director, Resources that informed of the amount held in accounts of earmarked and general reserves (for copy see file of Minutes).

The Corporate Director, Resources stated that at the end of September 2012 £5.5m of earmarked reserves would provide general fund services, £2.14m of the Housing Revenue Account's earmarked reserves are forecast to be used. He added that General Reserves are forecast to increase by £4.48m.

Councillor Southwell asked that all staff be congratulated within the service for the amount of reserves held however he did raise concerns about the cuts in walking to school from 2 to 3 miles. Councillor Hodgson advised that this was being looked at as part of the wider issue in a Scrutiny Working Group.

Resolved:

That the information contained in the briefing note be noted.

6 Internal Audit Progress Report Quarter Ended 30 September 2012

The Committee considered a report of the Manager of Internal Audit and Risk which informed members of the work carried out by Internal Audit during the period June to September 2012 (for copy see file of Minutes).

Councillor Southwell commended the service on a positive report. **Resolved:**

That amendments made to the 2012/13 Annual Audit Plan, work undertaken during the period June to September 2012 and the progress made by service managers in responding to the work of internal audit, be noted.

7 Action Plan – 2011/12 Audit of Accounts

The Committee considered a report of the Corporate Director, Resources that presented an action plan consolidating all agreed recommendations for improving control weaknesses incorporate in the External Auditor's 2011/12 Interim and Final Governance Reports (for copy see file of Minutes).

Members were given assurances that the template used had been updated and that actions suggested are followed through. A robust monitoring framework has been introduced and the Committee would be updated on progress at the meeting in February 2013.

Resolved:

That the action plan at Appendix 2 be noted and to gain assurances that control weaknesses identified through the final account audit process are appropriately addressed.

8 Report of the Audit Committee for the Period April 2012 to September 2012 to County Council

The Committee considered a draft report of the Chair of the Audit Committee (for copy see file of Minutes) of the work of the Audit Committee for the period April to September 2012, for agreement prior to reporting to full Council at its meeting on 5 December 2012.

The Committee asked that, to ensure all parties are represented at Audit Committee, substitute members are appointed to attend meetings if the committee member is unable to attend, subject to having received appropriate training. The Chairman agreed to speak to the relevant party leaders.

Resolved:

That the recommendations in the report be agreed subject to a comment being added about how the committee had helped with the timely production of the year end accounts.

9 Annual Audit Letter 2011/12

The Committee received the Annual Audit Letter 2011/12 from the Audit Commission summarising the 2011/12 audit of Durham County Council, including the Pension Fund that it administers (for copy see file of Minutes).

Resolved:

That the contents of the letter are noted.

10 Strategic Risk Management Progress Report for the Quarter period July to September 2012

The Committee considered a report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and that gave an insight into the work carried out by the Corporate Risk Management Group during July to September 2012 (for copy see file of Minutes).

Members were informed of new risks, those that had been removed and key risks.

Councillor Hodgson asked about the impact on service for One-Point and it was agreed to ask the risk owner to give an account at the next meeting.

Resolved:

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

The risk owner of the risk, "Failure to agree an accurate baseline for the One Point service pooled budget with the County Durham and Darlington Foundation Trusts results in a service overspend " , be asked to attend the next meeting of the Committee to provide further assurance on how this risk was being managed.

11 Local Code of Corporate Governance

The Committee considered a report of the Corporate Director, Resources that sought approval of the revised Local Code of Corporate Governance (for copy see file of Minutes).

Mr D Marshall, Risk and Governance Manager, stated that the code had been simplified and streamlined, and that the revisions had been made in line with the Annual Governance Review.

Resolved:

That the report be noted.

12 Exclusion of the Public

That under Section 100 (A) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A to the said Act.

13 Internal Audit Progress Report - Quarter Ended 30 September 2012

The Committee considered Appendix 7 of the report of the Manager of Internal Audit and Risk which informed members of actions agreed by managers in response to internal audit recommendations that were overdue at the end of September 2012. (for copy see file of Minutes).

Cllr Southwell asked if in future the reporting template could show the name of the action owner. The Chairman agreed that this would help in knowing which officers should be called into account for the lack of action.

Resolved:

That the report together with the recommendations included therein be approved.

The Chair and the Vice Chair would consider overdue actions further in consultation with the Manager of Internal Audit and Risk to agree which officers should be asked to attend the next Committee to explain why agreed recommendations had not been implemented as planned.

14 Fraud and Irregularity Update 2012/13

The Committee considered a report of the Corporate Director, Resources which provided an update on fraud and irregularity cases during the period April to September 2012 (for copy see file of Minutes).

The Committee sought assurances that partner agencies are working closely with the Council and that training is consistent for all Council officers that deal with these cases.

Resolved:

That the report together with the recommendations included therein be approved.

Action Plan - Work of Audit Committee - Part A – 21 February 2013

Ref No.	Date of Meeting	Item No.	Title of Report	Action Required	By Whom	Report to Committee (date)/ implemented
1	29.9.11 10.11.11 5.1.12 16.2.12 22.3.12 22.11.12	4 3	Single Asset Register	Process of valuation report to be brought to a future meeting	Ian Herberson, Asst Finance Manager	21.2.13 Verbal update (No separate agenda item)
2	16.2.12	6	F M Standards	Once Section 151 Officer had completed the process, further details be brought back to Committee	Corporate Director, Resources	4/4/13 Delayed due to revised target date for completion of standards
6	27.9.12 22.11.12	5 7	Annual Governance Report (and Interim Governance Report)	Update on progress of new monitoring system to be brought back to Committee	Ian Herberson, Asst Finance Manager	21 2.13 Agenda Item 7
7	27.9.12 22.11.12	7 &10	Internal Audit Progress Report	Update on actions being taken to secure additional IT audit resource Update on overdue recommendations	Manager of Internal Audit and Risk	21.2.13 To be covered in IA Quarterly Progress Report Agenda item 10
	22.11.12	10	Strategic Risk Management Report	The action owner for One Point Risk be asked to attend next meeting to provide further assurance	Head of Early Intervention and Partnerships	21.2.13 Agenda item 5
	22.11.12	14	Fraud & Irregularity	Further assurance on work carried out with partners	Manager of Internal Audit & Risk	TBA

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Audit Committee

21 February 2013

**Strategic Risk Management
Progress Report for the Quarter period
October to December 2012**



Report of Corporate Management Team

Don McLure, Corporate Director Resources

Purpose of the Report

1. The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period October to December 2012

Background

2. Each Corporate Director has a designated Service Risk Manager to lead on risk management at a Service Grouping level. In addition, the Council has designated the Deputy Leader of the Council and the Corporate Director, Resources as Member and Officer Risk Champions respectively. Collectively, they meet together with the Risk and Governance Manager as a Corporate Risk Management Group (CRMG). A summary setting out how the Council deals with the risk management framework is detailed in Appendix 2.
3. Throughout this report, both in the summary and the Appendices, all risks are reported as 'Net Risk' (after putting in place mitigating controls to gross risk), which is based on an assessment of the impact and likelihood of the risk occurring with existing controls in place.

Current status of the risks to the Council

4. As at 31st December 2012, there were 44 strategic risks, which is a decrease of seven from the previous period on 30 September 2012. In summary, the key risks to the Council are:
 - Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses;
 - Failure to identify and effectively regulate Contaminated Land;
 - Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier is not undertaken;
 - Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA);
 - Damage to Highways assets as a result of a severe weather event;
 - Government budget plans to cut Local Government funding further for 2015/16 and 2017/18 as part of the next Comprehensive Spending Review would have major impact on services including frontline services that customers rely on;

- Potential restitution of search fees going back to 2005;
- School funding reforms & LACSEG reductions threaten viability of some centrally managed services for children and young people.

Progress on addressing these key risks is detailed in Appendix 3.

5. Appendix 4 of this report lists all of the Council's strategic risks as at 31 December 2012.
6. Management has identified and assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.
7. The following, ongoing projects have been supported in various ways, including risk analysis through workshops and meetings, giving critical feedback on risk management documentation and procedures, attending project / board meetings and helping to maintain the risk register through challenge and identifying controls.
 - Accommodation Strategy;
 - Carbon Reduction;
 - Community Buildings;
 - Crook Depot Construction;
 - County Durham Plan;
 - Customer Centric;
 - Financial Management Computer System;
 - Library Strategy;
 - Local Council Tax Support Scheme;
 - Planning Computer System;
 - Revenues and Benefits Computer System, Phase 2;
 - School Meals Procurement;
 - South Hetton Primary School;
 - Stock Options Appraisal for Housing;
 - Welfare Reform.

Recommendations and reasons

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

Contact: David Marshall Tel: 03000 269648

Appendix 1: Implications

Finance - Addressing risk appropriately reduces the risk of financial loss.

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

Risk – Not a key decision

Equality and Diversity/Public Sector Equality Duty - None

Accommodation - None

Crime and disorder - None

Human rights - None

Consultation - None

Procurement – None.

Disability issues – None.

Legal Implications – None.

Appendix 2: Background

A large amount of work is being carried out across the Council in shaping and developing our approach to risk management where the Cabinet and the Corporate Management Team have designated the Deputy Leader of the Council and the Corporate Director, Resources as Member and Officer Risk Champions respectively.

Together they jointly take responsibility for embedding risk management throughout the Council, and are supported by the Manager of Internal Audit and Risk, the lead officer responsible for risk management, as well as the Risk and Governance Manager. Each Service Grouping also has a designated Service Risk Manager to lead on risk management at a Service Grouping level, and act as a first point of contact for staff who require any advice or guidance on risk management. Collectively, the Risk Champions, Service Risk Managers and the Risk and Governance Manager meet together as a Corporate Risk Management Group. This group monitor the progress of risk management across the Council, advise on strategic risk issues, identify and monitor corporate cross-cutting risks, and agree arrangements for reporting and awareness training.

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

It is the responsibility of the Corporate Directors to develop and maintain the internal control framework and to ensure that their Service resources are properly applied in the manner and to the activities intended. Therefore, in this context, Heads of Service are responsible for identifying and managing the key risks which may impact on their respective Service, and providing assurance that adequate controls are in place, and working effectively to manage these risks where appropriate. In addition, independent assurance of the risk management process, and of the risks and controls of specific areas, is provided by Internal Audit. Reviews by external bodies, such as the Audit Commission, Ofsted and Care Quality Commission, may also provide some independent assurance of the controls in place.

Risks are assessed in a logical and straightforward process, which involves the Risk Owner (within the Service) assessing both the impact on finance, service delivery or stakeholders if the risk materialises, and also the likelihood that the risk will occur over a given period. The assessment is confirmed by the Service Management Team, and Chief Officers agree their Risk Register with the Cabinet Member responsible for their Portfolio Service.

An assurance mapping framework is being developed to demonstrate where and how the Council receives assurance that its business is run efficiently and effectively, highlighting any gaps or duplication that may indicate where further assurance is required or could be achieved more effectively.

Appendix 3: Strategic Risks

Risks are assessed at two levels:

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

As at 31st December 2012, there were 44 strategic risks, a decrease of seven from the number of risks at the end of the previous period at 30 September 2012.

The following matrix summarises the total number of strategic risks based on their Net risk assessment as at 31 December 2012. Where there have been changes to the number of risks from the last quarter period end, the risk total as at 30 September 2012 is highlighted in brackets.

Overall number of Strategic Risks as at 31 December 2012.

Impact					
Critical	1 (1)	2 (3)	3 (4)		
Major		3 (3)	4 (5)	1 (4)	2 (0)
Moderate		2 (3)	13 (14)	5 (4)	2 (2)
Minor			3 (3)	2 (3)	1 (2)
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

In summary, key points to draw to your attention are:

1 Beneficial outcomes

- Although demand for services remains high, improved gate-keeping and more effective preventative services has contributed to a position where the number of Looked After Children is now fairly static after a period of increases. This has resulted in the risk of *“Failure to meet escalating costs of external and high-cost placements for looked after children effectively where highly-specialised provision is required”* reducing. **(CAS)**
- The implementation of a number of mitigating control measures, including embedding the events management protocol, has resulted in the risk of *“Failure to effectively support events organised by the*

Council or taking place on Council land" no longer being considered a strategic risk. **(NS)**

2 Significant New and Increased Risks

Two new risks have been identified this quarter:

- *"Risk that the Council does not respond to the Government's changes to Welfare Reform"*. This is an overarching risk, summarising the implications of the Government's Welfare Reforms. **(ACE)**
- *"Failure to substantially deliver the Community Buildings Strategy by March 2014, leading to continuation of current issues"*, as the asset transfer process is taking longer than expected, resulting in potential delays. **(ACE)**

Significant risks which have increased during the quarter are:

- *"Potential claw-back from MMI (former insurers) under the Scheme of Arrangement"*. Confirmation was received from the MMI board that the scheme has been invoked although the amount of claw-back required will not be known until March 2013. The likelihood of this risk has been increased to Highly Probable. **(RES)**
- *"Damage to highway assets as a result of severe weather event"*. Due to the several flooding incidents this year the net score of this risk has increased to a major impact, with the likelihood of it occurring increasing to highly probable. **(NS)**

3 Removed Risks

The following nine risks have been **removed** from the register in this quarter following effective management of the risks by the Services, as all mitigating actions have been completed to reduce them to a level where management now consider existing controls to be adequate.

- *'County Durham Economic Partnership fails to narrow the deprivation gap within County Durham due to reductions in public expenditure and social programmes, reduced employment opportunities and the changes in Welfare Reform legislation'* is no longer a strategic risk. **(RED)**
- *'Deterioration in public health services resulting from transfer of Public Health responsibilities to the LA and impact of funding proposals'* is no longer a strategic risk as an improved funding settlement has now been approved. **(CAS)**
- *"East Durham Homes additional Government funding is not forthcoming due to Government cut backs"* is no longer a strategic risk as funding has now been approved. **(RED)**
- *"Limited knowledge and/or use of the DEBS live system by some budget holders could adversely impact on service delivery and financial performance in Neighbourhood Service"*. This is now being dealt with by Management Team as a business-as-usual issue, and is no longer considered a strategic risk. **(NS)**

- *“Failure to effectively support events organised by the Council or taking place on Council land”*. All control measures are now in place and the Events Management protocol is now embedded. **(NS)**
- *“The performance of building services e.g. Design, Repairs & Maintenance, Construction, Asset Management & Facilities Management does not improve to make the service more competitive”*. All mitigating actions have been completed which has reduced the net impact and likelihood of this risk occurring. **(NS)**
- *“The Council may be liable to legal challenge if a single status agreement is not implemented in full”* is no longer a strategic risk, as agreement has now been reached on the single status framework. **(RES)**
- The risk *“Failure to agree an accurate baseline for the One Point service pooled budget with CDDFT results in a service overspend”* has been removed as the budget split between the Council and CDDFT has now been addressed, and the potential overspend will not occur in 2012/13. However, the risk will return because of the need to achieve £230,000 of savings from within the One Point service over and above the Council’s MTFP requirements and the target savings required by CDDFT that are yet to be finalised. **(CAS)**
- The risk of *“Changes to school funding allocation methodology threaten significant funding reductions for some schools”* is no longer considered a strategic risk, as mitigating actions have been implemented. **(CAS)**

4 Key Risks

The risks shown in the tables below are considered the key risks to the Council. Where there have been changes to the risk assessment from the last quarter period end, these are highlighted in the column headed 'Direction of Travel'. The target for when the risk will be at an acceptable level, or where further improvements in mitigation are not possible, is highlighted in the column headed 'Anticipated date when risk will be at an acceptable level'.

Impact					
Critical			Risks 1, 2 & 3		
Major				Risk 6	Risks 4 & 5
Moderate					Risks 7 & 8
Minor					
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	RES Risk Owner: Don McLure	Altogether Better Council	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses	Critical	Possible	The Delivery plan implementation will be monitored by CMT and Cabinet.		This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage.
2	NS Risk Owner: Joanne Waller	Altogether Greener	Failure to identify and effectively regulate Contaminated Land	Critical	Possible	All sites identified for inclusion within the annual programme for 2013 will be inspected as from January 2013.		July 2013
3	NS Risk Owner: Terry Collins	Altogether Wealthier	Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier is not undertaken	Critical	Possible	Funds will be allocated in future budgets for the design and undertaking of repairs to the structure.		
4	RES Risk Owner: Don McLure	Altogether Better Council	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)	Major	Highly Probable	The cost of any clawback will be met from the Insurance Reserve.	Likelihood increased	The scheme of arrangement has been invoked. Decision on amount of clawback required due by March 2013.
5	NS Risk Owner John Reed	Altogether Safer	Damage to Highways assets as a result of a severe weather event.	Major	Highly Probable	A revised inspection and maintenance regime to be implemented.	Impact and Likelihood increased	Mitigating actions should be in place by April 2013.

Ref Page 18	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
6	RES Risk Owner: Don McLure	Altogether Better Council	Government budget plans to cut Local Government funding further for 2015/ 16 and 2017/ 18 as part of the next Comprehensive Spending Review would have major impact on services including frontline services that customers	Major	Probable	Sound financial forecasting based on a thorough examination of the Government's "red book" plans is in place. Early engagement with Cabinet and a timetable of key milestone dates will be agreed.		This is related to key risk 2 above.
7	RES Risk Owner: Colette Longbottom	Altogether Better Council	Potential restitution of search fees going back to 2005	Moderate	Highly Probable	The Council has signed up to a class action defence by LGA appointed solicitors		Dependent upon the outcome of the negotiations/ litigation currently being defended by lawyers instructed in group litigation
8	CAS Risk Owner Caroline O'Neill	Altogether Better for Children and Young People	School funding reforms & LACSEG reductions threaten viability of some centrally managed services for children and young people	Moderate	Highly Probable	Reviews of major areas of the service are underway.		Mitigating actions should be in place by April 2013.

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

Based on the **Net** risk assessment as at 31 December 2012, the following tables highlight the risks for each Corporate Theme.

Corporate Theme – Altogether Better Council

Ref	Service	Risk
1	Resources	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses
2	Resources	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)
3	Resources	Government budget plans to cut Local Government funding further for 2015/ 16 and 2016/ 17 as part of the next Comprehensive Spending Review would have major impact on services including frontline services that customers rely on.
4	Resources	Potential restitution of search fees going back to 2005
5	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO.
6	RED	Increased demand for Housing Solution Service beyond current staffing capacity due to changes in Government Welfare legislation.
7	RED	Adverse impact on Durham City Homes revenue, capacity and resources and tenants due to changes in Government legislation.
8	NS	Building Services could see a loss of business if the academies do not use Council services and/ or opt out of the SLA to procure outside agencies to carry out compliance, building and maintenance/ grounds maintenance works.
9	NS	Contamination of material collected from kerbside from Alternate Weekly Collection scheme is having a negative impact on income (MTFP implications) and may reduce availability of recycling outlets.
10	ACE	Risk that the Council does not respond to the Government's changes to Welfare Reform
11	ACE	Failure to substantially deliver the Community Buildings Strategy by March 2014, leading to continuation of current issues
12	Resources	Inconsistent approach to managing funding bids by Services could expose the Council to financial losses and reputational damage.
13	Resources	Industrial Action will adversely impact service delivery
14	Resources	Collection Fund and Debtors collection rates do not reach target set for 2012/13
15	Resources	Major Interruption to IT Service Delivery

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Ref	Service	Risk
16	CAS	Potential for the Police Reforms to weaken the ability of the Council and its partners to cut crime and anti-social behaviour
17	Resources	Due to the amount of change occurring across the Council, the potential for fraud and error is increasing.
18	ACE	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation
19	ACE	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation
20	CAS	Work Related Stress – STAFF
21	NS	Consistent health and safety policies, practices and procedures across the Neighbourhoods Service are not embedded across NS
22	Resources	Inaccurate forecasts relating to the impact of Council Tax Support Scheme and Business Rate Retention.
23	CAS	Merger of Children/Adults Services

Altogether Safer

	Service	Risk
24	NS	Damage to Highways assets as a result of a severe weather event.
25	RED	Disused unmaintained Coal Authority mine workings on DCC land may result in serious injury/financial claims against the Council
26	CAS	A service failure of Safeguarding leads to death or serious harm to a service user.
27	CAS	Failure to protect child from death or serious harm (where service failure is a factor or issue)
28	CAS	Unauthorised encampment
29	ACE	Failure to prepare for, respond to and recover from a major incident or interruption, and to provide essential services.
30	CAS	Violence and Aggression Staff
31	RED	Serious injury or loss of life due to Safeguarding failure (Transport Service)

Altogether Greener

	Service	Risk
32	NS	Failure to identify and effectively regulate Contaminated Land
33	NS	Failure to effectively deliver the proposed Waste Management Solution.

Altogether Healthier

	Service	Risk
34	CAS	Potential financial, operational, and reputational risks arising from proposed NHS Reforms
35	CAS	Increased cost to the authority from revision to “Ordinary residence” guidance
36	CAS	Management and administration of service users medications

Altogether Better for Children and Young People

	Service	Risk
37	CAS	School funding reforms & LACSEG reductions threaten viability of some centrally managed services for children and young people
38	CAS	Failure to meet escalating costs of external and high-cost placements effectively where highly-specialised provision is required
39	CAS	Children/families experience a lack of interface between services for children & adults as a result of failure to work together
40	CAS	County Durham & Darlington Foundation Trust efficiency requirements undermine service management & delivery in the One Point service
41	RED	Employment Services for young people (18-24 year olds) are under resourced and unco-ordinated between service groups.

Altogether Wealthier

	Service	Risk
42	NS	Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier is not undertaken
43	RED	Diminishing Capital Resources, continuing depressed land values and slow growth in the private sector will impact on the ability to deliver major projects and Town initiatives within proposed timescales.
44	RED	Private housing stock condition worsens with adverse implications for local economy, health & neighbourhood sustainability.

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Audit Committee

21 February 2013



Action Plan for Corporate Governance Improvements

Report of Don McLure, Corporate Director Resources

Purpose of the Report

1. The purpose of this report is to update the Audit Committee on progress in implementing the agreed governance action plan, which highlights areas of improvement arising from the annual review of the effectiveness of corporate governance arrangements.

Background

2. The Council 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 Annual Governance Statement (AGS) explains how the Council complies with this code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a Statement on Internal Control.
3. To inform the 2011/12 AGS, the annual review of the effectiveness of corporate governance arrangements was carried out. In support of this review, all Corporate Directors were asked to provide an assurance statement to ensure that there is understanding council wide of the Council's governance arrangements and that they are embedded within each operational area including project and partnership responsibilities.
4. From this review, a number of areas for improving corporate governance have been identified. These were reported in the 2011/12 AGS, and are documented in a governance action plan attached to this report in Appendix 2.

Recommendations and reasons

5. Audit Committee to confirm that this report provides assurance that action is being taken to address areas of improvement in corporate governance arrangements, as set out in the attached action plan in Appendix 2.

Contact: David Marshall Tel: 0191 3834311

Appendix 1: Implications

Finance - Financial planning and management is a key component of effective corporate governance.

Staffing - Ensuring the adequate capability of staff meets a core principle of the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) guidance.

Risk – Delivery of the corporate governance action plan will strengthen the decision making and strategic and operational management of the Council's business.

Equality and Diversity/ Public Sector Equality Duty - Engaging local communities including hard to reach groups meets a core principle of the CIPFA/ SOLACE guidance.

Accommodation – None directly, although asset management is a key component of effective corporate governance

Crime and Disorder – None.

Human Rights - None.

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

Procurement – None.

Disability issues – Ensuring access to services meets a core principle of the CIPFA/ SOLACE guidance.

Legal Implications – Ensuring compliance with relevant laws and regulations, and ensuring that expenditure is lawful, is a key component of effective corporate governance

Appendix 2: Annual Governance Statement – Action Plan

The Lead Officer is the officer who will oversee and monitor the implementation of the action. However, for a number of actions, it is the responsibility of the Services, not the Lead Officer, to implement the actions

No.	Significant governance issue	Further Action Required	Lead Officer	Target Implementation Date	Status as at December 2012
1	Continue the positive direction of travel by implementing the planned control improvements to financial systems.	The actions to address the financial systems weaknesses will be incorporated into the Resources Service Improvement Plan. Progress on these improvement plans will be monitored by CMT throughout the year.	Don McLure	Throughout 2012/ 13	Positive direction continues. This progress is supported by comments from External Audit as part of the accounts closure process and reported to the Audit Committee.
2	Pay Harmonisation and Single Status.	Work is underway to fully implement the project, and resolve outstanding pay harmonisation and single status issues, with planned implementation from October 2012 subject to the outcome of trade union employee ballots.	Kim Jobson	December 2012	<p>Complete</p> <p>The three recognised Trade Unions (GMB, Unison and Unite) and the Council have now all signed the Local Collective Agreement which details the revised pay and conditions package for the National Joint Council (Green Book) employees up to and including spinal column point 49 (£41,616).</p> <p>The agreement's effective date is 1 October 2012</p> <p>Where employees have a reduction in basic pay as a result of this agreement, they will receive protection of basic contractual pay up to 30 September 2014.</p>
3	Implement revised Financial Management Standards	The revised Financial Management Standards should be finalised and implemented as soon as possible on the basis that the original implementation date has been missed.	Jeff Garfoot	December 2012	FMS have been drafted and are presently with PO12 peer group and Internal Audit for comment. It is expected that they will be signed off by the end of January

No.	Significant governance issue	Further Action Required	Lead Officer	Target Implementation Date	Status as at December 2012
4	Business Continuity.	Develop a robust ICT architecture with as few potential single points of failure as possible and replication of key systems	Phil Jackman	March 2013	Significant amount of work undertaken to develop ICT architecture with minimal potential single points of failure. Bid for ICT architecture funding to go to Member Officer Working Group in February 2013.
5	Changing Government Policy on the Ethical Framework.	Now that the Localism Bill has been enacted, we will review the ethical framework and implement a new compliant, fit for purpose and workable ethical structure for the Council, and provide advice and guidance to Members, Officers and other key stakeholders on the new ethical structure.	Colette Longbottom	October 2012	Complete. The council adopted a new code of conduct, delegations and assessment framework in summer and training was presented to members and to parish councils in Autumn.

Audit Committee

21 February 2013



Action Plan

2011/12 Audit of Accounts - Update

Report of Don McLure, Corporate Director Resources

Purpose of the Report

- 1 The purpose of this report is to update Members on the progress on implementation of the Action Plan from the agreed recommendations for improving control weaknesses incorporated in the External Auditor's 2011/12 Interim and Final Governance Reports.
- 2 The action plan, which was reported to Members in November, is being used by management for monitoring purposes and as agreed at that Committee, this report forms part of regular reporting leading to the approval of the Statement of Accounts for 2012/13.
- 3 The report is presented in accordance with paragraph 4.1.26 of the Committee's Operational Terms of Reference, "to monitor progress made by management in response to both internal and external audit findings and recommendations".

Background

- 4 In July, when the Statement of Accounts was reported to the Committee, it was agreed that an Action Plan based on the findings of the External Audit's Interim and Annual Governance reports which were presented to the Committee in May and September respectively, would be drawn up and reported to the Committee.
- 5 Responsibility for the actions then agreed have, where appropriate, been amended to a more appropriate officer from those recorded in the version reported to Committee in September.
- 6 The Action Plan has been incorporated into the Resources Performance Management Framework. Progress on the Plan is being monitored by the Resources Policy Performance and Planning Manager and this report gives an update on progress.

The Action Plan

- 7 An updated action plan incorporating progress made to date is included at Appendix 2.
- 8 All recommendations have a response to the Auditor's findings and an action plan to remedy the weakness identified. In many cases the weakness has now been addressed; these recommendations are marked as complete.
- 9 Actions that are complete require evidence to assure the Corporate Director Resources and External Audit that the recommendation has been implemented. This has now been identified and made available in most cases.
- 10 As the remaining recommendations are considered by officers in more detail, there will be discussions with External Audit to ensure that the controls and procedures, either in place, or to be implemented are in line with the Auditor's expectations.
- 11 It is possible however, that not all recommendations will be implemented in full. Any such variations will be agreed with the Corporate Director Resources and the reasons discussed with the External Auditor.

Summary of Progress

- 12 The following table shows the progress towards implementing the External Audit recommendations from the Interim Governance Report (IGR).

IGR	Total number of Actions	Actions Outstanding	Actions Completed	Evidence provided
As at 22 November 2012				
Actions from 2010/11	19	9	10	0
New Actions for 2011/12	33	10	23	0
	52	19	33	0
As at 11 February 2013				
Actions from 2010/11	19	6	13	9
New Actions for 2011/12	33	4	29	24
	52	10	42	31

- 13 The above table shows that a further 9 of the recommended actions have been completed since the November report, and evidence has now been provided for 31 of the 42 completed actions.

- 14 Of the 6 recommendations detailed in the Annual Governance Review (AGR), none are due to be complete at the present time. However, work is on-going to put in place procedures to implement the recommendations.
- 15 The monitoring of progress will continue through the Resources Performance Management Framework.

Recommendation and reasons

- 16 Members are asked to note the updated action plan attached at Appendix 2 and to gain assurance that control weaknesses identified through the final account audit process are being appropriately addressed.

Background papers

- (a) Audit Committee – 22 November 2012 – Action Plan - 2011/12 Audit of Accounts

Contact: Hilary Appleton Tel: 03000 266239

Appendix 1: Implications

Finance –

None

Staffing -

None

Risk -

None

Equality and Diversity -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Discrimination Act -

None

Legal Implications -

None

Findings	Responsibility	Priority	Auditor Comments	Response	Actions	Complete by:	Update:	Evidence
Recommendation 1: General Ledger - Journal documentation (Ex.6) Supporting documentation should accompany all journals. This will allow the 'inputter' to view the documentation to ensure its accuracy before posting. No supporting documentation accompanies journals when sent to the Ledger Management Team for input. Instead departments keep all documentation. It is therefore not clear how the Ledger Management Team know the amounts in the journal are accurate.	Strategic Finance - ALL / Service Finance - ALL	High	The risk is journals being input with no understanding of what the journal is for and that inaccurate journals are input into the General Ledger	Journals are prepared and reviewed by service accountants who retain the appropriate documentation. The Ledger Management team's role is to process journals and to ensure that the journal has been correctly entered into the system. Accuracy checks on the journal entries are carried out in services.	Supporting documentation is attached to all journal entries completed	31-December-2012-30 June 2013	It is not practical to attach all evidence to journals. It has been agreed with the Final Accounts Monitoring Group that where it is possible to attach relevant documentation, this will be done.	
Recommendation 2: General Ledger: Journal authorisation (Ex.7) The Council should introduce the review and authorisation of journals before posting to the General Ledger. A journal chosen during the walkthrough had no evidence of authorisation prior to input into the GL. There is no requirement for journal entries to be reviewed and authorised by a senior officer prior to upload.	Strategic Finance - Hilary Appleton	High	Without authorisation there is a risk that errors may not be identified prior to the Journal being input and that inappropriate journals could be posted to the GL	The review and authorisation of journals was discussed at the last audit. The volume of journals processed by Finance will require consideration of the process of review and authorisation to ensure that it is done efficiently. As appropriate, Strategic Finance will issue instruction to all service accounting teams to review and approve journals prior to entering into the General Ledger. This recommendation was the subject of an internal audit review to establish best practice.	Propose a method of journal approval Supporting documentation is attached to all journal entries completed Agree with External audit Implement a process of Journal Approvals	31-December-2012-31 March 2013	An on-line method of journal approval was proposed and discussed at FSP - the group of senior finance managers. The outcome was to confirm with the Final Accounts Monitoring Group the most appropriate method of approval. This Group agreed that there should be a paper-based system for journals to be reviewed and approved and implemented immediately for all journals over £1m, and is consistent with existing practices for journal approvals. This will be discussed with the External Auditor.	Brilling note to FSP. Minutes of FSP and minutes of Final Accounts Monitoring Group
Recommendation 3: General Ledger: Dataset reconciliations (Ex.8) The Council should complete regular reconciliations of dataset upload files. ICON cash receipting, Durham City Homes rents and payroll datasets are uploaded into the General Ledger. However, it is possible to amend the datasets. As a result there is a risk of amendment to the datasets before posting to the General Ledger. Officers have introduced Payroll and cash receipting upload file reconciliations. However, there is no reconciliation of the Durham rents upload file to the General Ledger. This also affects GL AM updates because of the 'cat format', resulting in the possibility of amendment of files before upload into General Ledger.	Strategic Finance - Ian Herbeson	Medium	The risk is amendment of datasets resulting in the upload of errors to the General Ledger	Partially a Ledger Management issue. There are amendments made to files to allow processing. This is to change headers, footers or periods to ensure that files are 'unique', particularly that they have unique 'headers' so that they can be successfully uploaded into Oracle. The originating service can produce more than one file of data per day with the same header which it is not possible to upload into Oracle. It is agreed that upload files could be locked to prevent any further amendments. The system is not locked and it is possible to lock the files to be a property. Confirmed ICT Systems that it is able to lock the files would need to be sought. As all amendments are processed via the correction facility in Oracle, there is no reason, subject to IT being able to arrange this, that files may not be locked.	Investigate the possibility of locking files that are to be uploaded into Oracle. Request ICT arrange the locking of files, if possible to do this.	31 March 2013	This issue remains outstanding. Strategic Finance, Ledger Management will liaise with ICT.	
Recommendation 4: General Ledger: Opening Balances (Ex. 9) The Council should document a review of the opening balances to confirm the General Ledger has brought the correct balances forward. The Oracle General Ledger automatically carries forward Opening balances. Officers are unaware of any procedures to check opening balances carried forward are correct.	Strategic Finance/Financial Systems Support	Medium	The risk is the Oracle GL does not carry forward the opening balances accurately, and officers do not identify this as no review takes place.	Oracle does not bring forward balances; I perpetually calculates balances on account from the sum of the transactions. The opening balances were checked by officers after amendments were made following the audit of the Statement of Accounts to ensure that the ledger matched the Statement of Accounts.	Check the opening balances in Oracle are consistent with the Statement of Accounts. Record the verification of the balances and sign off.	30 November 2012	The balances in Oracle General Ledger have been checked for consistency with the Statement of Accounts. The amendments made following the Audit of the Accounts are still to be completed. This is scheduled to be complete by 28 February 2013.	Evidence held on file in Strategic Finance.
Recommendation 5: General Ledger: Trial Balance (Ex. 10) The Council should complete regular trial balances to ensure that there are no major differences. Trial balances are instead only completed at the year-end	Strategic Finance - Ian Herbeson	Medium	The risk is that an imbalance occurs that is not identified before the year-end. Trial balances will be substantially tested at year end.	Agreed. Trial balances are being undertaken weekly, daily during the final accounts period. A trial balance was run on 3 March 2012, ahead of the final accounts period and was in balance. During the year, trial balances should be run to ensure the system is in balance. On a monthly basis, there should also be a reconciliation to the Discoverer Reports. During the year, trial balances should be run to ensure the system is in balance. On a monthly basis, there should also be a reconciliation to the Discoverer Reports.	Ensure that Trial Balances are produced on a regular basis Ensure that the Trial Balances are reviewed and corrective action taken where necessary. Ensure that the Trial balances are filed centrally for evidence of completion and correctness.	Complete	Trial balances are produced monthly and have been reviewed and approved up to 31 January 2013. This system has been in place since September 2012.	Evidence held on file in Strategic Finance.
Recommendation 6: General Ledger: Electronic authorisation (Ex. 11) The Council should introduce a system of approving reconciliations using emails. This will require the approving officer to email the preparer to confirm the reconciliation is accurate. Officers complete monthly Drive to Oracle reconciliations. A suitable officer then reviews and approves the reconciliation. This is an electronic authorisation which makes it difficult to verify the officer reviewing the reconciliation.	Strategic Finance - Ian Herbeson	Medium	The risk is the review of the reconciliation does not take place.	The weekly reconciliation of the files processed through the AIM interface from the former District Council's Agresso systems to Oracle no longer occurs. As the Agresso systems have been decommissioned, this reconciliation is no longer applicable.		Complete		No longer applicable
Recommendation 7: Payroll: No authorised signatories list (Ex.14) Either the Payroll section or the Service Departments should introduce an authorised signatories list, to help reduce the risk of submission of fraudulent time sheets	HR - Payroll and Pensions - Nick Orton	Medium	The risk is submission of inaccurate or fraudulent claims without the knowledge of the supervising officer	Creating, maintaining and using an authorised signatories list would be significant, labour intensive paper based task which would have doubtful benefits. A more suitable approach for confirming the validity of claims is to move where possible to electronic submission of claims. The identity of the individuals submitting/authorising the claims is confirmed through their logging on to the system. Online mileage claims are already being rolled out across the Authority. Payroll systems are not subject to any security or access controls. The system is not adapted to be worked. Some development work will be required and a decision on whether to develop this functionality is likely to be taken by 30 September 12.	Decide on the development of the functionality in ResourceLink to allow electronic submission of claims Move to electronic submission of claims - subject to above action Following the development of a ResourceLink development plan, implement a timetable for executing additional hours.	30 September 2014	In practice the development of ResourceLink is now going forwards via a formal project plan (evidence Project Initiation Document) - a decision on whether or not to develop and introduce online timesheet authorisation will be made as part of the ResourceLink development project. It is agreed that the development of the system will be completed as part of the rollout of phase 2 of the development plan (October 2013 to September 2014) under Enhancements to Manager & Employees Self Service.	Evidence Provided
Recommendation 8: Payroll: BACS pay run authorisation (Ex.15) The Payroll section should ensure a Team Supervisor authorises all BACS submission files	HR - Payroll and Pensions - Nick Orton	Medium	The risk is that no review of the BACS submission file took place. Increasing the risk of inaccurate payments.	At present, a check is carried out to establish that timesheets and claims have been signed. The implementation of a module for recording additional hours on a self service basis, similar to the MyView system, should be achievable though it is not possible at this time to determine the true cost or savings that would be required / achieved through such a system. A ResourceLink development plan is required to develop a system that would allow the submission of claims as a potential system development. Appropriate high level governance arrangements are in place to monitor the development of the ResourceLink system through project board arrangements				
Recommendation 9: Payroll: Voluntary Redundancy agreement not signed and returned by leave (Ex. 18) The Council should ensure all employees leaving have returned signed copies of the redundancy agreements.	HR - Payroll and Pensions - Nick Orton	Medium	The risk is that no review of the BACS submission file took place. Increasing the risk of inaccurate payments.			Complete		Evidence Received - File in Relevant Office if Required

Findings	Responsibility	Priority	Auditor Comments	Response	Actions	Complete by:	Update:	Evidence
The leaver tested had not signed and returned the voluntary redundancy agreement, sent by the Council. Officers confirmed the employee should have returned a signed agreement. However, because of the volume of redundancies processed during the year they have been unable to check the return of all redundancy agreements.	HR - Loraine Anderson	Medium	The risk is that the Council incorrectly processes voluntary redundancies without the individual concerned agreeing to take redundancy.	From June 2012 the process will be undertaken from one central point (The new HR Service) and in this regard audit and monitoring checks will be implemented to ensure all cases have the appropriate signatures prior to agreement to cases.				Received - File in Relevant Office if Required
Recommendation 10: Payroll: Reconciliation of payroll upload files to GL (Ex.19) The Council should ensure a senior officer reviews and authorises all reconciliations in the Accounts Payable system before the monthly reconciliation between the Payroll Upload Files and the General Ledger. However, there is no independent review and authorisation of the reconciliation	Strategic Finance - Beverley White	Medium	The risk is that the reconciliations are not accurate and because no review takes place this is not identified.	Ledger Management team will report to Beverly White going forward. The review of the reconciliations will be done by Jeanne Watson as the Ledger Manager's line manager.	Complete the reconciliations review and authorise the reconciliations File the reconciliations to evidence completion	28 February 2013	Reconciliations are being completed w.e.f. 01/04/12. Authorisation by independent officer to commence in February 2013 & evidence will be held on file - paper copies.	N/A
Recommendation 11: Accounts Payable: Payrun authorisation (Ex.3). The Council should introduce an independent review of raw sheets and BACS files. Accounts Payable Team Leaders prepare daily pay run sheets in Oracle. However, there is no review and authorisation of the pay run by an independent officer to ensure the pay sheet is accurate.	Service Finance - K Coad / Chris Jones	Medium	The risk is the Council pays inappropriate invoices, and because of no formal review taking place this is not identified.	An independent officer has now been nominated.	Includes the VACS payments are reviewed and authorised by the nominated person.	Complete	Pay Sheets and BACS files are reviewed by an independent officer within AP to ensure the pay sheet is accurate and reasonable based on previous trends.	Evidence Provided
Recommendation 12: Accounts Payable: Authorised Signatories List (Ex.50) The Accounts Payable system does not currently require signatories to be entered into the system. This could limit the size by reducing the number of individuals with the ability to certify non-purchase order invoices within each department.								
Recommendation 13: Accounts Payable: Non-Purchase Order Invoice review (Ex.51) An independent officer should review all non-purchase order invoices after entry into the Accounts Payable system. This officer should then validate the invoice for payment. This would help identify errors or inappropriate invoices. After the manual entry of non-purchase order invoices into the Accounts Payable system there is no review by an independent officer to ensure the details entered are correct. In addition, the same officer who entered the invoice details also manually validates the invoice in the Accounts Payable system, which approves the invoice for payment.	Service Finance - K Coad / Chris Jones	High	The risk is that coding or payment error occur because there is no independent review of the information entered into the Accounts Payable System. In addition, the processing of inappropriate invoices for payment is also a risk, as the officer entering the invoice details has the ability to validate the invoice for payment, without review from another officer.	The current P2P review policy has targeted the process to reduce the percentage of invoices processed this year, from 50% to 10%. On completion of the review (Jan 2013) a full quality check will be implemented.	Complete P2P review. Implement a full quality check	31 January 2013	Awaiting information following the review of the current P2P process.	
Recommendation 14: Accounts Payable and Receivable: Control account reconciliations (Ex.5) The Council should ensure the timely review and authorisation of all reconciliations by a senior officer. Officers have completed regular Accounts Payable and Accounts Receivable control account reconciliations. However, in November 2011 the only reconciliations authorised by a senior officer were the August, September and October 2011 reconciliations.	Strategic Finance - Ian Herberson	Medium	The risk is errors in the reconciliations are not identified as no review takes place.	This process was implemented following the AGF for 2010/11. The reconciliation is completed by Financial Systems and reviewed by Strategic Finance. The review and authorisation is now done on a regular/monthly basis.	Complete			Evidence held on file in Strategic Practice.
Recommendation 15: Account Receivable: Periodic Invoices (Ex.12) The Council should ensure the timely raising of all periodic invoices. No formal responsibility for periodic invoicing passed from the Accounts Receivable team to the Asset Management Team in 2011/12. Officers explained there was little handover between the two sections, which resulted in problems raising periodic invoices. Asset Management Team are only raising district invoices on a piecemeal basis as they only received district Agresso reports in November 2011. In addition, the Asset Management team has expressed concern that issuing of bills to some properties has not taken place for several years.	Asset Management Team - Gerard Darby	Medium	The risk is the Council has not collected all periodical income.	An assets Billing working group has been set up meeting on a monthly basis. Processes are being reviewed and properties under separate classifications are being scrutinised and time periods billing requirement ascertained. Garage rent are currently on system with Industrial units review ongoing.		31 January 2013		
Recommendation 16: Accounts Receivable: No reconciliation between Schools (Sims) Receipts and Accounts Receivable System (Ex.13). The Council should introduce a formal reconciliation between the two systems to help ensure the upload of all receipts from the Sims system into the Accounts Receivable system.	Service Finance - Ian Morrice	Medium	The risk is the Accounts Receivable system may not include all transactions from the Schools (Sims) system.	The income is input into SIMS manually via Receipts Advice forms. The income team match/reconcile all school bankings, i.e. bank receipts to SIMS. Controlled by an Oracle weekly report showing outstanding items. Quality checking process being determined. In addition, the schools funding finance team run regular Oracle reports and provide to the schools for further reconciliation. A review will be undertaken by the Schools Funding team. Possible clarification needed with regards to the error message within Oracle AR. Districts invoices not raised within Oracle	Determine a quality checking process	Complete	Schools do not raise accounts receivable via SIMS there is therefore no upload from SIMS batches in to Oracle. The recommendation seems to imply that the system for invoices payable exists for the system for invoices receivable exists for the system. All income banked by schools is entered on an electronic ES (Receipts Advice Form) system. The system which has been used for many years has been replaced by a new system. The new system is processed in Oracle without the need for a paper copy. Receipts Advice form to be completed and sent to the Income Team. This income is then matched to income received by the County Council and the County Council will then complete a Receipts Advice Form for income received in to the bank account or the amount transferred to the bank account. If the school failed to complete a Receipts Advice Form for income received in to the bank account or the amount transferred to the bank account, it would relate to their school budget, most of it relates to school meals income which is income to the Local Authority. Unless the school provide their own (school meals) therefore any income relating to the	N/A
Recommendation 17: Loans and Investments: Monthly reconciliation not authorised (Ex.17). The Council should ensure a senior officer reviews and authorises the monthly and year-end reconciliations.								

Investigations and Loans - Officers periodically reconciliation of the Investments Monitoring Schedule, which contains details of all investments made and the General Ledger and of all PwL/B interest and principal payments in the General Ledger to the PwL/B Loan Schedule.	Responsibility	Priority	Auditor Comments	Responses	Actions	Complete by	Update	Evidence
In both cases, a senior officer reviews the reconciliation. However, there is no evidence of this review taking place.	Strategic Finance - Ian Herderson	Medium	The risk is the reconciliation is inaccurate and because no review takes place this is not identified.	Following Finance Unitification, a senior officer has now been assigned responsibility for this review.	Complete the monthly reconciliation Review the reconciliation - ensure that it is correct, or take corrective action Obtain evidence of the review of the reconciliation	Complete	Monthly reconciliation complete for both principal and interest which has been balanced to both core records and Oracle GL in respect of loans and investments. All reconciliations are reviewed and approved to 31 January 2013.	Evidence Provided in Strategic Finance.
Recommendation 18: Oracle Projects: No authorised signatories list (Ex.54). Service Direct should compile an authorised signatories list to provide assurance that all extraction forms and time sheets have suitable approval.								
No authorised signatories list is in place at the Service Direct site. This affects both extraction forms, used to confirm the receipt of goods, and manual time sheets. Site Foremen sign both to confirm their accuracy. It was not possible to confirm that an approved individual signed the extraction form and time sheet tested as no authorised signatories list is in place.	Service Finance - Neighbourhood Services	Medium	The risk is that an inappropriate individual approves both the extraction forms and time sheets, resulting in the processing of inaccurate information.	All goods are ordered electronically using the Oracle system by the newly created Materials Controllers posts and the requisitioner is identified at that stage. Goods are 'received' by the Materials Controller once they have been received. They use the delivery note as proof or confirm with the requisitioner / Site Foreman / Supervisor that the goods have been received	Action completed	Complete		Required
Recommendation 19: Oracle Projects: Lack of evidence of surveyor visit or authorisation (Ex.55) Service Direct should ensure that Oracle Projects or a hard copy the documents at work completed by the Surveyor.								
Officers claimed Surveyors re-measure Service Direct jobs to identify actual changes. However, there is no evidence of this inspection taking place. As the job file does not contain details of the Surveyors visit. Evidence of the surveyors approving the job is also limited.	Service Finance - Neighbourhood Services	Medium	Officers claimed Surveyors re-measure Service Direct jobs to identify actual changes. However, there is no evidence of this inspection taking place. As the job file does not contain details of the Surveyors visit. Evidence of the surveyors approving the job is also limited.	Once a job is completed it is approved by the clients agent (Buildings Surveyor / Architect) who issues a Practical Completion certificate with or without a snagging list which are minor items of work still to be completed. After the 12 months defects liability period comes to an end a further inspection is carried out by the client's agent and Direct Services and any remedial works are then undertaken. On completion of these defects a 'Making Good / Final Certificate' is issued by the clients agent. The system has been recently reinforced and is monitored and reported upon by the Materials Controller. It is not possible to confirm that all projects have been inspected and this process which ensures all jobs are signed off and we improve our customer satisfaction levels.	Action completed	Complete		Required
Recommendation 20: Repairs and Maintenance: Delivery note filing (Ex.20) Service Direct should ensure filing of all delivery notes in date or supplier order.	Service Finance - Neighbourhood Services	Low	The risk is that Site Foremen do not provide the Materials Controller with delivery notes, simply receipts the goods in Oracle when required to, to ensure the prompt payment of invoices. This may therefore result in inaccurate delivery and payment of goods.	Agree with the recommendation, and this will be implemented as soon as possible	Ensure that the recommendation has been implemented.	30 November 2012		
Recommendation 21: Repairs and Maintenance: No authorised signatories list (Ex.21) Service Direct should compile an authorised signatories list to provide assurance that all extraction forms and time sheets have suitable approval.								
No authorised signatories list is in place at the Service Direct site. Approved officers sign manual time sheets completed by employees to confirm their accuracy. However, there is no authorised signatories list it was not possible to confirm that the officer signing the extraction form and time sheet was approved to do so.	Service Finance - Neighbourhood Services	Medium	The risk is that an inappropriate individual approves time sheets, resulting in the processing of inaccurate information.	Agree with the recommendation, and this will be implemented as soon as possible	Ensure that the recommendation has been implemented.	Complete		Required
Recommendation 22: Repairs and Maintenance: Receipting of materials in Oracle (Ex.22) An independent officer should review receipts entered into Oracle to ensure the information entered is accurate, before Oracle recognises the receipts.								
The receipting of goods in Oracle for the transaction tested was not completed correctly. This is because the officer receipting the goods wrongly included the price (12.2.85) in the quantity received column, while including the quantity received (1) in the price column. Oracle updates any commitment already in the system, through multiplying the quantity by the unit price. This inaccurate treatment had no impact on the updated commitment; however officers stated that large errors have occurred because of the inaccurate receipting of goods in Oracle.	Financial Systems - Keith Munroe	Medium	The risk is the individual receipting the goods enters wrong information resulting in inappropriate balances in the General Ledger. Although, budget monitoring would identify this, it could be time consuming to correct any errors uploaded in such a way.	Introducing an independent check on every receipt entered is not practical as a control to eradicate occasional errors, plus there is no standard functionality to facilitate and it would require a customisation. The compensating control is that the Materials Controller should ensure that material amounts (above £250) are included (on a monthly basis) for review.	No action required	Complete		N/A
Recommendation 23: SSID: Reconciliation of the SSID upload to the Accounts Payable system (Ex.16) The Council should ensure the year-end reconciliation uses the control total sheet and that a senior officer reviews and authorises the year-end reconciliation.								
Officers complete an informal reconciliation between the SSID upload file and the Accounts Payable system after every SSID upload. However, there is no control sheet in place and no formal documentation of the reconciliation exists. Officers have provided assurance that a control sheet will be introduced by the year-end.	Accounts Payable - Chris Jones	Medium	The risk is the reconciliation is not in place and as a result not all invoices are uploaded to the Accounts Payable system for payment.	Although governed by the constraints of Oracle, reconciliation/control sheets are now checked, maintained and filed following each year end reconciliation is carried out by an officer from Strategic Finance.	Ensure completion of the reconciliation Review the reconciliation and ensure correct, or take corrective action Obtain evidence of review	Complete	Although governed by the constraints of Oracle, reconciliation/control sheets are now checked, maintained and filed following each year end reconciliation is carried out by an officer from Strategic Finance.	Evidence Provided
Recommendation 24: SIMS: Invoices not authorised for payment (Ex.23) School Finance staff should ensure that all invoices are authorised. The School Manager should keep all GRNs on file to provide evidence the goods have been received.	Service Finance - David Shirer	Low	The risk is the payment of inaccurate or fraudulent invoices. In addition, goods may not have been received as there is no formal documentation of the School Manager receiving the goods.	A reminder will be issued to schools via the Extranet, about recommended procedures.	No action required	Complete	Note placed on the Schools Extranet 5 July 2012 reminding schools of procedures	Evidence Provided
Recommendation 25: SIMS: Authorised Signatories List (Ex.24) The Payment Authorisation Control Listing (PACL) tested was authorised by a member of staff not included on the authorised signatories list held by the School Funding Team.	Service Finance - David Shirer	Medium	The risk is an unapproved individual signs the PACL, and as the signatories lists are not up to date this is not identified. This could result in payment of inaccurate or fraudulent invoices.	Agreed. The Creditor Team within School Funding will pursue this after half term which is the best time to do this.	No action required	Complete	Note placed on Schools Extranet 15 January 2013 - copy of evidence attached. File held in office containing revised authorised forms received. Outstanding forms will be chased	Evidence Provided
Recommendation 26: SIMS: Reconciliation of the SIMS upload to Accounts Payable (Ex.25) The Council should ensure the year-end reconciliation uses the control sheet and also ensure a senior officer reviews and authorises the year-end reconciliation.								
Officers complete an informal reconciliation between the SIMS upload file and the Accounts Payable system after every SIMS upload. However, there is no control sheet in place and no formal documentation of the reconciliation exists. Officers have provided assurance that a control sheet will be introduced by the year-end.	Service Finance - David Shirer	Medium	The risk is the reconciliation is not in place and as a result not all invoices are uploaded to the Accounts Payable system for payment.	This is now done. Reports from SIMS are sent to Creditors who then report on discrepancies to School Funding	Action Complete	Complete		Evidence Received at the Requested Office if Required
Recommendation 27: Housing Benefits: Council Tax Benefit duplicate payment (Ex. 40) The Council should ensure that officers review all cases on the spool report and make manual amendments to the allocated claims.								

Finding	Responsibility	Priority	Author Comments	Response	Actions	Complete by	Update:	Evidence Provided
City of Durham - Following conversion of the Northgate system to the Council Tax system, officers identified 48 claims with a total value of £17,403.33 requiring a duplicate Council Tax Benefit (CTB) payment in error. These claims were logged to be corrected.	Service Finance - M Waters/J Stoney	Low	The risk is the Council Tax Benefit posted to the claimants Council Tax account is wrong.	Conversion testing identified an issue with the duplicate CTB payments CIVICA subsequently ran a fully identified a total of 48 affected claims. All claims have now been corrected and updated. The CTB posted to the Council Tax accounts has also been checked and is correct.		Complete		Evidence Provided
Recommendation 26: Housing Benefits: Benefit payment controls (Ex.41) The Council should ensure a duplicate Council Tax Benefit payment to Council Tax account 3612363390 for claim number 1009328. As at 4 July 2012 officers had not amended the affected claims.								
Recommendation 28: Housing Benefits: Benefit payment controls (Ex.41) The Council should ensure a Senior officer reviews all Housing Benefits payments before submission.	Service Finance - M Waters/J Stoney	High	The risk is payment of inaccurate or fraudulent payments, as there is no requirement for the payment file to be authorised.	All HB payment runs (BACS & Cheque) are now countersigned by a senior officer in line with the authorised signatory list before submission. Spreadsheets now record details of the officer creating the payment file, counter signing officer and officer responsible for the file submission.		Complete		Evidence Provided
Recommendation 29: Housing Benefits: Rent Rebate Reconciliations (Ex.42) The Council should introduce a standardised format for completing reconciliations. Timely three-way reconciliations between the General Ledger, Housing Benefits and Housing Rents system, which are reviewed and authorised by a senior officer. All entries and reconciling items should be referenced to supporting documentation.								
Ensigning and Wear Valley Prior to January 2012, Rent Rebate reconciliations between the Housing Benefit system and the East Durham Homes and Dale and Valley Homes systems have only been completed on the former district systems.	Service Finance - C Blackburn/T Robinson	High	The risk is the values contained within the Housing Rents systems do not agree to the Housing Benefits system.	At the time of the walkthrough, reconciliations had not been completed on the new merged system. Since January 2012, a full reconciliation has taken place for 2011/12 for all three of the HRA providers, with any discrepancies identified and noted. Reconciliation procedures have been developed and implemented internally. Reconciliation procedures have also been agreed with the housing providers, EDH, DXVH and DCH and reconciliations will continue to be completed as part of the overall Rents Reconciliations for all three areas.	Complete			Evidence Received
City of Durham The reconciliation does not reconcile the Housing Benefit system to the Housing Rents system. Instead it is only reconciles the Housing Benefits system to the General Ledger.								
Durham County Council (Unitary) Officers have not performed reconciliations during 2011/12.								
Recommendation 30: Housing Benefits: Council Tax Benefit Reconciliations (Ex.42) The Council should introduce a standardised format for completing reconciliations. A senior should review also review and authorise the reconciliations. All entries and reconciling items should be referenced to supporting documentation.								
No Council Tax benefit reconciliation has been completed during 2011/12.	Strategic Finance - Ian Henderson / Susan Oliver	High	The risk is the values contained within the General Ledger (for Council Tax) do not agree to the Housing Benefit/Landlord Tax systems.	Following completion of the merged new system full reconciliation has taken place. Since January 2012 the monthly reconciliations have re-commenced.	Complete			Required
Recommendation 31: Housing Benefits: Rent Allowance Reconciliations (Ex.42) The Council should introduce a standardised format for completing reconciliations. A senior should review also review and authorise the reconciliations. All entries and reconciling items should be referenced to supporting documentation.								
Cheshire-le-Street The format of the reconciliation is difficult to understand. In addition, unreconciled items with a value of £110,000 are included.				Pre merged Cheshire le Street - Officers have identified the discrepancies and are working to resolve the issue.				
City of Durham The reconciliation includes a BACS returned value for the period 1 September – 23 October 2011 of £2,366.16. However, this balance appears to exclude the BACS payment of £57 returned on 13 September 2011.				City of Durham - The balance appeared to exclude the £57, however this was a result of an unclear explanation. It had been identified during a reconciliation of the new system and the reconciliation details have been amended to explain the discrepancy.				
Sedgefield The reconciliation prior to merge identified there were payments of £1,977,097.33 included in the Housing Benefit system that were not in the General Ledger. In addition, there is no evidence of follow-up to ensure the payment was subsequently included in the General Ledger.	Service Finance - C Blackburn/T Robinson	High	The risk is the values contained within the merged system full reconciliation has taken place. Since January 2012 the monthly reconciliations have re-commenced.	Sedgefield - This amount was the advanced payment made prior to the shutdown of the Northgate system. This was identified during the reconciliation process and the former Sedgefield system has been reconciled and balanced.	Complete			Evidence Received
Durham County Council - Merged - The reconciliation has not been completed in a timely manner and there is no evidence of review of the reconciliation by a senior officer.				Durham County Council - Merged - Following go live of the new system, procedures are in place to reconcile payments on a monthly basis going forward. A full reconciliation has taken place for the 2011/12 merged system, with any discrepancies identified and noted. This will be completed during July 2012.				
Recommendation 32: Housing Benefits: First payment made to landlords (Ex.43) The Council should only make first payments to the claimant's landlord if the claimant has approved the payment.								
The Council has followed the guidance in A4/2011 of making first payments to landlords, as detailed in the Council's official guidance issued to assessors. In the one case tested, the claimant made specific requests that they receive the first payment direct.	Service Finance - C Blackburn/T Robinson	High	The risk is the Council are paying the first payment of Housing Benefit to the wrong recipient and would therefore be liable to repay the claimant the first payment. In addition, there is a potential risk through breaching the Data Protection Act 2000 by paying the claimants landlord without the claimants consent.	Housing Benefit (LHA & A4/2011) guidance states that an authority may make the first payment of Housing Benefit to the landlord, where they consider that it will assist the customer in securing or retaining a tenancy.	Complete			Evidence Received
Recommendation 33: Housing Benefits: Parameters (Ex.44) The Council should ensure a senior officer reviews and authorises the parameters entered into the merged system.								
Officers could not provide evidence a senior officer has reviewed the parameters in the new merged Housing Benefit system.	Service Finance - M Waters/J Stoney	High	The risk is the parameters in the merged system have been entered incorrectly and therefore the benefit calculations made by the system will be inaccurate.	Spreadsheets were available detailing all parameters set and whilst all parameters were checked by a senior officer the spreadsheets were not countersigned.	Complete			Evidence Provided
Recommendation 34: Council Tax: Reconciliation of VOA schedule to RV reports (Ex.32) The Council should ensure the review and authorisation of the reconciliation by a senior officer.				Moving forward as part of 2012/13 annual billing processes all parameters have been set in accordance with the 2012/13 charges. All parameters have been checked and countersigned. The process of counter signing has now been adopted for all parameter changes.				
Officers have completed a reconciliation of VOA schedule to banding reports. However, there is no evidence of review and authorisation of the reconciliation by a senior officer.	Service Finance - K Coad	Medium	The risk is the reconciliations are not accurate and as no review takes place this is not identified.	Procedures have now been implemented to formally record the review which is undertaken by a senior officer.	Complete			Evidence Provided
Recommendation 35: Council Tax and NNDR: Unable to provide documentation (Ex.45 and 46) The Council should ensure that all documentation is found and suitable for audit.								
Officers stated that planning department report all new properties or amendments to existing properties that require assessment for Council Tax and NNDR purposes. However, the supporting documentation for one new property was not readily available as evidence for testing at the time the work was carried out for Council tax at Sedgefield and NNDR at Dewenside, due to staff and documentation being located	Service Finance - K Coad/A Searle	Medium	The risk is that some properties are not charged Council Tax and NNDR as assessments are not undertaken.	Following the implementation of the unitary systems and structure, procedures have been put into place and documentation centralised and filed.	Complete			Evidence Provided
Recommendation 36: Council Tax and NNDR: Authorisation of Parameters (Ex.46 and Ex.37) The Council should ensure a senior officer should review the 2012/13 parameters, and formal documentation of the review kept.								
Sedgefield Officers for 2011/12 were input into the system and then reviewed by an independent officer. However, documentation of the review took place several months after entering the parameters. Therefore there is only evidence of this control taking place in retrospect.								

Finding	Responsibility	Priority	Auditor Comments	Response	Actions	Complete by:	Update:	Evidence
Council Tax - Wear Valley, Teesdale and Easington Senior officers entered the rent details of more junior staff then reviewed them (NB Teesdale - a senior officer did not review and authorise the NNDR parameters). This is a control weakness as there is a risk that junior staff do not have the relevant expertise and may feel pressured into agreeing the work of more senior officers when errors have occurred. Chester-le-Street and Easington Officers could not find supporting documentation to support the annual updating of parameters.	Service Finance - M Waters/J Stodney	High	The risk is the parameters were inaccurate and that no review was in place to identify the errors.	All former district sites are now obsolete i.e. Sedgelyield, Wear Valley, Teesdale, Derwentiside, Chester-le-Street and Easington. Durham County Unitary - Spreadsheets were available detailing all parameters set and whilst all parameters were checked by a senior officer the spreadsheets were not counter signed. As part of 2012/13 annual budgeting processes all parameters were checked and counter signed with the 2012/13 budget. All parameters were checked and counter signed. The process of counter signing has now been adopted for all parameter changes.	Complete			Evidence Received
City of Durham – NNDR only Officers claimed the parameters were input by two members of staff and then reviewed by a senior officer. However, the officer who claimed they reviewed the parameters has signed the supporting documentation as the inputting officer. The documentation does not include any evidence of another individual reviewing the parameters. Therefore the parameters are not supported by the procedure described by officers. Durham County Unitary Officers could not provide documentary evidence of review of the Council Tax parameters after migration from the former district systems to the new unitary system.								
Recommendation 37: Council Tax and NNDR: Fund account reconciliations (Ex.62) The Council should try to deal with all reconciling items ready for the year-end reconciliation. A senior officer should also review and authorise the year-end reconciliation. Going forward all reconciliations should be completed on a timely basis. The Unitary Council Tax and NNDR system reconciliations were not completed in a timely manner and local system reconciling items, which officers were unable to explain as part of the January 2012 reconciliation. However, officers intend to resolve most reconciling items ready for the year-end reconciliation. In addition, no evidence of senior officer review and authorisation has taken place.	Service Finance - K Coad/J Dawson	High	This risk is the General Ledger does not include all Council Tax and NNDR transactions.	Extensive work has been carried out in this area. A detailed action plan was developed which included a Reconciliation Protocol. Weekly meetings/updates continue to be conducted to monitor progress. A senior officer has responsibility for reviewing all income reconciliations in accordance with a pre-approved checklist, on at least a monthly basis.	Complete			Evidence Provided
Recommendation 38: NNDR: Reconciliation of VO Schedules to RV reports (Ex.36) The Council should ensure the review and authorisation of the reconciliation by a senior officer. Durham County Council – All Sites Officers have completed a reconciliation of VOA schedule to banding reports. However, there is no evidence of review and authorisation of the reconciliation by a senior officer. For the year ending 30 April 2011 the VO schedule states there are properties of 2,395 with a rateable value of 49,231,651. However, the property control report from the NNDR system shows properties of 2,354 with a rateable value of 49,254,901. Officers could not explain this difference.	Service Finance - K Coad/J Searle	Medium	The risk is the reconciliations are not accurate and as no review takes place this is not identified. Also risk that NNDR records are incomplete and as a result not all NNDR income that should be received is	Procedures have now been implemented to formally record the review which is undertaken by senior officer	Complete			Evidence Provided
Recommendation 39: Housing Rents: Review of feeder system upload files not documented (Ex.26) Officers should sign both the hardcopy summary file received from the feeder systems and the batch upload file from the Housing Rents system. Officers at East Durham Homes reconcile the feeder system upload files and the batch uploaded into the Housing Rents system to ensure that it is complete. However, no documentary evidence of this review is kept. This is the case for both Cash Receipting and Housing Rents. Recommendation 40: Housing Rents: Weekly cash reconciliation not documented (Ex.27) All reconciliations should be reviewed, checked and authorised by a senior officer. Particular emphasis should be placed on ensuring the Year end housing rents reconciliations are reviewed and authorised. A control sheet could be introduced to evidence the reconciliation has taken place. Reconciling and Housing Benefit payments received, and the total payments as recorded in Orchard is completed (although not evidenced formally). However, there is no independent review and authorisation of the reconciliation by a senior officer.	Service Finance - K Coad/J Hughes	Medium	The risk is the reconciliation does not take place as it is not evidenced. As a result errors may occur that are not identified	This reconciliation is completed by DCC for all Rents. The Revenues section undertakes a reconciliation showing the cash processed through ICON into the various rent systems. This is then confirmed with the rents teams to the figures uploaded into the rent systems.	Complete			Required
Recommendation 41: Reconciliations between the rents system and General Ledger not completed (Ex. 28) The Council should ensure completion of year-end reconciliations for all three sites. A senior officer should review and authorise all reconciliations. As at 10 January 2012 officers had completed an informal reconciliation for the period April to November 2011. Officers are developing a control sheet that will formally document the reconciliation undertaken and are hoping to use this to document all 2011/12 monthly reconciliations retrospectively. Wear Valley and City of Durham No reconciliation between the Housing Rents system and the General Ledger have been completed during 2011/12.	Service Finance - K Coad/J Hughes	Medium	The risk is the reconciliation does not take place as it is not evidenced. As a result errors may occur that are not identified	The reconciliation is completed by DCC for all Rents. The Revenues section undertakes a reconciliation showing the cash processed through ICON into the various rent systems. This is then confirmed with the rents teams to the figures uploaded into the rent systems.	Complete			Required
Recommendation 42: Housing Rents: Authorisation of the rents uprating calculation (Ex.29) The rents uprating calculation should be authorised on a timely basis. A senior officer has reviewed and authorised the rent restructuring document used to update the rents across all three sites. However, this was in retrospect several months after the uprating took place. Therefore there is a weakness in the timeliness of the control.	Service Finance - J Hughes	High	The risk is the General Ledger does not include all Housing Rent transactions.	The 'informal' reconciliation has been carried out for several years by the Rent team at EDH. However the reconciliation reviewed did not include a signed control sheet. It is acknowledged that this reconciliation should follow the standard format identified and therefore the process has now been introduced	Complete			Required
Recommendation 43: Housing Rents: Agreement of properties in the rent restructuring document to the rents system (Ex.30) The Council should agree the rent restructuring document with the relevant contractors to ensure that the correct number of properties are included in the rent restructuring document. Officers carried out a random check of 15 properties for all three sites in retrospect several months after the new rents were uploaded to the rents systems. Therefore there is a weakness in the timeliness of this control.	Service Finance - J Hughes	Medium	The risk is the rents have not been correctly uploaded and that this was not identified.	The senior officer reviewed and authorised the rent restructuring prior to the rents being uploaded, however the documentation evidencing this procedure was completed retrospectively. The 2012/13 review was completed and calculations signed off at the same time prior to upload.	Complete			Evidence Received
Recommendation 44: Housing Rents: Rent download and upload (Ex.39) The Council should ensure officers gain an understanding of the process carried out by contractors so they can review the contractors work, or if the contractor is not available call to confirm the download themselves. The rent download and upload for City of Durham is completed by a contractor based in Spain, as was not possible for us to walkthrough the process at the time of the audit.	Service Finance - J Hughes	Medium	The risk is the rents have not been correctly uploaded and that this was not identified.	A review of all three rent systems had taken place to confirm that the rents were uploaded correctly, however as noted above, the documentation evidencing this procedure was completed retrospectively. During audit sample checking, no errors were found in relation to the upload. The 2012/13 review was completed and calculations signed off at the same time prior to upload.	Complete			Evidence Received
Recommendation 45: Housing Rents: No review of property removal (Ex.45) The Council should introduce a review of all properties removed to ensure the removal has been completed correctly.	Service Finance - J Hughes	Medium	The risk is the contractor is not completing the rent download and uploads correctly and as a result of no review of the processes undertaken this is not identified.	In the context of the data load of new rents into the system, the rents are checked as above in order to review the contractors work. Should the contractor not be able to undertake any reconciliations, (or other consultants) would be able to undertake any reconciliations.	Complete			Required

Finding	Responsibility	Priority	Auditor Comments	Response	Actions	Complete by	Update:	Evidence Received
A process is in place for the removal of expenses from the Housing Benefits system. However, this does not involve the responsible officer being reviewed by an independent officer to ensure the removal is correct.	Service Finance - J Hughes	Medium	The risk is that properties being privately bought or demolished are still included in the housing stock and charges and valuations are wrongly raised for these properties.	There are current processes in place to ensure the Rent Terms to remove properties from the Rent Account. Any errors are spotted by the nature of the service. For example, should a RTB not be removed and the Authority continued to charge the rent, the former tenant advises immediately of the problem. Similarly, should a demolished property not be removed, the rent arrears would be highlighted immediately and upon investigation the problem would be found. There is an overall check at the year end as part of the Final Accounts process, where a reconciliation of stock numbers is undertaken for the HRA Statement. A similar mid-year check took place in previous years as part of the Housing Stock Review. The Head of Finance (Financial Services) is the Head of Finance (Financial Services) In addition to continue with this mid-year reconciliation.	Continue the mid-year reconciliation			
Recommendation 46: Cash Reconciling: Suspense Account (Ex.58) The Council should clear the suspense account of all large items by the year-end. As at 15 March 2012 the total value in suspense was £1,613,361.52. Of this balance, £1,568,871.34 related to March 2012. This does show significant improvement in managing suspense items from the very high balance seen early February 2012 which occurred due to the assignment of incorrect references meaning transactions were not reconciled.	Service Finance - K Coad/J Dowson	High	The risk is that a high volume of income is not correctly posted by the year-end.	The re - referencing has been resolved. Suspense amounts are being cleared on a daily basis and monitored weekly by management. The year end action plan ensured that all payments were posted on 31 March 2012.		Complete	Volume and value of suspense is now a local performance indicator reported both weekly and monthly. Substantial improvement achieved	Evidence Received
Recommendation 47: Cash Reconciling: Cash sheet totals reconciliation not evidenced (Ex.59) The Council should ensure documentation is maintained to provide evidence of reconciliations taking place. No reconciliation was performed between the cash taken by the Sperrymoor Cash Office and the amount recorded in ICON for the date tested, as the cash officer printers were not reviewed. The cash officer printers were reviewed and the values reconciled, although this review is not evidenced.	Service Finance - K Coad / J Dowson	Medium	The risk is the reconciliation is not performed and as a result errors are not identified.	Upon failure of a printer, end of day reports can be produced in the back office. All cashiers bankings have been reconciled from 1 April 2011 as part of the bank reconciliation. These form part of the reconciliation action plan.		Complete	Any previous cash-up reports can also be viewed and re-printed. (See Evidence). Daily checks are undertaken to ensure ALL bankings are correct and that they have gone in to Bank Reconciliation System. Again these are reconciled to the bank. The reconciliation is undertaken available on a daily basis. Additionally all staff provided with Cash Handling Policy recently reviewed & updated	Evidence Received
Recommendation 48: Cash Reconciling: Cash upload files reconciliation (Ex.60) The Council should reconcile all accounts in the General Ledger that are affected by a cash upload. In addition, the reconciliation should be reviewed and authorised by a senior officer. The reconciliation is performed between the Cash upload file received from the ICON system and the cash recorded in the General Ledger, however this was only introduced 1 December 2011. The reconciliation only reconciles the element of the upload file coded to account 936900 - System Cash Account in the General Ledger. As a result the reconciliation for 9 January 2012 only reconciled £1,025,427.99 of £2,781,731.26 that was included in the cash upload file. In addition, there is no review and authorisation of the reconciliation by a senior officer.	Service Finance - K Coad / J Dowson	High	The risk is the reconciliation does not highlight differences between the upload file and the General Ledger, as it only focuses on one General Ledger account and is not reviewed and authorised.	Originally the reconciliation only included amounts going through ICON, which explains that difference. Since then, the daily reconciliation has been extended to include all income. A senior officer now has responsibility for reviewing all income reconciliations in accordance with a pre-approved checklist, on at least a monthly basis.		Complete	The ICON reconciliation to the GL was only introduced on a daily basis on the 1 st December 2011, however it was then also completed retrospectively back to when ICON was implemented - 16 th March 2011. Reconciliation is reviewed and authorised on at least a monthly basis and forms part of the monthly Reconciliation Pro Form. Log mentioned earlier ICON is being used for every remaining establishment by August 2013	Evidence Received
Recommendation 49: Cash Reconciling: Duplicate References (Ex.61) The Council should ensure that all income posted to duplicate reference accounts has been investigated and evidence gained that it has been posted to the correct account. When the new ICON system was introduced there were many duplicate account references in the former district systems. As a result income received to the account was not reconciled. The Council should ensure that this is no longer an issue as this was identified early in 2011/12. They have also stated the fund account reconciliations are identifying any errors.	K Coad/J Dowson	Low	The residual risk is that income posted to the wrong account is not identified but this is not a material risk.	An exercise was undertaken to identify all duplicate account numbers and where possible checked for wrong payments. The ICON allocation rules were amended from September 2011 to ensure that this could no longer happen.		Complete	Action was taken on accordance with Civica's Solution and all issues were resolved by September 2011, i.e. all duplicated were re-referenced customers contacted bank rules amended, duplicate references identified, highlighted account holder tables amended, additional lines for interfaces & imposed. Further evidence available on site	Evidence Received
Recommendation 50: Bank Reconciliations: Bank Reconciliations not prepared or authorised on a timely basis (Ex.56) The Council should ensure Bank reconciliations for all accounts should be prepared and authorised on a timely basis.				Picked up by the Sperrymoor team where extensive work has been carried out and a KPI action plan is being developed. Weekly meetings/ updates continue to be held to ensure completion. A draft reconciliation is complete to 31 March 2012. However, a matching exercise is still underway. The finding refers to material, unreconciled items, this refers to cheque and BACS payments made from the Open Revenues system and not processed through Oracle.				
As at 26 March 2012 the most recently completed County Fund reconciliation was 31 October 2011. 27 March 2012 reconciliation was signed as prepared and authorised by the senior officer. The reconciliation was not undertaken for the bank but not in General Ledger. Not all of these amounts were identified to transaction level.	Service Finance K Coad/ J Dowson / Service Finance Ian Snail	High	The risk is that bank or General Ledger errors will not be identified and corrected on a timely basis.	As there was no interface in place until April 12 to process the relevant GL collection account and are accounted for via ICON). Any debts that fit the account and are not raised in the system on each of these accounts shall be currently working on the County Fund bank reconciliation for December 2012.		Complete	Reconciliation for Income Account in 11/12 was completed. The reconciliation for the annual reconciliation was completed in February 12 and another final one for the year in March 12. Evidence supplied. Going forward, reconciliations have been undertaken on a timely and appropriate basis	Evidence Received
No district reconciliations have been undertaken since September 2011. Officers have been asked to ensure that reconciliations are undertaken for the last 6 months of the year. In addition, there is no evidence the former district September 2011 reconciliations were reviewed and authorised. No Income Collection fund bank reconciliation has been undertaken during the year. This is because the bank reconciliation facility within ICON is not working. In addition, the Bank Reconciliations are not authorised on a timely basis. Bank reconciliations are also being authorised even though they include material reconciling items that have not been identified.								
Recommendation 51: Bank Reconciliations: Material sum of items through bank not included in General Ledger (Ex. 57) The Council should ensure that reconciliations are only authorised when all reconciling items have been identified.								

Finding	Responsibility	Priority	Auditor Comments	Response	Actions	Complete by:	Update:	Evidence Required
No interface between the Open Revenue system and the General Ledger exists. Therefore transactions are being posted manually. This has resulted in lagging reconciling items in the Bank reconciliation as items have been included in the Bank but not yet posted to the General Ledger. For example in January 2012 there was a total of £100.9 million. Some, but not all of these balances, have been identified down to transaction level. Even though these reconciling items exist, the bank reconciliations are still being signed off.	Service Director - K Coad/D Davidson	High	The risk is the General Ledger will not accurately reflect the bank transactions, which may impact on other areas such as budgetary control. Manual posting introduces an added risk of error or manipulation	A senior officer now has responsibility for reviewing all reconciliations in accordance with a pre approved checklist, on at least a monthly basis.		Complete		
The Accounts Payable system (Es31) No reconciliation between the SPOCC system and the Accounts Payable system. The Council should perform formal reconciliations between the SPOCC system and the Accounts Payable system. A senior officer should review and authorise the reconciliations.								
There is no formal reconciliation between the Accounts Payable system and SPOCC system. Officers stated they gain assurance that all payments processed through the SPOCC, as they are not in the Accounts Payable system for payment, if no error/variation appears when the file is uploaded.	Accounts Payable - Chris Jones	Medium	The risk is the Accounts Payable system and General Ledger will not be complete.	Although governed by the constraints of Oracle, reconciliation/control sheets are now checked, maintained and filed following each upload. An AP supervisor reviews and authorises the reconciliation.		Complete	Complete	Evidence Provided

Recommendation	Finding	Responsibility	Priority	Auditor Comments	Response	Actions	Commentary	Evidence Provided	Complete By:	On target / ahead of target / behind target / complete / not due
1	Revaluations - Schools	Assets - Michael Gibbey	High	The Council Valuer will need to consider which assets are reviewed in 2012/13 to avoid any problems with part valuation of schools. The Council should ensure that changes in valuations as at April and at the year end (31 March) are fully considered by finance as well as estates before deciding whether to account for these in the financial statements. A full valuation of schools should be completed as at 1 April 2012.	Rolling Programme with External Audit for consideration.	Agree rolling programme of valuations with External Audit. Issue instructions to Assets - Valuer. Complete agreed valuations in line with agreed programme.	The rolling programme for valuations has been agreed with the External Auditor. The instruction to the Valuer has been issued, requesting valuations to be completed by 28 February 2013 in line with the Final Accounts Timetable.		28-Feb-13	Not Due
2	Asset Register Reconciliation to Ledger	Ian Herberson	High	Reconciliations between the fixed asset register and the general ledger should be completed as part of the closedown period and must reconcile to all figures in the PPE note in the accounts. This should be supported by working papers and be completed prior to submission of the draft statements. The asset register should be updated regularly throughout the year (including additions).	Although reconciliations were provided, they did not adequately verify all the figures in the PPE note. From 2012/13 the reconciliations will be extended to include verification of all movements recorded in the PPE Note. It is agreed that the asset register should be updated regularly throughout the year (including additions), however this is a challenge as it requires the continual reconciliation of additions to capital expenditure, which it is only possible to finalise at the year end. It is a further time consuming exercise to evaluate the additions for adding value to the asset.	Complete reconciliations for all entries in PPE note. Evaluate the benefit of including additions during the year.			30-Jun-13	Not Due
3	Asset Register - Migration of Housing Dwellings	Ian Herberson	High	Eslington Council Dwellings records are held on a village basis and not on an individual asset basis. The Council should look to migrate all three housing asset registers for council dwellings onto the IPF Asset Manager as soon as is practicable to address this issue.	Separate report to Audit Committee - 22 November 2012		The project has suffered some delays due to delays at CIPFA in processing data and other conflicting workload priorities. It is anticipated that all information on Housing Assets will be with CIPFA by 28 February 2013. This delay should have no impact on 2012/13 closing of accounts.		28-Feb-13	Not Due
4	Working Papers	Hilary Appleton	High	The Council needs to ensure that final accounts working papers are prepared by officers as part of the closedown arrangements and a full set available for the beginning of the audit. There should be a clear audit trail to the figures in the statements and notes. This process will involve considerable effort but I am confident that the number of audit queries will reduce and more importantly so will the demands on officers' time.	Strategic Finance are discussing the format and extent of working papers that the External Auditor would expect to be provided. When devising the Final Accounts timetable for 2012/13 Closure of Accounts, it is proposed to build in an action and time for the completion of good quality working papers. A central repository will be established which adequately signposts the working papers provided to the Notes to the Statement of Accounts.	Add action 'working paper completion' into Final Accounts Timetable. Create a central repository for the deposit of completed working papers ready for External Audit consideration. Ensure the quality of the working papers is improved.			30-Jun-13	Not Due
5	HRA Rents	Azhar Rafiq	High	Officers were unable to provide a detailed breakdown of the weekly rent income figure, for the week 02/01/2012 - 08/01/2012, from the Durham City Homes rents system because only one individual who works offsite has the appropriate knowledge to allow an interrogation of the system. Officers should ensure that they have the appropriate knowledge within the council to enable them to complete this task.	Reports to provide specific evidence were not available on the Rent System - however, we are able to provide a standard system report which details all transactions over a period identified. Unfortunately, this report is a text file and does not have the facility to sort/query and the size of such files can also negate manual reconciliation. Although the County Council uses a contractor, there are other means of providing the appropriate reports. The County Council will however consider how the appropriate skills and knowledge can be gained by officers. Officers will liaise with External Auditors prior to the year end to establish what evidence/information will be required for 2012/13 final accounts.	Arrange for the required reports to be available as soon as possible after the year end. Investigate the possibility of providing reports in a format that allows interrogation i.e. not a text file. Consider how appropriate level of skills & knowledge to interrogate the system can be gained.			30-Jun-13	Not Due
6	HRS ALMOs	Azhar Rafiq	High	Both East Durham Homes and Dale and Valley Homes should be requested to specifically show a charge for 'Supervision and Management' and 'Repairs and Maintenance' on their periodic management fee invoices to provide a more robust method for finance officers to be able to prepare the classification needed for the accounts.	The management agreement with the ALMOs is a single agreement in return for a single management fee which is negotiated annually and we do not have separate funding agreements for repairs and management expenditure. The two ALMOs prepare income and expenditure accounts in line with companies act requirements and for their purposes a distinction is not necessary. The figures used in the final accounts process are developed following detailed and full consultation and agreement with the two ALMOs. Therefore the work required to ensure the figures are robust is already undertaken. Showing a notional breakdown on the invoice is not necessary. The year end position and the entries on the HRA statement are discussed and agreed with ALMO colleagues.	Discuss the information requirements with External Audit prior to the year end. Provide evidence of the agreement of the split of the ALMO fee as appropriate.			30-Jun-13	Not Due

Certification of claims and returns

Annual report 2011/12

Durham County Council



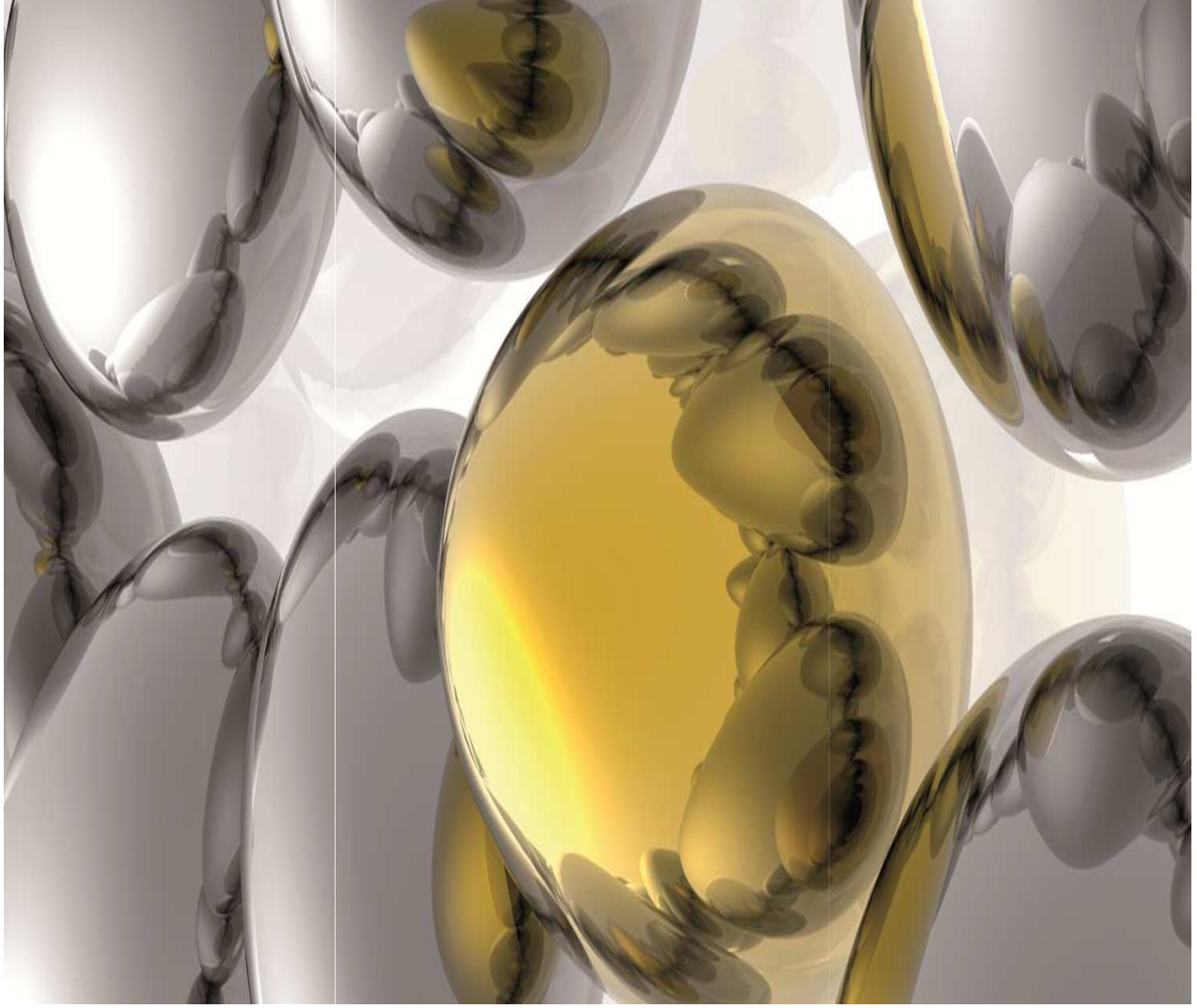
Contents

01	Background
02	Findings
03	Certification fees
04	Appendix A Detail
05	Appendix B Recommendations

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

01

Background



Background

The scope of our work

We are required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to the Council. We charge a fee to cover the full cost of meeting this requirement.

The Council is responsible for compiling grant claims and returns that follow the requirements and timescale set by the grant paying departments. The key features of the current arrangements are:

- For claims and returns below £100,000 the Commission does not certify arrangements.
- For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000, auditors assess the control environment for preparing the claim or return to decide if we can place reliance on it. Where we place reliance on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where we cannot place reliance on the control environment, auditors undertake all the tests in the certification instruction and use their assessment of the control environment to inform decisions on the testing required. This means we can reduce the audit fees for certification work if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and we test accordingly. The approach impacts on the grants work we carry out, placing more emphasis on the high value claims.

Background

Durham County Council (the Council) received some £984 million in funding from various grant-paying government departments in 2011/12 (£1 billion in 2010/11)*. These departments attach conditions to some of these grants and where the Council cannot evidence conditions have been met, the funding can be at risk.

It is therefore important the Council can demonstrate that it:

- has put in place adequate arrangements to prepare and authorise each claim and return (we call this the control environment); and
- can evidence that it has met the conditions attached to each claim.

This report summarises the findings from our certification work for the 2011/12 financial year.

* source: Note 37 grant income of the 2011/12 financial statements, excluding council tax income

02

Findings



Findings

Your control environment

We assessed your control environment for the five specified claims and returns:

- Housing and Council Tax Benefit subsidy;
- Pooling of housing capital receipts return;
- HRA subsidy
- NNDR; and
- Teachers Pensions.

We did not identify any significant weaknesses in your control environment.

Amendments and Qualifications

Where our certification work identifies errors on a claim or return the Council will amend the claim or return to correct the error. Where we concluded that the claim or return is not fairly stated or in accordance with the associated terms and conditions we will issue a qualification letter to the grant-paying body to draw its attention to our findings.

We certified five claims and returns in 2011/12. One was subject to a qualification letter but no amendment (housing and council tax benefits (HB/CTB)), another was subject to a qualification letter and amendment (national non domestic rates (NNDR3)) and a third was subject to amendment only (HRA subsidy).

Both the HB/CTB and NNDR3 returns were more complicated in 2011/12 due to the complexities of having eight systems for 9 months and the single combined system for 3 months. During 2012/13, the Council has considerably strengthened reconciliation and control processes. The NNDR3 is now run and reconciled on a monthly basis and officers have agreed a range of whole claims reviews (eg self-employed claims) which it is hoped will reduce issues raised during CAKE testing on the HB/CTB claim over the last couple of years. A full summary of the claims and returns is included at Appendix A.

A summary of recommendations are included at Appendix B.

03 Certification Fees

[illegible]

Certification Fees

For 2011/12 the total fee for certification of claims and returns was £61,000 (£103,500 2010/11). This represents 0.02% of the value certified (0.03% 2010/11). This a significant reduction on fees charged in previous years as a result of:

- a reduction in the number of claims above the £500,000 threshold;
- a reduction in the number of claims for which the Audit Commission has made certification arrangements; and
- an improvement in the Council's arrangements for preparing claims and returns (most notably on the housing and council tax benefit claim where additional testing by client staff prior to audit resulted in fewer case fails).

04

Appendix

A – Summary of certified claims and
returns



Appendix A – Summary of certified claims and returns

Claims and returns above £500,000

Claim or Return	Value (£)	Was reliance placed on the control environment?	Value of any amendments made £	Was a qualification letter issued?
Housing and Council Tax Benefit Scheme	228,817,077	Our approach to this claim does not allow reliance on the control environment. The approach agreed with the DwP is to test an initial sample of each benefit type and evaluate results from that work.	nil	<p>Yes</p> <p>Tested 20 cases for each of the 4 benefit types (non-HRA, rent rebates, rent allowances and council tax benefit), with additional testing of local scheme cases. In addition, council officers carried out testing of 40 cases in areas where errors were found in 2010/11. Found fewer discrepancies this year, most were not significant values themselves but have been extrapolated across the whole population and included in the QL. Total possible impact of each error is calculated by applying the error rate to the total value of the affected entry in the claim using subpopulations where possible - total extrapolated subsidy overpayment of £548,290.</p>

Appendix A – Summary of certified claims and returns (continued)

Claims and returns above £500,000

Claim or Return	Value (£)	Was reliance placed on the control environment?	Value of any amendments made £	Was a qualification letter issued?
National Non –Domestic Rates return	107,415,010	No – A complex claim, with a large volume of transactions so a high possibility of human error.	1,498,121 Data migration issue. Merger two Northgate sites into the new Civica system gave rise to difference between NNDR return and accounts.	Yes The QL referred to errors in system reports used to complete the return and to a few errors noted in the sample tested on rateable values, small business rate relief given, incomplete evidence to support claim for small business rate relief applications and also for empty properties.
Teachers' Pension return	29,541,660	No – A high value claim with a large volume of transactions. QL issued in previous year.	Nil	No
Pooling of housing capital receipts	2,084,759	No - Satisfactory arrangements but figures for the claim come from a variety of sources.	Nil	No
HRA subsidy	-4,199,486	No - Because of the technical nature of this claim and complex transactions and calculations.	-451,168	No
Total	363,659,020			

Appendix B – Summary of recommendations

Recommendation	Priorty	Agreed action	Date for implementation	Responsible officer
<p>More rigorous checks of claims before submission to the Grants coordinator</p> <p>All claim and return compilers should ensure that claims are compiled in line with the grants protocol. Claims should be cross-referenced to the relevant Certification Instructions and evidence provided that managers have checked the claim before submission to the Grants Coordinator.</p> <p>A note should be included on file for the audited claims and returns of the discussion which takes place at the meeting at which the grant is signed by the authorised signatory.</p>	H	<p>More rigorous checks of claims before submission to the Grants Coordinator.</p> <p>All claim and return compilers to ensure that claims are compiled in line with the grants protocol.</p> <p>A note to be included on file for the audited claims and returns of the discussion which takes place at the meeting at which the grant is signed by the authorised signatory</p>	2012-13	Grants coordinator – service finance

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Audit Committee

21 February 2013

Co-opted Members to the Audit Committee



Don McLure, Corporate Director Resources

Purpose of the Report

1. To seek the views of members on the appointment of co-opted Members to the Audit Committee and make recommendations to Council.

Background

2. On 10 December 2007 the Audit Committee agreed to appoint 2 co-opted non-voting members to the Audit Committee for a three year fixed contract. The co-options accorded with CIPFA's "Audit Committees: practical guidance for local authorities".
3. Following an advert in the press inviting applications, prospective candidates were interviewed on 28 February 2008 and two co-opted Members were appointed.
4. Their appointments were due to expire on 28 February 2011, and the Audit Committee agreed on 6 January 2011 to make recommendations to Council to re-appoint the two existing co-opted members until May 2013. The Council agreed to the committee's recommendation.
5. The views of the Committee are sought on whether to recommend that the Council extend further their fixed term contracts, and if so for how long, or whether to place an advert in the local press and seek applications. There is nothing in the Council's guidance to indicate that existing members could not be re-appointed.
6. If the Committee was minded to seek new applications it is suggested that a process be recommended to the Council whereby an advert be placed in the press, and that the Chairman and Vice-Chairman be authorised to draw up a short-list in consultation with the Corporate Director, Resources, the Head of Internal Audit, and Head of Legal and Democratic Services; with selected applicants to be interviewed by the Audit Committee.

Recommendation

7. That the Committee request that Council either:-
- (i) Agree to make new appointments, advertise the posts, and delegate the appointments to the Audit Committee, or
 - (ii) Extend the appointment of the current co-opted members until a fixed date.

Contact:	Ros Layfield	Tel:	03000 269 708
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Appendix 1: Implications

Finance-

Travelling and subsistence costs of the successful applicants in attending meetings/ training events of the Audit Committee, plus advertising and printing costs can be met from within existing budgets.

Staffing-

None

Risk-

None

Equality and Diversity/ Public Sector Equality Duty-

A recruitment process would be carried out in accordance with the Council's recruitment procedure.

Accommodation-

None

Crime and disorder-

None

Human rights-

None

Risk-

None

Consultation- Risk-

None

Procurement- Risk-

None

Disability Issues-

A recruitment process would be carried out in accordance with the Council's recruitment procedure.

Legal Implications-

None

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Audit Committee

21st February 2013

**Internal Audit Progress Report
Quarter Ended 31st December 2012**



Report of Manager of Internal Audit & Risk

PURPOSE OF THE REPORT

- 1 The purpose of this report is to inform Members of work carried out by Internal Audit during the period July to December 2012.
- 2 The report aims to:
 - Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit
 - Advise you of significant issues where controls need to improve to effectively manage risks
 - Advise you of any other types of audit work carried out such as grant certification or consultancy reviews where an assurance on the control environment may not be applicable
 - Advise you of amendments to planned work
 - Advise you of unplanned work carried out or to be carried out
 - Track progress on the response to audit reports and the implementation of agreed audit recommendations
 - Advise you of any changes to the audit process
 - Provide an update on our performance indicators comparing actual performance against planned
- 3 Appendices attached to this report are summarised below. Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3.)

Appendix 1	Report Implications
Appendix 2	Background to preparation and approval of the 2012/13 plan
Appendix 3	Audit methodology
Appendix 4	Progress on plan
Appendix 5	Final reports issued this quarter
Appendix 6	High and medium priority actions raised and implemented
Appendix 7	*Overdue actions
Appendix 8	* Limited or no assurance opinion audits

Appendix 9 Performance Indicators

BACKGROUND

- 4 Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
- 5 The background to the preparation and approval of the 2012/13 annual audit plan and the approved risks based audit strategy to be applied to deliver it is attached at Appendix 2.
- 6 The audit methodology used to determine the risk priority for addressing audit findings and how we arrive at our assurance opinions is given in Appendix 3.

PROGRESS AGAINST PLANNED WORK

- 7 A summary of the approved annual plan for each service grouping, updated to reflect work in progress and/or brought forward from last year's plan, is attached at Appendix 4. The status of each audit as at 31st December 2012 is indicated.
- 8 The status of each type of planned audit, as shown in Appendix 4, is summarised below:

Status	Assurance	Advice & Consultancy	Counter Fraud
Not Yet Started	15	2	8
Planning & Preparation	22	3	1
TOR agreed	14	1	2
Fieldwork in progress	25	17	4
Complete (draft or final report stage)	39	7	2
Defer to 2013/14	1	0	0
Cancel	1	2	0
Total	117	32	17

- 9 Where work is finalised the resultant assurance opinion, if applicable, is also shown in Appendix 4.
- 10 A summary of final audit reports issued this quarter is given in Appendix 5.

SIGNIFICANT ISSUES ARISING THIS QUARTER

Amendments to the approved 2012/13 Audit Plan

- 11 The following amendments to planned work have been agreed with Corporate Directors this quarter:

Service Grouping	Audit	Audit Type	Type of Amendment	Reason
ACE	Internet	Assurance	Defer to 2013/14	As the development of the new internet site has been delayed, the proposed assurance work will no longer be required during 2012/13. A request has been made to

Service Grouping	Audit	Audit Type	Type of Amendment	Reason
				defer this to 2013/14.
CAS	POPPIE System Review	Assurance	Cancellation	This planned assurance audit, carried forward from last year's plan, has been cancelled as the responsibility for the system is to transfer to DCC as part of the public health transfer. It was agreed that assurance on the management of identified risks would be considered as part of the wider Public Health Transition due diligence work being undertaken.
NS	Cash receipting and reconciliation arrangements – Indoor Facilities.	Advice & Consultancy	Cancellation	Initially a service request, it was agreed with the Strategic Manager - Indoor Sport & Leisure that the audit would be cancelled as identified risks to service objectives had been considered as part of the Gym Management review and there was no perceived added value of doing any further testing at this time.
RED	Small Projects	Advice & Consultancy	Cancellation	Initially a service request, it was agreed that there was no longer a need to carry out this work as the issue of concern had already been addressed internally.

- 12 29 new unplanned reviews have been added to the plan this quarter. Of these 19 relate to investigations. Details of investigations will be provided in the 6 monthly fraud and irregularity update report.
- 13 The 10 new unplanned reviews added to address new or emerging risks from the contingency provision within the plan are:

Service Grouping	Audit	Audit Type
ACE	CIC Grant Application	Advice & Consultancy
CAS	Durham Federation – School Request	Assurance
CAS	Control Risk Self Assessment in Schools	Advice & Consultancy
NS	Quality Management System – 2 nd Visit	Advice & Consultancy
NS	Cash collection at outside events	Advice & Consultancy
NS	Competition Line Contract Review - Invoice Reconciliation	Advice & Consultancy
RES	PCC election	Advice & Consultancy
RES	County Council elections	Advice & Consultancy
RES	RIPA	Assurance
RES	ICON Cash Management V11 Project	Advice and Consultancy

Outstanding Management Responses to Draft Reports

- 14 Responses to the following draft reports were overdue as at 31 December 2012.

Service Grouping	Audit	Date Issued	Key Contact	Assurance Opinion	Comment
CAS	Procurement in Schools	30 Oct 2012	Head of Education	Moderate	IA progressing matters with Corporate Procurement and School Funding Managers.
CAS	St. Mary Magdalene R.C. Aided Primary School	27 Nov 2012	Head Teacher	Substantial	Final report issued 25 January 2013.

Reports Awaiting Sign Off from Heads of Service

- 15 The following draft reports have been reviewed by the key contact but are awaiting sign off from the relevant Head of Service.

Service Grouping	Audit	Date Issued	Date Response provided by key contact	Issued to Head of Service	Assurance Opinion	Comment
NS	Gala Theatre	13 Nov 2012	13 Dec 2012	11 Jan 2013	Moderate	IA progressing matters with responsible Head of Service.
NS	Onsite procedures for disposal of waste materials	24 Oct 2012	16 Nov 2012	03 Dec 2012	Limited	IA met with responsible Heads of Service / Managers on 08 Feb 2013 to progress.

Response to audit findings and recommendations

- 16 Details of the numbers of High and Medium priority ranking recommendations raised and overdue, by Service Grouping and Audit Year, are given in Appendix 6. A summary of progress on actions due by the 31 December 2012 is given below:

Service	Actions Due by 31/12/12	Overdue Actions by Original Target Dates		Overdue Actions where revised date agreed		Revised overdue actions	
		No	%	No	%	No	%
ACE	9	2	22	2	100	0	0
CAS	113	11	10	10	91	1	1
NS	377	19	5	10	53	12	3
RED	296	10	3	9	90	1	0
RES	340	39	11	39	100	7	2
TOTAL	1135	81	7	70	86	21	2

- 17 Details of all 81 actions overdue against original target dates are provided in Appendix 7. Your attention is drawn to the 21 actions, which are overdue by either the original target date or revised target date where agreed. These are highlighted in bold in Appendix 7.
- 18 Those recommendations reported last quarter as overdue that are still overdue are highlighted in bold italics.

Limited / No Assurance Opinion Audits

- 19 7 audits were finalised in this quarter which resulted in an inadequate assurance opinion (limited or no assurance opinion). Action plans have been agreed and either have been or are being implemented to address all of the control weaknesses identified.
- 20 A summary of the key findings from each of these reviews is provided in Appendix 8.

PERFORMANCE INDICATORS

- 21 A summary of our actual performance at the end of December compared to agreed target performance indicators is given in Appendix 9.
- 22 This is the second quarter of the 2012/13 audit plan (July 2012 - June 2013). 39 out of 117 planned assurance reviews are complete. Work has commenced on another 61 which on average is estimated to be 36% complete. Consequently after the 6 months performance, the target to deliver 90% of planned assurance reviews is on track. However some slippage on delivery is expected in the next six months due to a reduction in the forecast of audit days available for the rest of the year. This is primarily due to:
- Temporary secondment (promotion) of principal auditor
 - Unsuccessful attempt to recruit an additional IT Auditor
 - Higher than forecast sickness absence
 - More resources required for counter fraud and irregularity work, especially in relation to the National Fraud Initiative exercise and responsive investigations
 - Some planned reviews in new areas requiring more resource than originally estimated.

- 23 The gap between the revised forecast of audit days required to deliver the plan and the revised forecast of audit days available will be managed through a combination of agency staff and / or work being allocated to our Internal Audit partner, PriceWaterhouseCoopers.
- 24 In the longer term it is intended to fill the shortfall in IT audit skills through a combination of creating a trainee IT auditor post, to work alongside the existing in house IT auditor, and buying in specialist technical expertise through a call off consultancy agreement following a targeted procurement exercise.

RECOMMENDATIONS

- 25 Members are asked to note,:
- The amendments made to the 2012/13 Annual Audit Plan
 - Work undertaken by Internal Audit during the quarter ended December 2012 and
 - Note the progress made by service managers in responding to the work of Internal Audit

Contact:	Avril Wallage	Tel:	03000 269645
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Appendix 1: Implications

Finance

There are no direct financial implications arising for the Council as a result of this report, although we aim through our audit planning arrangements to review core systems in operation and ensure through our broad programme of work that the Council has made safe and efficient arrangements for the proper administration of its financial affairs.

Staffing

None

Risk

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

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

None

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Appendix 2

Background to the preparation of the 2012/13 Annual Audit Plan

- 1 The 2012/13 annual audit plan was developed in consultation with each service grouping's senior management team and was endorsed by CMT and the Audit Committee on the 6th June 2012 and the 28th June 2012 respectively.
- 2 The planned assurance work included in the plan reflects the agreed audit strategy to review each key service activity and each key system over a five year rolling programme. In applying a risk based approach we aim to support managers embed operational/inherent risk management through the development of Control Risk Assessments (CRAs).
- 3 Through the development of CRAs in consultation with nominated key contacts, as part of the planning and preparation stage of each planned assurance review, we will add value by helping service managers to:
 - Identify and assess risks
 - Document service objectives, risks and existing controls
 - Assess the adequacy of the existing control framework (control design) and identify additional controls to improve operational risk management and /or highlight controls that are unnecessary
 - Identify and assess the reliability of assurance provided from other sources to avoid any unnecessary duplication and highlight any assurance gaps
- 4 Through independent testing of expected controls we add value by providing reliable and objective assurance that controls established by managers are operating in practice and that they are effective in reducing the likelihood and / or impact of agreed risks occurring.
- 5 Through the identification and assessment of operational risks we are also able to add value to the strategic risk management process. This is done by providing assurance that controls identified to manage strategic risks are both adequate and effective. Potential new or emerging strategic risks may also be identified.
- 6 Applying a risk based audit approach ensures that audit resources are focused on the right things. The planning and preparation stage of each audit review with the right key contact(s) is essential. It is not until this planning and preparation stage is complete that we can determine the scope and timing of each audit.
- 7 Following initial planning and preparation discussions, draft terms of reference specifying the proposed scope of each audit will be issued for the agreement of the key contact. The planned start date (fieldwork) and planned

completion date (issue of draft report) will also be shown. It should be noted that wherever possible any timing preferences expressed by service managers at the audit planning and preparation stage will be considered when determining planned start dates but these cannot be guaranteed.

- 8 Confirmation of actual start dates and expected completion dates will be given to key contacts prior to fieldwork commencing. It should be noted that these timescales are subject to the following assumptions:
 - All relevant documentation, including source data, reports and procedures will be made available promptly on request
 - Staff and management will make reasonable time available for interviews and will promptly follow-up questions or requests for documentation and
 - Assistance will be available in scheduling meetings and interviews where required
- 9 Should audit staff not be able to commence the fieldwork as planned, the key contact will be advised accordingly. Wherever possible advance notice will be given but there may be circumstances when this cannot be done e.g unplanned leave of absence. Likewise, we request that should a key contact become aware of something that may prevent the fieldwork starting as planned that they immediately let us know so that if necessary audit resources can be reallocated.
- 10 Should any problems be encountered in progressing an audit these will be reported to the relevant head of service and /or the Corporate Director, and if necessary the Audit Committee.
- 11 In accordance with our Internal Audit Charter, we will give an assurance opinion on the effectiveness of internal controls each time we complete an assurance review.
- 12 The % of planned assurance reviews completed from the annual audit plan is one of the corporate basket of indicators which is monitored through the Council's quarterly performance reporting framework and is challenged by the Audit Committee. Failure to deliver the agreed plan may prevent an annual audit opinion being given and the Council failing to meet its statutory requirements. It will also delay the embedding of operational risk management exposing the Council to potential greater risk.
- 13 It is managers' responsibility to ensure that effective controls operate within their service areas. To provide independent assurance that adequate progress is made in the implementation of agreed recommendations at the appropriate service operational level, all high and medium recommendations contained within actions plans within individual audit reports are followed up by internal audit. The method of audit follow up will vary according to the priority of the recommendation. In addition, listings of all recommendations outstanding at the end of each month are produced and issued to nominated representatives to assist your own internal monitoring processes.
- 14 Audit recommendations are allocated a priority ranking reflecting the significance of the audit findings to which they relate.

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 Council (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 Council 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)

ASSURANCE OPINION METHODOLOGY

APPENDIX 3

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	L
	Minor	Major	Critical
		IMPACT	

Priority of our recommendations

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

High	Action that is considered imperative to ensure that the service/system/process objectives are not exposed to significant risk from weaknesses in critical or key controls
Medium	Action required to ensure that the service/system/process objectives are not exposed to major risk from weaknesses in controls
Low	Action required to ensure that the service/system/process objectives is not exposed to minor risk from weaknesses in controls
Advisory	Action that is considered desirable to address minor weaknesses in control that if implemented may not reduce the impact or likelihood of a risk occurring but should result in enhanced control or better value for money.

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:

Full Assurance	There is a sound system of control designed to achieve the process/system/service objectives and manage the risks to achieving those objectives. (No H, M or L findings/recommendations)
Substantial Assurance	Whilst there is a sound system of control, there are some weaknesses, which may put some of the system objectives at minor risk. (No H or M findings/recommendations)
Moderate Assurance	Whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk. (No H findings/recommendations)
Limited Assurance	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk. (H findings/recommendations)
No Assurance	Control is weak as controls in numerous key areas are ineffective leaving the system open to significant risk of error or abuse

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013						Appendix 4
Progress as at 31 December 2012						
	Service	Audit Ref	Review Type	Status	Assurance Opinion	
CORPORATE						

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013						Appendix 4
Progress as at 31 December 2012						
	Service	Audit Ref	Review Type	Status	Assurance Opinion	
	Design & Print Services	65000x/2013	Assurance	Draft Report		
	Business Continuity for ICT	98101x/2013	Assurance	Draft Report		
	Procurement - Quotations	11052x/2013	Advice & Consultancy	Complete	N/A	
	Business Travel & Accommodation	10117x/2013	Advice & Consultancy	Complete	N/A	
	Digital Durham	98112x/2013	Advice & Consultancy	In Progress		
	Audits deferred from 2011/12					
	Oracle EBS	10604/2013	Assurance	Not Started		
	Procurement - Contract Register	11054x/2013	Assurance	Not Started		
	Whistleblowing arrangements	11171x/2013	Assurance	Final Report	Moderate	
	Information Security Policy - Physical Security	98103x/2013/04	Assurance	In Progress		
	Audits scheduled from the strategic plan					
	Council Tax	00500/2013	Assurance	In Progress		
	NNDR	00550/2013	Assurance	In Progress		
	Housing & Council Tax Benefits	00700/2013	Assurance	In Progress		
	Housing Benefit Subsidy	00715/2013	Assurance	Draft Report		
	Revs & Bens Reconciliations	00720/2013	Assurance	Final Report	Substantial	
	P2P	10150/2013	Assurance	ToR issued		
	Payroll	10210/2013	Assurance	Preparation		
	Income & Debt Recovery	10400/2013	Assurance	Preparation		
	Card Terminals	10417/2013	Assurance	Not Started		
	ICON Cash Management	10460/2013	Assurance	ToR issued		
	Short Term Investments	10500/2013	Assurance	Draft Report		
	Bank Reconciliations	10602/2013	Assurance	ToR issued		
	Budgetary Control & Reporting	10605/2013	Assurance	ToR issued		
	Section 151 Compliance	10650/2013	Assurance	Preparation		
	Banking Arrangements	10907/2013	Assurance	In Progress		
	Taxation - PAYE	10213/2013	Assurance	Preparation		
	Taxation - VAT	10915/2013	Assurance	In Progress		
	Procurement Cards	10925/2013	Assurance	ToR issued		
	Committee Services	10950/2013	Assurance	ToR issued		
	Flexible Working & Contract Variations	11021/2013	Assurance	Preparation		
	Unix Security	98004/2013	Assurance	Preparation		
	Windows Security	98011/2013	Assurance	Not Started		
	Internet Security	98012/2013	Assurance	Preparation		
	Information Security - Forensic Readiness	98103/2013/01	Assurance	Not Started		
	Information Security - Security incident Management	98103/2013/02	Assurance	Not Started		
	Information Security - Systems Dev & Mtce	98103/2013/03	Assurance	Not Started		
	Information Security - Warranty	98103/2013/04	Assurance	Not Started		

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013							Appendix 4
Progress as at 31 December 2012							
	Service	Audit Ref	Review Type	Status	Assurance Opinion		
Income & Expenditure Project	ICT	98114/2013	Assurance	Preparation			
Oracle workstreams	Corporate Finance	10607/2013	Advice & Consultancy	In Progress			
Review of SLAs	Finance Service	10929/2013	Advice & Consultancy	In Progress			
RIPA Group	Legal & Democratic	11011/2013	Advice & Consultancy	In Progress			
Strategic Procurement Network	Corporate Finance	11057/2013	Advice & Consultancy	In Progress			
Information Security Forum	ICT	98103x/2013	Advice & Consultancy	In Progress			
Service Requests							
Local Council Tax Scheme	Finance Service	00510/2013	Advice & Consultancy	Complete	N/A		
Corporate Credit cards	Corporate Finance	10908/2013	Assurance	In Progress			
Leases	Corporate Finance	10927/2013	Advice & Consultancy	In Progress			
Petty Cash Usage	Corporate Finance	10928/2013	Assurance	ToR issued			
Access Controls	ICT	98037/2013	Assurance	In Progress			
Public Services Network	ICT	98108/2013	Assurance	Preparation			
Invoice scanning and indexing	Finance Service	10465/2013	Advice & Consultancy	In Progress			
Oracle EPM project	Corporate Finance	10616/2013	Advice & Consultancy	In Progress			
Oracle BI project	Corporate Finance	10617/2013	Advice & Consultancy	In Progress			
Oracle R12 project	Corporate Finance	10618/2013	Advice & Consultancy	In Progress			
Collection Fund	Finance Service	10926/2013	Advice & Consultancy	ToR issued			
Unplanned work							
RIPA	Legal & Democratic	11011a/2013	Assurance	In Progress			
ICON v11 project	Finance Service	10460/2013/01	Advice & Consultancy	In Progress			
PCC Elections	Legal & Democratic	10941/2013	Advice & Consultancy	Preparation			
County Council Elections	Legal & Democratic	10942/2013	Advice & Consultancy	Not Started			
ACE							
Work in progress @ 30/06/12							
Records Management	Planning & Perf.	11010x/2013/04	Assurance	In Progress			
Audits deferred from 2011/12							
PGF: AAP Information Governance	Parts & Comm Eng.	11000x/2013/03	Assurance	Preparation			
Data Protection - Encryption	Planning & Perf.	11010x/2013/03	Assurance	In Progress			
Development of Intranet	Policy & Comms	11005x/2013	Assurance	*ToR issued			
Business Continuity Planning	Policy & Comms	11001/2013	Assurance	Preparation			
Audits scheduled from the strategic plan							

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013						Appendix 4
Progress as at 31 December 2012						
	Service	Audit Ref	Review Type	Status	Assurance Opinion	
	Partnership Governance Framework	11000/2013	Assurance	Preparation		
	Data Protection - Training	11018/2013/01	Assurance	In Progress		
	Data Protection - Data Access	11018/2013/02	Assurance	Not Started		
	Data Quality - Rolling Programme	11080/2013	Assurance	Preparation		
	Communications - Internet	11017/2013/02	Assurance	Defer		
	Information Governance Group	11010/2013	Advice & Consultancy	In Progress		
	Communications - Internet Dev.	11017/2013/01	Advice & Consultancy	Preparation		
	Community Buildings	11019/2013	Advice & Consultancy	Complete	N/A	
					</	

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013						Appendix 4
Progress as at 31 December 2012						
	Service	Audit Ref	Review Type	Status	Assurance Opinion	
Utility Bills	Planning & Assets	26047/2013	Assurance	In Progress		
NS						
Work in progress @ 30/06/12						
Street Lighting	Technical Services	25009/2012.bf	Assurance	Final Report	Full	
Management of Gym Memberships	Sport & Leisure - Indoor Facilities	12260/2012.bf	Assurance	Final Report	Moderate	
Trade Waste	Direct Services - Streetscene	22010/2012.bf	Assurance	Final Report	N/A	
Audits deferred from 2011/12						
Housing Maintenance - Gas Servicing and Responsive Repairs	Direct Services - Building and Facilities Maintenance	20011/2012.bf	Assurance	Final Report	Substantial	
Pollution Control	EHCP - Environmental Protection	12265/2012.bf	Assurance	In Progress		
Highways Maintenance	Technical Services	25890/2012.bf	Assurance	Not Started		
Audits scheduled from the strategic plan						
Stores Management	Projects & Business Services / Direct Services	20020/2013	Assurance	Final Report	Limited	
Events Management	Sport & Leisure - Events Management	13430/2013	Assurance	Final Report	Moderate	
Compliance Testing - follow up from 2011/12	Direct Services - Fleet	20100/2013/01	Assurance	In Progress		
Non Council Services -MOT arrangements						
Bereavement Services	Direct Services - Streetscene	13003/2013	Assurance	Final Report	Limited	
Public Health Enforcement - Housing Multiple Occupation Licences	EHCP - Environmental Protection	13031/2013	Assurance	In Progress		
Enforcement & Education (follow up from 2011/12)	Direct Services - Streetscene	13421/2013	Assurance	Not Started		
Construction Services and Planned Maintenance Programme	Direct Services - Building and Facilities Maintenance	60720/2013	Assurance	Not Started		
Durham City Homes - Planned Maintenance	Direct Services - Building and Facilities Maintenance	13098/2013	Assurance	Final Report	Full	

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013						Appendix 4
Progress as at 31 December 2012						
	Service	Audit Ref	Review Type	Status	Assurance Opinion	
Trade Waste - Systems testing	Direct Services - Streetscene	22010/2013/01	Assurance	Not Started		
Service Requests						
Stores Management - On site processes for stores management / disposal of waste materials	Technical Services Direct Services	25001/2013	Assurance	Draft Report		
Energy Management Arrangements	Sport & Leisure - Indoor Facilities	13422/2013	Advice & Consultancy	In Progress		
Gala Theatre - Review of contracting arrangements - productions, show settlements and merchandising. Review of Box Office	Sport & Leisure - Indoor Facilities	14901/2013	Assurance	Draft report		
Budgetary Control - Focus on management of duplicate receipting of expenditure on system and allocation of costs to budget heads	Technical Services	10635/2013	Assurance	In Progress		
MTFP Savings - Use of Council vehicles for home to work journey	Direct Services - County Fleet	20100/2013/02	Advice & Consultancy	Not Started		
Cash reconciliation, cash receipting (including analysis of alternative methods) and recovery	Sport & Leisure - Indoor Facilities	10435/2013/01	Advice & Consultancy	Cancelled		
County Durham Sport	Sport & Leisure - Indoor Facilities	12211/2013	Grant Certification	Not Started		
Markets	EHCP - Consumer Protection	13351/2013	Advice & Consultancy	Not Started		
Unplanned Work						
NS - QMS	Direct Services - Building and Facilities Maintenance	99806/2013/03	Advice and Consultancy	Draft Report	N/A	
NS - QMS Second Visit	Direct Services - Building and Facilities Maintenance	99806/2013/04	Advice and Consultancy	Draft Report	N/A	
School Crossing Patrol - Retainer payment arrangements.	Technical Services	99803/2013/03	Assurance	In Progress		
Cash collection at outside events	Sport & Leisure - Indoor Facilities	99806/2013/05	Advice and Consultancy	In Progress		
Competition Line Contract Review - Invoice Reconciliation	Sport & Leisure - Indoor Facilities	20730/2013	Advice and Consultancy	Complete	N/A	
CAS						
Work in progress @ 30/06/12						
Caldicott compliance	Directorate (former CYPs)	58810/2012.bf	Assurance review	Final Report	Moderate	

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013						Appendix 4
Progress as at 31 December 2012						
	Service	Audit Ref	Review Type	Status	Assurance Opinion	
	Caldicott compliance	58809/2012.bf	Assurance review	Final Report	Substantial	
	Staindrop Primary School	73141/2012.bf	Assurance Review	Final Report	Limited	
	PAYP	88805/2012.bf	Assurance review	Final Report	Limited	
	Procurement in Schools	70056/2012.bf	Assurance review	Draft Report		
	School Catering	70220/2012.bf	Assurance review	Final Report	Full	
	Audits deferred from 2011/12					
	One Point - Children's services for under 5 year olds and their families	70245/2012/bf	Assurance review	In Progress		
	Planning & Quality Assurance within CYPS and the Children's and Families Trust	70050/2013	Assurance review	Preparation		
	Operation of taxi contracts, follow up of work currently being undertaken in this area.	25895/2013	Advice & Consultancy	Preparation		
	SSID system review	58800/2012.bf	Assurance Review	In Progress		
	Public Health Transition - Due Diligence	50075/2013	Advice & Consultancy	In Progress		
	POPPIE system review	58802x/2013	Assurance Review	Cancelled		
	Audits scheduled from the strategic plan					
	County Durham Care and Support - Shared Lives	50080/2013	Assurance Review	Draft Report		
	Assurance in relation to Professional Practice	50085/2013	Assurance Review	TOR issued		
	Oversight of Care Management Processes					
	Looked After Children - to perform follow-up on VFM study undertaken by Service	78463/2013	Assurance Review	Preparation		
	Specialist Services - to focus upon Prevention and Early Intervention	78473/2013	Assurance Review	Not Started		
	Management of service users finances and property	50006/2013	Assurance Review	Final Report	Substantial	
	Troubled Families Programme	00611/2013	Advice & Consultancy	In Progress		
	School's cyclical audit programme					
	Blackhall Colliery Primary School	72737/2013	Assurance Review	Final Report	Substantial	
	Broom Cottages Primary and Nursery School	72400/2013	Assurance Review	Final Report	Moderate	
	King Street Primary School	72750/2013	Assurance Review	Final Report	Moderate	
	Langley Moor Primary School	72455/2013	Assurance Review	Final Report	Substantial	
	Seascope Primary School	72004/2013	Assurance Review	Final Report	Substantial	
	Wellfield School	74218/2013	Assurance Review	Final Report	Moderate	

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Progress as at 31 December 2012						
	Service	Audit Ref	Review Type	Status	Assurance Opinion	
Wolsingham School and Community College	Education	74139/2013	Assurance Review	Final Report	Moderate	
	Education	70235/2013	Advice & Consultancy	Complete		
St. Mary Magdalen R.C. Aided Primary School	Education	73301/2013	Assurance Review	Draft Report		
	Education	72123/2013	Assurance Review	In Progress		
Learning Support Services	Education	78462/2013	Assurance review	Preparation		
	Education / Children's Care	78475/2013	Assurance Review	Preparation		
Caldicott Compliance	Planning & Service Strategy	58809/2013	Assurance Review	Not Started		
Service Requests						
	Children's Care	70107/2013	Advice & Consultancy	In Progress		
	Commissioning	50031/2013	Assurance Review	TOR issued		
	Commissioning	50030/2013	Assurance Review	Final Report	Limited	
	Early Intervention & Involvement	70245/2013	Assurance Review	Preparation		
School Attendance Enforcement - Fixed Penalty Notice arrangements.	Education	78453/2013	Advice & Consultancy	Complete	N/A	
	Education	78464/2013	Assurance Review	In Progress		
	Education	50065/2013	Assurance Review	Preparation		
	Financial Services	70068/2013	Assurance Review	Preparation		
Blue Badge Scheme	Planning & Service Strategy	99903/2013	Counter Fraud - NFI	Field Work Complete		
Unplanned Work						
	Education	70045/2013	Assurance review	Not Started		
	Education	74192/2013	Assurance review	Draft Report		
	Education	70070/2013	Advice & Consultancy	In Progress		

FINAL REPORTS ISSUED THIS QUARTER**2011/12 Audits**

Audit Area	Brief Scope	Opinion
NS		
Street Lighting	An assurance review that considered the effectiveness of the management of the risks associated with Street Lighting.	Full
Management of Gym Memberships	An assurance review that considered the effectiveness of the management of the risks associated with Gym Memberships.	Moderate
Housing Maintenance - Gas Servicing and Responsive Repairs	An assurance review that considered the effectiveness of the management of the risks associated with Gas Servicing and Responsive Repairs.	Substantial
ACE		
Data Quality	Assurance review of the arrangements in place to ensure that; <ul style="list-style-type: none"> - Service performance is managed - Data quality of the performance information, upon which decisions are based is of a sufficient standard 	Moderate
RES		
Declarations of Interest – Officers	Corporate Counter Fraud review to identify any potential fraudulent or inappropriate activity arising from any declared or undeclared Officer interests. Specific Service based reports have been prepared and are currently at draft status.	N/A
Tendering Arrangements	Assurance review of the arrangements in place to ensure that; <ul style="list-style-type: none"> - The procurement process adheres to legislation - Officers have necessary skills and knowledge - Competition is not restricted - Contracts are not split so that they do not exceed procurement thresholds - Contractors are aware of relevant procedures - The authority reviews the procurement process for improvement opportunities - The risk of collusion between tenderers is minimised - Tender documentation is complete - Stakeholder requirements are properly identified - Suppliers chosen are capable of delivering on contracts 	Substantial
Compliance with Law and Regulations	Assurance review of the arrangements in place to ensure that; <ul style="list-style-type: none"> - Legislative requirements are identified - Resources are available to ensure compliance with requirements - Specialist skills and knowledge are available - Processes are in place to identify emerging risks on legislative requirements 	Moderate
Cash Collection	Assurance review of the arrangements in place to ensure that; <ul style="list-style-type: none"> - The risk of employee theft/misappropriation is minimised - Cash collection records are retained as required by 	Limited

Audit Area	Brief Scope	Opinion
	financial regulations and document management policies & procedures - Postal remittances are adequately recorded and promptly processed - Staff are not placed in danger - Bank reconciliations are undertaken - All recovery action is appropriate	
Debtors	Assurance review of the arrangements in place to ensure that; <ul style="list-style-type: none"> - Adequate supporting documentation is maintained to confirm the validity of the debt - All expected income is invoiced - System reconciliations are undertaken to ensure prompt identification of mispostings / fraudulent activity - The direct debit guarantee is not breached - Performance of the service is adequate - Projects, such as expansions of the use of IT, are appropriately managed - Transaction records are not lost due to ICT systems failure 	Limited
CAS		
School Review (Staindrop)	An assurance review that considered the effectiveness of school financial management and governance arrangements. This review was requested by the Head Teacher who had concerns about the robustness of some of the arrangements in place.	Limited
Caldicott compliance – former CYPs former AWH	An assurance review that considered the actions taken by the Authority to address each of the Caldicott principles.	Moderate Substantial
Positive Activities for Young People (PAYP)	An assurance review that considered the effectiveness of PAYP arrangements operated under One Point at a sample of 3 PAYP Centre/Projects and One Point Hubs.	Limited
School Catering	An assurance review that considered the effectiveness of the management of the risks associated with the School Catering Contract for both Primary and Secondary Schools.	Full

2012/13 Audits

Audit Area	Brief Scope	Opinion
NS		
Events Management	An assurance review that considered the effectiveness of the management of the risks associated with events management. This was a follow up review to work undertaken in 2011/12 that looked at events management controls design.	Moderate
Durham City Homes - Planned Maintenance	An assurance review that considered the effectiveness of the management of the risks associated with Durham City Homes - Planned Maintenance.	Full
Stores Management	An assurance review that considered the effectiveness of the management of the risks associated with Stores Management.	Limited
Bereavement Services	An assurance review that considered the effectiveness of the management of the risks associated with Bereavement Services.	Limited

RES		
Revenues & Benefits Reconciliations	Assurance review of the arrangements in place to ensure that; <ul style="list-style-type: none"> - Material errors/fraudulent activities within feeder systems and/or the general ledger are identified - Performance is properly managed or monitored - Sufficient resources are in place for all activities - Issues contained within the Annual Governance Report have been addressed 	Substantial
Whistleblowing	Assurance review of the arrangements in place to ensure that; <ul style="list-style-type: none"> - The whistleblowing (Confidential reporting Code) reporting mechanisms are being utilised correctly - Officers deal with issues in accordance with the Confidential Reporting Code 	Moderate
CAS		
7 School Reviews (Blackhall, Broom Cottages, King Street, Langley Moor, Seascape, Wellfield & Wolsingham)	An assurance review that considered the effectiveness of school financial management and governance arrangements.	3 Substantial 4 Moderate
Direct Payments	An assurance review that considered the effectiveness of direct payments arrangements.	Limited
Management of Service Users finances and property	An assurance review that considered the effectiveness of arrangements for the management of Service Users finances and property.	Substantial

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Risk Category	Actions Raised	Actions Due(OID)	Actions Implemented			Overdue Actions by original target date		Actions where original target date revised		Overdue actions where revised target date agreed	Actions Due (RID)	Revised Total Recommendations Overdue	Revised Total Recommendations overdue %
			Due	Not Yet Due	Total	No	%	No	%	No			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
ACE													
2011/12													
High	0	0	0	0	0	0	0	0	0	0	0	0	0
Medium	5	5	4	0	4	1	0	1	100	0	4	0	0
Total	5	5	4	0	4	1	0	1	100	0	4	0	0
2012/13													
High	0	0	0	0	0	0	0	0	0	0	0	0	0
Medium	4	4	3	0	3	1	0	1	0	0	3	0	0
Total	4	4	3	0	3	1	0	1	0	0	3	0	0
Overall Total	9	9	7	0	7	2	22	2	100	0	7	0	0
CAS													
2010/11													
High	10	10	10	0	10	0	0	0	0	0	10	0	0
Medium	63	63	61	0	61	2	0	2	100	0	61	0	0
Total	73	73	71	0	71	2	0	2	100	0	71	0	0
2011/12													
High	7	7	6	0	6	1	0	1	100	0	6	0	0
Medium	26	25	21	0	21	4	0	3	75	0	22	1	5
Total	33	32	27	0	27	5	0	4	80	0	28	1	4
2012/13													
High	5	1	1	0	1	0	0	0	0	0	1	0	0
Medium	14	7	3	0	3	4	0	4	0	0	3	0	0
Total	19	8	4	0	4	4	0	4	0	0	4	0	0
Overall Total	125	113	102	0	102	11	10	10	91	0	103	1	1
NS													
2009/10													
High	71	71	71	0	71	0	0	0	0	0	71	0	0
Medium	102	102	100	0	100	2	2	2	100	1	101	1	1
Total	173	173	171	0	171	2	1	2	100	1	172	1	1
2010/11													
High	33	33	32	0	32	1	3	1	100	1	33	1	3
Medium	104	104	104	0	104	0	0	0	0	0	104	0	0
Total	137	137	136	0	136	1	1	1	100	1	137	1	1

Risk Category	Actions Raised	Actions Due(OID)	Actions Implemented			Overdue Actions by original target date		Actions where original target date revised		Overdue actions where revised target date agreed	Actions Due (RID)	Revised Total Recommendations Overdue	Revised Total Recommendations overdue %
			Due	Not Yet Due	Total	No	%	No	%	No			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
						(3-4)					(3-9+11)	(7-(9+11))	(13/3*100)
2011/12													
High	6	5	5	0	5	0	0	0	0	0	5	0	0
Medium	56	53	42	0	42	11	21	7	64	1	47	5	11
Total	62	58	47	0	47	11	19	7	64	1	52	5	10
2012/13													
High	6	1	1	0	1	0	0	0	0	0	1	0	0
Medium	37	8	3	0	3	5	0	0	0	0	8	5	63
Total	43	9	4	0	4	5	0	0	0	0	9	5	56
Overall Total	415	377	358	0	358	19	5	10	53	3	370	12	3
RED													
2009/10													
High	75	75	75	0	75	0	0	0	0	0	75	0	0
Medium	117	117	114	0	114	3	3	3	100	0	114	0	0
Total	192	192	189	0	189	3	2	3	100	0	189	0	0
2010/11													
High	18	18	17	0	17	1	6	1	100	0	17	0	0
Medium	45	45	40	0	40	5	11	5	100	0	40	0	0
Total	63	63	57	0	57	6	10	6	100	0	57	0	0
2011/12													
High	3	3	3	0	3	0	0	0	0	0	3	0	0
Medium	33	33	33	0	33	0	0	0	0	0	33	0	0
Total	36	36	36	0	36	0	0	0	0	0	36	0	0
2012/13													
High	1	1	1	0	1	0	0	0	0	0	1	0	0
Medium	4	4	3	0	3	1	25	0	0	0	4	1	25
Total	5	5	4	0	4	1	20	0	0	0	5	1	20
Overall Total	296	296	286	0	286	10	3	9	90	0	287	1	0

Risk Category	Actions Raised	Actions Due(OID)	Actions Implemented			Overdue Actions by original target date		Actions where original target date revised		Overdue actions where revised target date agreed	Actions Due (RID)	Revised Total Recommendations Overdue	Revised Total Recommendations overdue %
			Due	Not Yet Due	Total	No	%	No	%	No			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
						(3-4)					(3-9+11)	(7-(9+11))	(13/3*100)
RES													
2010/11													
High	65	64	61	0	61	3	5	3	100	1	62	1	2
Medium	91	91	88	0	88	3	3	3	100	1	89	1	1
Total	156	155	149	0	149	6	4	6	100	2	151	2	1
2011/12													
High	26	26	18	0	18	8	31	8	100	1	19	1	5
Medium	88	86	70	0	70	16	19	16	100	2	72	2	3
Total	114	112	88	0	88	24	21	24	100	3	91	3	3
2012/13													
High	19	10	9	0	9	1	10	1	100	0	9	0	0
Medium	77	63	55	0	55	8	13	8	100	2	57	2	4
Total	96	73	64	0	64	9	12	9	100	2	66	2	3
Overall Total	366	340	301	0	301	39	11	39	100	7	308	7	2
TOTAL													
2009/10													
High	146	146	146	0	146	0	0	0	0	0	146	0	0
Medium	219	219	214	0	214	5	2	5	100	1	215	1	0
Total	365	365	360	0	360	5	1	5	100	1	361	1	0
2010/11													
High	126	125	120	0	120	5	4	5	100	2	112	2	2
Medium	303	303	293	0	293	10	3	10	100	1	233	1	0
Total	429	428	413	0	413	15	4	15	100	3	345	3	1
2011/12													
High	42	41	32	0	32	9	22	9	100	1	33	1	3
Medium	208	202	170	0	170	32	16	27	84	3	174	8	5
Total	250	243	202	0	202	41	17	36	88	4	207	9	4
2012/13													
High	31	13	12	0	12	1	0	1	0	0	12	0	0
Medium	136	86	67	0	67	19	22	13	68	2	75	8	11
Total	167	99	79	0	79	20	20	14	70	2	87	8	9
Overall Total	1211	1135	1054	0	1054	81	7	70	86	10	1000	21	2

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APPENDIX 7

**PLEASE SEE ITEM NO. 14
AS APPENDIX EXEMPT**

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APPENDIX 8

**PLEASE SEE ITEM NO. 14
AS APPENDIX EXEMPT**

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Performance Indicators as at December 2012

Efficiency	Objective: To provide maximum assurance to inform the annual audit opinion		
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Actual
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% Annually	Not yet due
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Quarterly)	96% 12 days on average
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response Average time taken is also reported for information	95% (Quarterly)	90% 7 days on average
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100%
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	96%
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)	96%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (4 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	100% - Average score 4.59r
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	23%
Cost	Objective: To ensure that the service is cost effective		
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	Yes 2011/12 Actual – £279 average £313

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Audit Committee

21 February 2013

Sale of Windlestone Hall



Joint Report of the External Auditor and the Manager of Internal Audit and Risk

Purpose of the Report

1. The purpose of this report is to inform the Audit Committee of a letter of complaint, sent to the Audit Commission, relating to the alleged selling of the Windlestone Hall at a price considerably lower than its value. The complaint was referred to the Council's external auditors, Mazars, to investigate.
2. Similar concerns were also raised by Councillor Ord at the last meeting of the Audit Committee in November 2012.
3. In response to the concerns raised, it was agreed with the Corporate Director Resources that a joint review of the sale would be carried out by External and Internal Audit, to help minimise the cost of additional external audit fees. The investigation is now complete.
4. The findings and conclusions from the review are set out in the attached response from the External Auditor to the complainant (Appendix 2) and the attached Internal Audit Report (Appendix 3).

Recommendations and reasons

5. Members are asked to consider the outcomes from the investigation to gain assurance that:
 - a. The allegation has been appropriately investigated
 - b. Officers are taking appropriate action, to improve the management of risks associated with land and building disposals, in response to the control weaknesses identified through this review.

Contact: Avril Wallage Tel: 03000 269645

Appendix 1: Implications

Finance – No direct financial implications as a result of this report.

Staffing -. None directly I

Risk – None directly

Equality and Diversity/ Public Sector Equality Duty – None

Accommodation – None directly

Crime and Disorder – None.

Human Rights - None.

Consultation – None

Procurement – None.

Disability issues – None.

Legal Implications – Ensuring compliance with S123 , Local Government Act 1972

Private and Confidential

Councillor John Shuttleworth
Durham County Council
County Hall
DURHAM
DH1 5UL

Direct line +44 (0)191 383 6314

Email cameron.waddell@mazars.co.uk

8 February 2013

Dear Councillor Shuttleworth

Sale of Windlestone Hall, Rushyford, County Durham

I am writing in response to your email and attachments dated 19 October 2012, which were passed to me by the Audit Commission. In these documents you outlined concerns relating to Durham County Council's sale of Windlestone Hall.

Before responding to your concerns, I think it would be helpful for me to briefly clarify my responsibilities. My responsibilities stem from the Audit Commission Act 1998 and the Code of Audit Practice. They are closely defined. Essentially I am concerned with the financial transactions of the Council in the year of audit (2012/13), including assessing the overall arrangements which it has established to secure probity, legality and value for money.

I also give an opinion on whether the accounts give a 'true and fair view' i.e. have been drawn up in accordance with the proper frameworks and are properly supported by the underlying information. I do not have a general power to review action taken by the Council. In general I only become involved in individual cases if there is evidence of illegality or allegations of fraud or corruption.

I attach a copy of an Audit Commission publication "*Council's accounts: Your rights*" that provides more detail about my role and the public's rights in respect of the audit process.

It is in that context that I am responding to your concerns about the Council's sale of Windlestone Hall. Your main concern relates to whether best consideration was obtained as required under section 123 of the Local Government Act 1972 regarding this sale. I have considered the approach followed by the Council in relation to this issue.

My approach

To mitigate the costs of additional work to the Council, my team has worked with internal audit to review the Council's approach to the disposal of Windlestone Hall. This has involved discussions with officers and a review of relevant documentation. I have now had a chance to consider all of the information available to me and I have also considered recent case law where relevant.

The law

The law concerning the sale of Council owned land is set out in the Local Government Act 1972 (the Act). Section 123 of the Act provides:

- (1) Subject to the following provisions of this section, a principal council may dispose of land held by them in any manner they wish.*
- (2) Except with the consent of the Secretary of State, a council shall not dispose of land under this section, otherwise than by way of a short tenancy, for a consideration less than the best that can reasonably be obtained.*

Findings

The two valuations referred to in your letter of £1.8 million and £1.5 million refer to the year end valuations for financial reporting purposes as at 31 March 2007 and 2008. These valuations were based on the acceptance of a conditional offer from a developer to develop the property and site for residential use. This offer was made in response to a marketing exercise carried out in 2006. Prior to the sale of the Hall in November 2011, the last valuation for capital accounting purposes was £0.9 million, carried out in January 2009.

Negotiations with this developer appear to have ended in June 2010 following confirmation of the full extent of planning restrictions to meet English Heritage's requirements. It became clear at this time that a solution involving new building in the grounds to generate sufficient funding to refurbish the existing hall, as proposed by the developer, was no longer considered financially viable. This was due to the restriction on new build imposed by English Heritage and the downturn in the property market. Consequently, it was agreed that the property would need to be remarketed.

My enquiries show that it is not clear what actions were taken by officers to actively market the property from June 2010 onwards. It also appears clear that no serious interest in the property appears to have been expressed until May 2011 when a prospective buyer contacted the Council expressing an interest to purchase the property for use as a private dwelling, with the option in future to run an equine training school.

An unconditional offer of £241,000 was subsequently received from this party in July 2011.

The decision to accept this offer was made under delegated authority in consultation with relevant Members. This decision was made following consideration of a professional valuation report prepared by an appropriately qualified and experienced in-house valuer. The valuer is of the firm belief that this offer represented best consideration for the Council because:

- The previous marketing exercise had been unsuccessful as the previous prospective purchaser could only make the site viable with enabling development which was not supported by English Heritage.
- The value of the property as a development proposition without an enabling solution was considered to be a minus figure as the estimated cost of refurbishment of the hall, of £3m to £4m, was more than the estimated developed market value.
- There was no current market for alternative potential uses i.e. care home or hotel.
- Other potential serious interest in the property as a private dwelling was considered highly unlikely due to its size, condition, location and lack of land when compared to other properties of this type.
- The valuer was satisfied that the buyer had the financial resources to renovate the property to meet all planning requirements relevant to its Grade II* listing.
- The building was in poor condition, and, if retained, significant sums would be required to keep the property watertight and maintain its survival in addition to annual repairs and security costs.

Conclusion

The sale of Council land is governed by section 123 of the Local Government Act 1972 (as outlined above). This legislation requires the Council to obtain the best consideration for a piece of land that it can reasonably obtain. Case law suggests that section 123 imposes a duty to achieve a particular outcome and not a duty to conduct a particular process. It is not a requirement of section 123 that the sale of land should involve market testing and councils would not necessarily be acting irrationally in relying on a valuation and not going out to the open market.

In this case the Council has followed its own disposal and acquisition policy, which makes provision for property to be disposed of under private treaty in cases where there is limited interest and a narrow valuation band, as was considered the position in this case. I have no reason to conclude that the in-house valuation advice obtained by the Council prior to the sale was deficient in any way. Given that the Council obtained a price for Windlestone Hall in excess of this professional valuation at the time of sale, it is not possible in the circumstances for me to say that the Council did not achieve the best consideration that could reasonably be obtained. The reasons for the acceptance of the offer do not therefore appear unreasonable but are clearly heavily reliant on the professional judgement of the valuer.

Nevertheless, the Council's approach means there is limited independent evidence to substantiate whether £241,000 represented best consideration as the offer was not submitted as part of a marketing exercise, reflecting current market conditions and known planning restrictions. In particular, without a more recent marketing exercise it is difficult to evidence limited interest and a narrow valuation band. In my view it would have been prudent on the Council's part to obtain a valuation from an independent source in the interests of transparency. This would have strengthened the decision making process.

The review we have carried out with Internal Audit, along with a parallel review by the Council's Head of Legal and Democratic Services, has also identified further weaknesses in the Council's arrangements in several related areas. Internal Audit are currently preparing a more detailed report for consideration by the Council's Audit Committee on 21 February 2013 which covers all of the areas for improvement. In light of the issues identified from these reviews both Internal Audit and the Head of Legal and Democratic Services are currently

discussing several recommendations for improvement with officers. These will form part of an action plan to secure improvement in future years. I am currently satisfied that the Council is responding appropriately to the findings of my review with Internal Audit. I do not propose to take further formal action at this stage as it would not undo the sale or result in any additional money being paid to the Council. However, if further information should come to my attention at a later date that is relevant to my responsibilities I will consider this in deciding whether further action is required on my part. In the meantime, I will monitor the actions agreed following the report to the Audit Committee on the matter.

Thank you once again for bringing this matter to my attention.

I have copied this letter to the Chief Executive of Durham County Council.

Yours sincerely



Cameron Waddell

Director

cc George Garlick (Chief Executive)



INTERNAL AUDIT REPORT

Sale of Windlestone Hall

Internal Audit Reference 99902/2013/12

Report status:	Final Report
Date:	February 2013
Prepared by:	Avril Wallage, Manager of Internal Audit & Risk
Reviewed by:	Catherine Banks, External Audit
Issued to:	Stuart Timmiss, Head of Planning and Assets Ian Thompson, Corporate Director Regeneration and Economic Development Gerard Darby, Asset Services Manager Don McLure, Corporate Director Resources Colette Longbottom, Head of Legal Services & Democratic Services David Taylor, Property, Planning and Projects Manager, Legal Services



INVESTOR IN PEOPLE

EXECUTIVE SUMMARY

1. This report relates to the Internal Audit review of the Sale of Windlestone Hall for £241K in November 2011.
2. The review was added to the 2012/13 Annual Audit Plan at the request of the Corporate Director of Resources, following the receipt of a letter of complaint from Councillor Shuttleworth sent to the External Auditor. The complaint relates to the alleged selling of the property at a price considerably lower than its value. A full and public investigation was requested into the sale.
3. In considering its response, External Audit agreed to work in consultation with Internal Audit to investigate the matter.
4. Concerns regarding the sale have also been raised by Cllr Reg Ord at Audit Committee on 22 November 2012.
5. This report details the audit findings of the joint investigation to provide an independent opinion on the appropriateness of the Council's actions regarding the sale. In arriving at this opinion, the effectiveness of systems and procedures in place to demonstrate whether or not the Council achieved best value for money from the sale have been reviewed.
6. The key findings of the review are summarised below:
 - The property is a Grade II* Listed Building set in registered parkland in a conservation area. As such, any planning permissions need to reflect the expectations of English Heritage.
 - The two valuations referred to in Cllr Shuttleworth's letter of £1.8m and £1.5m refer to the year end valuations for capital accounting purposes as at March 2007 and 2008. These valuations were based on the acceptance of a conditional offer from a building company to develop the property and site for residential use. This offer was made in response to a marketing exercise carried out in 2006. The downward valuation reflected on-going negotiations relating to planning restrictions.
 - Security and running costs including heating during the winter months were identified as in the region of £100K per annum with urgent maintenance works required identified in the region of £300K. The overall costs of renovation were estimated at £3.5 -£3.7m.
 - Prior to the sale in November 2011, the last valuation for capital accounting purposes was £900K, carried out in January 2009. This was based on previous negotiations and reflected market conditions which were in decline.
 - Negotiations with the developer appear to have ended in June 2010 following confirmation of the full extent of planning restrictions to meet

English Heritage's requirements. It became clear at this time that an enabling solution, involving new build in the grounds to generate sufficient funding to refurbish the existing hall as proposed by the developer, was no longer considered financially viable. This was due to the restriction on new build imposed by English Heritage and the down turn in the property market.

- It is clearly documented that any enabling should be minimal. Consequently, it was agreed that the property would need to be remarketed.
- It is not clear what actions were taken by officers to actively market the property from June 2010. No serious interest in the property appears to have been expressed until May 2011 when a prospective buyer contacted the Council expressing an interest to purchase the property for use as a private dwelling, with the option in future to run an equine training school.
- An unconditional 'as seen' offer was subsequently received in July 2011.
- The decision to accept this offer was made under delegated authority in consultation with relevant Members, following consideration of a valuation report prepared by the Council's valuer.
- The Valuer is of the firm belief that this offer represented best consideration for the Council as there was no viable alternative to the offer to use the site as a residential unit, as any other type of use would have required extensive planning negotiations. The acceptance of the offer of £241K was considered by asset management and planning officers to be the best consideration reasonably obtainable and would therefore meet the Council's legal obligations under the Local Government Act 1972, S123, regarding the disposal of land. This view is supported by the Head of Legal and Democratic Services who has also carried out a review of the sale following a request for a legal opinion from the Corporate Director, Resources.
- The reasons for the acceptance of the offer therefore appear reasonable but are clearly heavily reliant on the professional judgement of the in-house valuer, as is the case with any disposal.
- There is limited independent evidence to substantiate whether £241K represented best consideration as the offer was not submitted as part of a remarketing exercise, reflecting current market conditions and known planning restrictions. There are few examples of similar properties of similar condition on the market or having been sold at this time.

Internal Audit Report: Windlestone Hall

- The Council's disposal and acquisition policy makes provision for properties to be disposed of under private treaty in cases where there is limited interest and a narrow valuation band, as was considered the position in this case. However, without a remarketing exercise it is difficult to evidence the limited interest and it may have been prudent to obtain an independent valuation in the interests of transparency. This would have strengthened the decision making process and reduced the risk of challenge.
- It is not possible to say if the Council would have gained a higher capital receipt had the bid from the buyer been submitted in completion but the process followed was in accordance with the agreed policy. There were risks associated with remarketing at this time. A sale would not be guaranteed as there was an explicit understanding that a remarketing exercise would lose the interest of the prospective purchaser. The decision to enter to a single negotiation disposal therefore appears reasonable given ongoing liabilities and the opportunity presented at that time.
- Systems and procedures for carrying out due diligence in relation to the buyer were limited. Checks were made on the ability of the buyer to fund both the purchase and the investment required to renovate the property however these were not adequate enough to establish that the funds were available to complete the renovation which is required.
- The 'as seen' offer was made by the purchaser having been advised that the central heating system was in working order. Prior to completion it was disclosed that this was not the case. Following negotiations with the purchaser it was agreed, as part of the contract of sale, that the Council would fund essential expenses to rectify the position. Post completion, further negotiations were held to agree the amount to be funded by the Council to fulfil its legal obligations under the contract. In total expenses of approximately £36K were met by the Council.
- Ombudsman guidance, as set out in the council's disposal strategy, requires two officers to conduct negotiations. Whilst this does not appear to have been adhered to, the strategy acknowledges that this guidance may be unrealistic for every case.
- Whilst the delegated decision process provided a mechanism for challenge on the negotiation process prior to the acceptance of the offer, there was an inadequate division of duties between valuation and sales. Decisions made following post offer negotiations were not made as a documented delegated decision. This was a significant control weakness.
- Negotiations with the development company were not formally terminated until after the offer of £241k had been received. This resulted in a formal challenge from the company as it only became

aware of the Council's intention to sell to someone else via a third party (Land Registry). The company has stated that had they been told that an alternative offer was being considered they would have made a substantial unconditional offer. No such offer has since been forthcoming. Instead the company submitted a formal complaint seeking compensation. Whilst this claim has been rejected by the Council and not pursued further by the company, the failure to terminate the original contract of sale was a significant control weakness. This issue was also investigated by the land registry adjudicator who concluded that the company had no legal rights over the land through the contract.

- Regardless of whether or not the sale at £241K represented best consideration for the Council, some of the processes and systems in place lacked clarity and transparency and the whole sale process took considerably longer than first envisaged. This has resulted in unnecessary challenge, reputational damage and additional unnecessary costs. It has been acknowledged by management that, due to both Local Government Review and a further restructure there was little continuity in terms of the officers or indeed manager supervision relating to this disposal. Management also identified that the collapse of the housing market also played a part in respect of the timescale and difficulties of delivery.
- A number of recommendations have been made to improve the internal control framework to reduce the risks highlighted through this review reoccurring. These are summarised, together with the management response, in the action plan attached. It is however acknowledged that management have already taken a number of actions to improve many of the processes and procedures in place over the last year.
- Progress on the implementation of agreed actions will be monitored by Internal Audit and reported to the Corporate Director, Regeneration and Economical Development and the Audit Committee in accordance with agreed protocols.

SCOPE AND AUDIT APPROACH

7. As the letter of complaint had been referred to the Audit Commission (now Mazars) to investigate, an initial joint review of the sale of the property has been carried out with colleagues from external audit.
8. Discussions were held with relevant key officers to establish the background leading to the decision to dispose of the property and the rationale for the decision to sell the property for £241K.

Officers consulted :

Head of Planning and Assets,
Asset Services Manager
Valuer, Asset Management
Property, Planning and Projects Manager, Legal Services
Chief Conveyancing Solicitor,
Design and Historic Environment Team Leader, RED
Head of Legal and Democratic Services

9. Our comments, observations and findings are based on a review of relevant reports and documentation and with discussions with the individuals named above. Further investigation and validation work has been carried out where required.
10. We have relied upon officers to supply all appropriate material necessary to enable us to review the sale and that such material is complete and accurate. Where we have interviewed individuals, we have taken their opinions at face value unless these could be objectively tested. We have used all reasonable endeavours to provide an objective review.

DETAILED FINDINGS

Background to the sale

11. The Cabinet, of the former county council, agreed to declare Windlestone Hall surplus to requirements at its meeting on the 26 January 2006.
12. Notice of the school becoming vacant had been given approximately 6 months previously as the school was no longer considered fit for purpose and a new school was to be built. The reported cost of the new school was £6.12m.
13. The insurance value of Windlestone Hall was £6.5m and reflects the estimated rebuild cost.

Internal Audit Report: Windlestone Hall

14. Informal planning advice suggested that the building would be suitable for residential conversion. As a Grade II* listed building prospective buyers would be required to secure detailed 'listed' planning approvals for alternative uses and/or to carry out improvements.
15. The intention was to market the property whilst the new school was under construction as it was felt to be essential that the sale of this important property was well advanced, if not at the point of completion, when the relocation occurred, to minimise the risk to it.
16. The exact date of completion of the new school on a different site in Chilton has not been established but is thought to have been in September 2006.
17. The property which included 10.3 hectares (25.5 acres) of land was subsequently marketed and put up for sale by way of informal tender, in consultation with Storeys SSP Limited, with the closing date for sealed offers being 8 June 2006.
18. No considered planning brief was provided as part of the marketing.
19. In all, 13 offers were received ranging from £10K to £2.3m. The highest offer of £2.3 m was received late on the 20 June 2006.
20. Of the 12 offers received on time, 3 were shortlisted for review. A building company, although not initially the highest bidder, was selected as the preferred developer due to their financial offer, proposed scheme and track record.

Contract with Preferred Developer

21. The original offer from the preferred developer was £1.75M but this bid was uplifted to £2.3m by a letter dated 15 June 2006. This letter explained that they had been forced to submit an offer to meet the closing date without receiving their valuer's full appraisal. Having subsequently received this they felt their original offer was undervalued. Their revised offer was £1.5m for an unconditional bid on the existing Hall and an additional £800K for additional New Build Replacement Accommodation (NBRA).
22. A price of £2.3m for a conditional offer based on 13,000 sq ft of new build replacement was subsequently agreed.
23. The instruction to the conveyancing section regarding the approval to proceed with the preparation of contracts indicates that no decision was required under delegated powers, as Cabinet had already approved its disposal and details of the successful tender were to be reported to Cabinet following completion of the sale.

Internal Audit Report: Windlestone Hall

24. A contract was subsequently entered into with the company and the County Council on 3 July 2007. A deposit of £75K was made and a unilateral notice was registered with the Land Registry to protect the Company's interest under the contract for sale.
25. The exchange of contracts was conditional upon the relevant planning consents being granted along with the preparation and agreement of a conservation and management plan for Windlestone Hall being either satisfied or waived by the buyer in writing on or before the long stop date of 2 July 2008.
26. The contract made provision for the offer price for the NBRA to be adjusted pro rata to the square feet planning permission subsequently agreed.
27. Prior to the acceptance of the offer, written confirmation was received from the company agreeing to an overage provision. This was in relation to any planning consent being granted within a 20 year period, following the date of completion, that produces an increase in the land value. This was made to allow the Council to have a clawback provision of 50% of the uplift of the value of the land.
28. Following the signing of the contracts various discussions and negotiations were held with planning officers from Sedgfield Borough Council, including officers from the conservation team, English Heritage (EH) and officers from the then Estates section, to consider the developer's planning proposals.
29. These discussions and negotiations took considerably longer than first envisaged due to the emerging requirements of the planners, EH and the property market crash. The issue that could not be resolved was an enabling solution that would allow for new build in the grounds to balance the costs of restoration and change of use to residential.
30. The last record provided of any discussions with the company regarding their planning proposal was minutes of a meeting held 27th April 2010, where it was noted that the sale situation is likely to hinge on EH advice and financial reappraisal of the scheme. Depending on the extent of enabling development to be allowed, the company was expected to review the purchase price. The outcome from the meeting was that the Company should await guidance from Durham County Council about the way forward.
31. A letter from EH dated 4th May 2010 confirmed their advice. In summary, they concluded that, "if the applicant is putting forward their proposal as an enabling development, we would expect the site to be re-marketed at a current realistic price reflecting the condition of the building and prevailing planning constraints."

Internal Audit Report: Windlestone Hall

32. An internal meeting was subsequently held 29th June 2010, chaired by the Head of Planning, to consider the position following advice from EH and legal services.
33. The main outcome from the meeting was that remarketing was unavoidable for the following reasons:
 - To be fair to other developers who bid in 2006.
 - To reflect the different economic circumstances compared in 2010 to 2006.
 - To comply with EH Guidance in justifying the need for enabling.

Actual Sale

34. The Valuer, received a phone call on 12 May 2011, from the eventual buyer, enquiring about Windlestone Hall.
35. A viewing was subsequently arranged on 31 May 2011. The following day a letter of intent to purchase the property was received.
36. The letter of intent requested a period of 60 days to reach mutual agreement on sale/purchase of the property.
37. To gain assurance that the prospective purchaser was seriously interested in the property some financial checks were carried out on the ability of the purchaser to fund the proposals set out in the letter of intent
38. The Valuer, satisfied that the prospective purchaser had the financial means to fund their proposals which would meet both planning and English Heritage's requirements and, as far as he was aware, there was no other interest in the property, discussed the exclusivity request with the Asset Services Manager. The request to enter into a single negotiation was agreed for the following reasons:
 - The ongoing liabilities and costs associated with the upkeep
 - The proposal would maintain the original use
 - The proposal would provide a capital receipt above that expected
 - Both officers were concerned that they could lose a serious prospective buyer
39. Following other site visits, a briefing paper setting out the proposed acquisition was submitted 4th July 2011. This confirmed the prospective purchaser's intention to adhere to planning recommendations and to liaise with EH and the relevant planning officers regarding the conservation aspects of the Hall.
40. An offer letter was subsequently sent direct to the Valuer, on 7 July 2011 for £241K, "in return for the freehold of the property, title number DU282704, property in, 'AS SEEN', condition".

Internal Audit Report: Windlestone Hall

41. In considering whether the offer received was a reasonable valuation, the following factors were taken into account by the Valuer:
- The property, a Grade II* listed building, was in a poor state of repair when it was first declared surplus to requirements and its condition continued to deteriorate.
 - The property had previously been marketed with the result that the selected developer withdrew.
 - He had read a file note from the previous Valuer, which had stated at the meeting in April 2010 that even at a pound (£) value the scheme was not viable.
 - Professional Judgement that the value of the property as a development proposition was a minus figure – with the estimated cost of refurbishment of the Hall only at £3-4m compared to an estimated developed market value of £2.1m.
 - There was no current market for alternative potential uses i.e care home, apartments or luxury hotel.
 - The only other potential use was owner occupier but it was his professional judgement that no one in the current market would be looking for a residential home of this size (30 bedrooms); comparable properties are substantially smaller and relatively good condition with significantly more land. The belief that the purchaser had the financial means to restore the Hall back to its original grandeur.
 - The annual security costs and general repairs of £100K and the need to spend an estimated £300K on repairs to maintain the survival of the building by making it watertight.
 - The additional cost and uncertainty of remarketing and the likely delay while any new developer tried to obtain whatever finance/planning was required. (estimated to be 18-24 months)
42. In summary, the Valuer considered there was no viable alternative to this offer to use the site as a residential unit, as any other type of use would have required extensive planning negotiations. The acceptance of this offer was considered by asset management and planning officers to be the best consideration reasonably obtainable and would therefore meet the Council's legal obligations under the Local Government Act 1972, S123, regarding the disposal of land. This view is supported by the Head of Legal and Democratic Services.
43. The decision to accept this offer was initially made under delegated powers by Don McLure, Corporate Director Resources on 4 August 2011. The decision was made following consideration of a short covering report and a more detailed valuation report dated 14 July 2011. Prior to the delegated decision being approved, asset management officers consulted on the proposal to accept the offer with Cllrs Avery, Potts and Foster (13 July 2011).

Internal Audit Report: Windlestone Hall

44. The background provided in the covering report explained that an offer of £1.8m, accepted subject to the obtaining of planned consent, had fallen through due to not being able to reach agreement over the level of Enabling Development. It was reported that the Council had withdrawn from the sale.
45. It was also reported that, "discussion had taken place with another party proposing a different approach to the enabling solution but that this would take some time to come to fruition and would require offsite enabling development. Meanwhile the building continues to deteriorate and is costing £100k p.a." It is understood this reference refers to some discussion held with a community interest group, but which was never considered to be a viable proposition by either the Council or English Heritage.
46. No formal acceptance letter was issued by the Council. The purchaser was notified by email, by the Valuer, of the approval of the offer.
47. Once the delegation decision had been made, instructions were given to legal services to proceed with the sale. A copy of the delegated decision was provided with the instruction as authorisation to sell.
48. No checks were carried out by legal services at that time to ensure the proposed sale conformed with the Local Govt 1972 S123 as it was assumed that in approving the acceptance of the offer, through the recorded delegated decision process, the legality of the decision had already been established.
49. Whilst it was reported that negotiations regarding the original offer had fallen through, legal services had not been advised that the contract with the development company dated 3 July 2007 should be terminated. As a result, the unilateral notice placed on the property at the Land Register, to protect the company's interest under the contract, was still in place. Consequently, the Council was not in a position to sell the property to anyone else.
50. On querying the position with the Valuer, the Chief Conveyancer was advised the previous offer was "dead in the water" and consequently applied to the Land registry on the Council's behalf to cancel the unilateral notice on the 18 August 2011. On receipt, the Land Registry advised the company of the Council's application.
51. The company solicitors subsequently wrote to the Council confirming that their clients had not withdrawn from the sale. They advised that the company had been unable to comply with their obligations under the 2007 contract and submit a formal planning application due to the lack of response from both the Council and its marketing agents, following consultation with planning officers and EH. Having spent significant time and money in the preparation of pre-planning presentations, the company was clearly frustrated by the Council's actions. A supplementary contract extending time periods to progress a planning application was requested.
52. As the Council had attempted to assist the company in its planning application for a number of years and no further communications or

proposals had been forthcoming from the company since the meeting on the 27th April 2010, the request for a supplementary contract was refused and notice given that the Contract for Sale dated the 3 July 2007 was terminated. Bank details were requested to enable the return of the £75K deposit.

53. The company refused to accept termination of the contract, refused to withdraw their unilateral notice from the land registry or to accept return of their deposit. They claimed to have evidence from their own records that this matter was frustrated by the County Council. However, they were prepared to accept termination if a compensation agreement could be reached for 'wasted' costs.
54. As the 2007 contract included a long stop date of 12 months from the date of the contract, the Property, Planning and Investment Manager, Legal Services, advised that the Council was legally able to terminate the contract from that day onwards with one month's notice.
55. The Land Registry was instructed to refer the application to cancel the company's unilateral notice on the property to the HM Land Registry's Adjudicator and started to prepare a case to defend the Council's position in court.
56. It is understood the new purchaser was not happy with the delay in completing the sale, having previously advised the Council that they wished to complete within 30 days of submitting their offer. Concerns were raised that if the sale did not proceed quickly they could lose the sale.
57. Consequently, even though the Council was in dispute with the company and the interest of the new purchaser could not yet be lodged with the Land Registry, a further delegation decision was taken by the Head of Planning and Assets on the 28 November 2011 to proceed with the exchange of contracts and complete the sale, with a clause being included in the contract to pay monies due within 30 days of the removal of the unilateral notice.
58. To protect the Council interests until funds were paid a 'First Charge' was registered with the Land Registry. This allowed the purchaser access to the property and to be registered as occupiers, even though the title would not revert to them until they paid the purchase price and fees.
59. At the company's request, officers met with company representatives to discuss the position further and to make a formal complaint seeking compensation for the injustice they claim to have suffered. They quoted a figure of £40K for abortive costs and a similar figure for the time they have spent on the project.

60. Having reviewed the asset management file, the Property, Planning and Projects Manager, Legal Services, had concerns about the lack of records of what happened between April 2010 and the offer received in July 2011. The Company advised that had they been told that an alternative offer was being considered they would have made a substantial unconditional offer. In the light of the apparent lack of progress over the previous 4 years, no evidence could be produced to confirm the Company's assertion that their proposal was not, "dead in the water".
61. In an attempt to clarify the position, the Property, Planning and Projects Manager, Legal Services, contacted 2 former employees who had been involved in the disposal prior to them leaving the Council in March and April 2011. This confirmed that the sticking point on the Company's proposal was the question of the enabling development and that the company had been led to believe that some new development could be agreed at some undefined location on the site. He had hoped that the meeting with the planners (assumed to be the meeting 29 June 2010) might identify some way forward.
62. A response to the Company's complaint, drafted by legal services, was issued to the Company 19 January 2012 by the Head of Planning and Assets. The response acknowledged, with regret, the lack of communication of the Council's intentions, but rejected the claim for compensation for the time and effort invested in the original proposal on the basis that, "those efforts reflected a commercial risk by the developer who was unable to persuade EH to support an enabling development application which would have been an essential characteristic of your proposal".
63. Both parties were advised by the Land Registry Adjudicator by way of a letter dated 5 January 2012 that if cases were not submitted by 19 January 2012 , a decision would be made without a hearing and the instruction would be given to cancel the unilateral notice.
64. On the 20th January 2012, the Council was advised by the Land Registry Adjudicator that the Company had requested an extension of 21 days as they had been unable to fully prepare their case as they had not had a response to their complaint discussed at the meeting on the 9th December 2011. They had been advised that they would receive a response by the 14th January 2012 but this had not been forthcoming.
65. After asking the Council to comment on the request, the adjudicator decided to refuse the request and confirmed support for DCC's position that the restricted interest of the Company on the property should be cancelled. The reason cited for this decision was that the company had had sufficient opportunity to plead a case and gave no good reason for failing to do so.
66. It would appear that in view of the Adjudicator's decision, the company decided not to pursue any claim for compensation and bank details were provided to enable their deposit to be refunded.

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67. The restriction on the property was confirmed as being removed on the 23 February 2012. However, payment was not received until 10 August 2012.
68. The contract for the sale at £241K as signed 29 November 2011. As part of the contract the Council agreed at its own expense to:
- Ensure that the heating system within the property is in working order as soon as possible following completion.
 - To fill the central heating oil tanks situated on the property.
 - To continue with the existing 24 hour security until 31 December 2011.
69. It was explained that the offer of £241k in July 2011 although submitted, 'as seen', was based on the assumption that the heating system was in good order, as the purchaser had been advised by the Valuer this was the case prior to the offer being submitted.
70. A site visit with the purchaser on the 19 October 2011 identified the heating was not on. It was later disclosed that the system had been drained down earlier in the year following a burst pipe during the previous winter and some work was needed to get the system working properly. Having consulted technical services, the estimated cost of repair at this stage was considered to be in the region of £2-3K.
71. Following further negotiations with the purchaser, it was agreed to include the above conditions in the contract. This decision was authorised by the Assets Services Manager as these costs would have been incurred by the Council regardless of the sale and there was a risk the buyer would withdraw. Post completion, it became apparent that the extent of repairs required was much greater than first envisaged. Revised estimates from technical services at this stage were £30K- £40K.
72. Following further negotiations with the purchaser a sum of £25K was agreed in lieu of the Council's contractual obligations to ensure the heating system was in order. This was paid direct to the purchaser via a CHAPS payment 3 Feb 2012. This reduced the capital receipt achieved from disposal to £216K. In addition £6,922 revenue expenditure was incurred for the cost for excavating the external heating ductwork prior to completion. The cost of filling the oil tanks was £4453. In total, cost incurred in relation to the heating system was £36,375. One month's notice was required on the security contract so the agreement to fund security costs up to the 31/12/12 was not an additional cost for the Council.
73. No conditions of sale were applied to the contract in relation to planning development/permissions or any overage provision should there be any uplift in land price as a result of any future development. However, it is understood that as the property was to be used as a private dwelling and the sale price was not considered to be undervalue, a clause to protect the council's interest in the event of subsequent sale was not required.

74. Furthermore, as the hall is a Grade II* Listed Building, guarantees that the renovation work would progress as planned were not appropriate as the obligations placed on any owner of a Grade II* Listed Building are laid out in planning legislation.

CONCLUSIONS

75. When the property was declared surplus to requirements in 2006, the ultimate use and therefore the potential market value would appear to have been unknown. Consequently, the estimated capital receipt could not be included in any capital funding forecasts.
76. The property was known to be in a poor state of repair in 2006 and would appear to have deteriorated since that date.
77. The marketing of the property in 2006 by informal tender is in accordance with the Council's current Disposal and Acquisition Strategy (2010/11) and aimed to obtain the best consideration by the most appropriate method. However, given the historic heritage of the property, planning restrictions were inevitable and it may have been more appropriate to market the property after consultation with EH and the development of a detailed planning brief. This would have reduced bidders costs that may have been reflected in bids submitted. It would have also speeded up the subsequent negotiation process potentially allowing an earlier completion and reduction in Council maintenance/security costs. The absence of a detailed brief may account for the wide range of bids received making the evaluation process more difficult. It is noted that the current disposal strategy requires,
- "consideration should be given to obtaining planning consent or investment in the property prior to disposal to enhance its value and make it more attractive to the market".*
78. The decision to accept the revised conditional offer of £2.3m from the building company in 2006, received after the closing date, was not supported by a documented delegated decision.
79. The two valuations referred to in Cllr Shuttleworth letter of £1.8m and £1.5m refer to the yearend valuation for capital accounting purposes as at March 2007 and 2008. The reduction in valuation was due to planning restrictions and a deterioration of the condition of the property and not due to market conditions as quoted by Cllr Shuttleworth.
80. There is lack of transparency and accountability for what actions were taken from June 2010 when it was agreed that the property should be remarketed, with a detailed planning brief reflecting EH requirements, until the actual buyer expressed an interest in the property in May 2011. In particular the files notes were insufficient following the departure of the 2 former employees involved with the disposal. It is not clear what further communication/discussions took place with the building company to evidence

that their proposals were “dead in the water” when responsibility for the disposal of the property was passed to the current Valuer

81. Whilst there is no evidence to demonstrate that any consideration was given to not selling when there was a down turn in the property market and seeking a temporary use of the property until such times as the market improved, as required by the Council's disposal and acquisition strategy, it is understood that this would not have been feasible due to the poor conditions of the property and the increasing liability to maintain a Grade II* listed building in the interim.
82. The response from former employees in relation to enquires made into the complaint from building company in December 2011, confirm that negotiations with the company were expected to continue once the planning brief reflecting EH's requirements agreed at the meeting in June 2010 was developed. This appears to contradict the apparent message that the “deal was dead in the water”.
83. The 4 years of negotiations, the continuing decline in the property market, the restrictions placed on the site and what would appear to be very little activity during this period on both sides suggest that the contract should have ended much sooner in the process.
84. No instruction was given by Asset Management to Legal Services to give notice to the building company that their conditional contract should be terminated and to make arrangements to refund their deposit on the basis that negotiations had ceased.
85. Discussions held with the eventual buyer regarding their interest and subsequent offer were very informal and all dealt with by the Valuer. There was no division of duties between valuation and sale activities. In agreeing to an exclusivity agreement, allowing payment to be made after the property was occupied and agreeing to fund various repairs/expenses, officers in both asset management and legal appear to have firmly believed that the Council would not get a better offer and that care should be taken not to put this buyer off.
86. Whilst there is provision in the Council's disposal and acquisition strategy to negotiate a disposal to a single party in certain circumstances, rather than offer on the open market, and such decisions will be a matter of professional judgement, there is a lack of clarity on the procedures that should be followed when such an approach is recommended.
87. The Council's Valuer firmly believes that at the time of sale, the property and the site was not worth anything as no new build to allow an enabling development was considered feasible and the cost of renovation of the existing Hall would exceed the estimated renovated market value. Consequently he considered that there was no interest in the property in the current market. Hence the unconditional offer of £241K from someone he

believed to be of significant financial standing who would meet all planning and EH requirements was considered, 'too good to miss'.

88. This professional judgement was informed by best information available rather than robust estimates. Some assurance that renovation costs and resale market value were reasonable has been taken from figures quoted by the buyer and from previous negotiations with the building company. It is acknowledged that this would have been subject to some review and consideration of reasonableness, as well as visible inspection, and therefore not just taken at face value.
89. As the property was not remarketed as agreed in June 2010, with a detailed planning brief to clarify any planning restrictions, it cannot be independently evidenced that the decision to accept the offer of £241K represented best consideration. Likewise nor can it be evidenced that the property was disposed of at undervalue. It is, however, acknowledged that it is the view of the Council's professionally qualified Valuer and the Head of Legal and Democratic Services that the Council has fulfilled its legal obligations.
90. To improve transparency and accountability, it may have been prudent for the Council to have sought an independent valuation to verify that the offer represented best consideration before it was accepted.
91. The real value of any property is what someone is prepared to pay for it. It is not possible to say if the Council would have gained a higher capital receipt had the property been remarketed, but the process would have been seen to be more transparent and would have strengthened the Council's overall decision making process and reduced the risk of reputation damage through challenge.
92. Ombudsman guidance, as set out in the council's disposal strategy, requires two officers to conduct negotiations. Whilst this does not appear to have been adhered to, the strategy acknowledges that this guidance may be unrealistic for every case.
93. The £241K 'as seen' offer was submitted by the buyer having been advised that the central heating system was in working order. Prior to completion it was disclosed that this was not the case. Following negotiations with the purchaser it was agreed, as part of the contract of sale, that the Council would fund essential expenses to rectify the position. Post completion, further negotiations were held to agree the amount to be funded by the Council to fulfil its legal obligations under the contract. In total expenses of approximately £36K were met by the Council.
94. The decision to agree to the inclusion of this clause in the contract was made to formalise the position agreed at inspection and to also acknowledge the risk that the purchaser could withdraw, and if this happened, the Council would still need to incur the expenses agreed to protect the building fabric. This was not a documented decision under delegated authority. Actual costs

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incurred to fulfil the Council's legal obligations under this clause were higher than had been estimated at the time the decision was made.

95. Systems and procedures for carrying out due diligence in relation to the buyer were limited in that only limited credit checks were made on the ability of the buyer to fund the estimated renovation costs to meet planning and EH's requirements.
96. Failure to formally conclude negotiations with the building company resulted in unnecessary challenge and damage to the Council's reputation.

APPENDIX B - ACTION PLAN FOR IMPLEMENTATION

No.	Finding	Potential Associated Risk	Priority	Recommendation	Management Comment	Responsibility Timescale
01	Valuations for insurance purposes, reflecting rebuild cost, varied significantly from the estimated market value and valuation figures in the fixed asset register. The last recorded valuation in the fixed asset register was January 2009 for £900k	Financial loss through over insurance Inaccurate capital receipts forecast Incorrect financial statements of account	M	An estimated market value should be determined when properties are declared surplus. Strategic finance and the corporate insurance team should be notified when properties are declared surplus (and subsequently sold), to prompt a review of insurance provision and ensure the fixed asset register and capital receipt forecasts are updated accordingly Valuations should be continuously reviewed through the disposal process (as required by the disposal strategy) and revised valuations reflected in the fixed asset register	Agreed Assets Service already manage the Disposal Programme and update forecasts monthly and report regularly to MOWG therefore not clear as to the necessity of advising Strategic Finance when properties are declared surplus. Already in place for Capital Receipts forecasting as stated above Revised Valuations will be reflected in the Asset Register every year	Asset Services Manager – to be implemented with immediate effect

APPENDIX B - ACTION PLAN FOR IMPLEMENTATION

No.	Finding	Potential Associated Risk	Priority	Recommendation	Management Comment	Responsibility Timescale
02	No considered planning brief had been provided as part of the marketing exercise in 2006	Prolonged negotiations resulting in increased maintenance and security costs c	H	The Disposal and Acquisition Strategy should be amended to require a planning brief is prepared prior to all marketing exercises and issued to all prospective purchasers to assist tender/bid submissions	Following the restructure with assets and planning merging into a single service planning advice, in terms of broad principles of acceptable development is provided as part of all sales particulars. It should be noted however that developers will have their own product and it is important not to be too prescriptive in stifling innovation to ensure we get best consideration and do not deter potential bids . On sensitive or large sites it is accepted that a brief will be required as has happened in relation to Whinney Hill Schools, but given the resources required and potential delays that this will not occur in every case or sale..	In place

APPENDIX B - ACTION PLAN FOR IMPLEMENTATION

No.	Finding	Potential Associated Risk	Priority	Recommendation	Management Comment	Responsibility Timescale
03	A revised bid was accepted after the closing date following the initial marketing exercise in 2006.	Collusion Challenge Reputation Damage	H	The Disposal and Acquisition Strategy should be amended to include formal tender procedures. This should include arrangements for receipt and opening of bids, consideration of late and revised tenders, tender evaluation process etc	Formal tender process is already included in Disposal and Acquisition Strategy, however a review of the strategy will be undertaken to strengthen areas of concern. The tender process is administered through Democratic Services. A disposal of an interest in land is different to the Procurement process and are very rarely evaluated other than on price due to an obligation to get best consideration	Asset Services Manager June 2013
04	No decision was made under delegated powers to accept the informal tender from the building company as the successful tender was to be reported to cabinet following completion of the sale	Collusion Challenge Reputation Damage	H	As above. Procedures should clarify roles and responsibilities, allow for an adequate division of duties and be consistent with the scheme of delegated authority	The recent restructure in assets which included a review of policies and delegations has clarified this element of the review.	In place

APPENDIX B - ACTION PLAN FOR IMPLEMENTATION

No.	Finding	Potential Associated Risk	Priority	Recommendation	Management Comment	Responsibility Timescale
05	The Valuer was the first point of contact for a prospective purchaser expressing an interest. All subsequent communication through to the acceptance of the offer, pre and post contract negotiations was via the Valuer	Increased risk of collusion through inadequate division of duties	H	<p>The Disposal and Acquisition Strategy should be amended to reflect an adequate division of duties between valuation and sales.</p> <p>Respective roles and responsibilities should be clearly defined and communicated.</p> <p>All valuation of bids should be carried out by at least 2 officers and documentation retained to evidence the evaluation process.</p> <p>A formal risk assessment should be carried out as part of the evaluation process.</p>	<p>Valuations need to be carried out by the officer dealing with the disposal. Process to be implemented to ensure that all valuations are to be counter signed and approved by line manager.</p> <p>See above- already in place as part of delegation process</p> <p>Council has obligation to get best consideration but assessment of bids is always undertaken. In reviewing processes a risk assessment will inform future changes.</p>	<p>Immediate implementation of process</p> <p>Disposal and Acquisition Strategy will be amended by June 2013</p> <p>Asset Services Manager</p>

APPENDIX B - ACTION PLAN FOR IMPLEMENTATION

No.	Finding	Potential Associated Risk	Priority	Recommendation	Management Comment	Responsibility Timescale
06	Due diligence checks carried out prior to the acceptance of the accepted offer were inadequate.	Fraud/Money Laundering Misinformed decisions External challenge Reputation damage if expected benefits of sale are not delivered	H	Documented procedures should be established to ensure that adequate due diligence checks are undertaken, prior to the consideration of any offer, to confirm both I.D and the financial capacity of prospective purchasers. Financial checks should seek to provide independent assurance on the prospective buyer's ability to not only fund the purchase but all necessary investment in the property as outlined in planning briefs and submissions. The source of funding should be clarified.	It is acknowledged that the Purchasers Solicitors has ultimate responsibility in establishing the financial credibility. However a review of financial checking processes will be undertaken to establish guidelines for officers.	Asset Services Manager June 2013
07	Consultation with Members on the proposed delegated decision was carried by the proposer not the officer authorised to make the delegated decision	Lack of accountability by authorised officers Poor decisions	L	If practical, any consultation required with Members as part of the delegated decision process should be carried out by the officer actually making the delegation decision and not the office making the recommendation	Member responses are now required as part of the overall delegation thereby alerting the decision maker to any particular concerns	In place
08	Delegated decision made without legal consultation	Legal requirements not met Reputation damage	M	Authorised officers to undertake consultation with legal, where a marketing exercise has not been carried, out to seek further assurance that proposals meet the legal requirements of the Local Government Act 1972	Further discussions with legal as part of the review will ensure that processes are robust	Asset Services Manager June 2013

APPENDIX B - ACTION PLAN FOR IMPLEMENTATION

No.	Finding	Potential Associated Risk	Priority	Recommendation	Management Comment	Responsibility Timescale
09	Failure to formally terminate negotiation with building company	Reputation damage Financial loss	H	<p>Legal services should keep a record of all conditional contracts issued for sale and flag long stop dates becoming due for monitoring purposes.</p> <p>Procedures relating to planning negotiations should be clearly documented and checklists for each property should be maintained on asset/planning records/files to help ensure compliance.</p> <p>A clear documented audit trail of all negotiations and any monitoring undertaken should be maintained.</p> <p>If negotiations are expected to continue beyond the long stop date, legal should be consulted to consider whether the contract should be extended or terminated</p>	<p>Agreed by the Corporate Director Resources</p> <p>Already in place see above</p> <p>Agreed</p> <p>see above as part of review</p>	<p>Property, Planning and Projects Manager, Legal Services - Immediate effect</p>

APPENDIX B - ACTION PLAN FOR IMPLEMENTATION

No.	Finding	Potential Associated Risk	Priority	Recommendation	Management Comment	Responsibility Timescale
				Authority for making such decisions should be clearly defined and all decisions documented with reasons.	Agreed	
				If a contract is to be recommended for termination, a revised marketing strategy for the property, with timescales, should be agreed as part of the same documented delegated decision. Consideration of the option to retain the property should be clearly evidenced.	Agreed	
				Any decision to vary from the approved strategy should be made under documented delegated authority.	Agreed	
				A copy of the delegated decision to terminate a contract should be passed to legal with an instruction to cancel the interest on the property with the land registry and refund any deposit paid. Remarketing should not commence until written confirmation is received from legal that all previous interests on the property title have been cancelled.	Agreed	

APPENDIX B - ACTION PLAN FOR IMPLEMENTATION

No.	Finding	Potential Associated Risk	Priority	Recommendation	Management Comment	Responsibility Timescale
			H	<p>More guidance is needed in the disposal strategy to outline the circumstances when it is appropriate to use each type of disposal method listed – especially disposal by private treaty.</p> <p>The strategy should require decisions relating to the disposal method to be documented and supported by a business case. The business case should confirm who was consulted. The strategy should also specify who is authorised to approve.</p> <p>If a property is to be disposed of where a previous proposed sale fell through, the decision should be made in consultation with legal to confirm that there is no existing registered interest in the property.</p> <p>Prior to the acceptance of any offer being considered where an appropriate marketing exercise has not been carried out, an independent valuation should be obtained to verify best consideration is being obtained</p>	<p>Agreed</p> <p>These recommendations will be considered as part of the review</p>	<p>Asset Services Manager</p> <p>June 2013</p>

APPENDIX B - ACTION PLAN FOR IMPLEMENTATION

No.	Finding	Potential Associated Risk	Priority	Recommendation	Management Comment	Responsibility Timescale
10	The contract of sale included provision for the Council to fund certain expenses that had not been agreed as part of the delegation decision to accept the offer.	Lack of transparency and accountability	H	<p>Formal letters of offer acceptance should be issued to confirm the basis on which offers have been made and accepted</p> <p>Documented procedures should clarify in what circumstance and how such post offer acceptance negotiations should be carried out and recorded.</p> <p>Procedures should confirm which officers have the authority to make such decisions.</p> <p>All negotiations and decisions should be documented and supported by robust estimates.</p>	<p>Agreed and already in place but this can include electronic communication with copy placed on file</p> <p>Already in place via delegated approval</p> <p>Already in place</p> <p>Agreed-in place</p>	
11	The contract for sale made provision for payment to be made after contractual completion.	Reputation damage Financial loss	H	<p>Procedures should clearly specify that all such decisions should be made in consultation with the Corporate Director , Resources</p>	<p>Should this not be Asset Services Manager and Legal Services?</p> <p>Agreed by Corporate Director Resources</p>	Immediate effect

APPENDIX B - ACTION PLAN FOR IMPLEMENTATION

No.	Finding	Potential Associated Risk	Priority	Recommendation	Management Comment	Responsibility Timescale
12	Lack of transparency and accountability			<p>The Council's Disposal and Acquisition Strategy should be amended and/ or operational guidance notes developed to underpin the strategy, to reflect procedural changes recommended above</p> <p>The Strategy should specify who is responsible for its preparation, approval, monitoring and review.</p>	<p>Agreed</p> <p>Agreed</p>	<p>Asset Services Manager</p> <p>June 2013</p>

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