



Audit Committee

Date **Thursday 10 November 2011**
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. Minutes of the meeting held on 29 September 2011 (Pages 1 - 6)
2. Declarations of interest.
3. Review of Operational Terms of Reference - Report of Corporate Director, Resources (Pages 7 - 22)
4. Strategic Risk Management Progress Report for the Quarter period July-September 2011 - Report of Corporate Director, Resources (Pages 23 - 34)
5. Internal Audit Progress Report Quarter Ended 30 September 2011 - Report of Manager of Internal Audit and Risk (Pages 35 - 48)
6. Report of the Audit Committee to County Council for the Period April 2011 to October 2011 - Report of Chair of the Audit Committee (Pages 49 - 58)
7. Review of Internal Audit Charter - Report of Manager of Internal Audit and Risk (Pages 59 - 80)
8. Single Asset Register - Joint Report of Head of Planning and Assets and Head of Finance (Pages 81 - 90)
9. Benefits Inspection Plan Update - Report of Corporate Director, Resources (Pages 91 - 92)
10. Audit Commission Procurement Strategy - Update by External Audit
11. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration.
12. 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)

13. Minutes of the meeting held on 29 September 2011 (Pages 93 - 94)
14. Internal Audit Progress Report Quarter Ended 30th September 2011 - Report of Manager of Internal Audit and Risk (Pages 95 - 118)
15. Internal Audit Benchmarking Results - Report of Manager of Internal Audit and Risk (Pages 119 - 124)
16. Fraud and Irregularity Update Report - Report of Manager of Internal Audit and Risk (Pages 125 - 144)
17. 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
2 November 2011

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: Ros Layfield

Tel: 0191 383 4205

DURHAM COUNTY COUNCIL

AUDIT COMMITTEE

At a Meeting of the **Audit Committee** held at the County Hall, Durham on **Thursday 29 September 2011 at 10.00 a.m.**

Present:

Councillor E Bell in the Chair

Members of the Committee:

Councillors C Carr, M Hodgson, R Ord, D J Southwell and O Temple.

Co-opted Member

Mr T Hoban

Apologies for absence were received from Councillors B Harrison, L Marshall, B Myers, and Ms K Larkin-Bramley.

1 Minutes

The Minutes of the meeting held on 28 July 2011 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 as Members were school governors, members of various committees of the Council and of the former District Council's, and bodies such as the Probation Board, Fire Authority and Police Authority.

Specific declarations were provided by members on the Pension Fund Committee in relation to items 3 and 4.

3 Final Accounts

The Corporate Director, Resources advised the Committee of the current position with the final accounts. He had hoped that the accounts would have been ready for sign off by the Committee by the end of September. He explained the difficulties that had been encountered which had caused the delay, and gave assurance that they would be considered at a Special meeting of the Committee on 31 October at 11 am. The pension fund accounts and Governance Statement were complete, however would be considered by the Committee as part of the final accounts.

A copy of the accounts as they stand were circulated for members information (for copy see file of Minutes).

The External Auditor provided assurance that they were 100% confident that they would be in the position to provide an unqualified opinion by this date.

The Committee acknowledged the difficulties that had been encountered, and thanked officers for the long hours they had worked in producing the accounts. Members accepted the assurance provided by the Corporate Director, Resources that the final accounts would be considered by the Committee on 31 October.

Resolved:

That the position be noted.

4 Asset Register

The Committee considered a report of the Corporate Director, Regeneration and Economic Development (for copy see file of Minutes) that provided an update on the development of a Single Asset Register.

The Committee requested that the Action Plan and progress on the register be monitored by them in order to seek assurance that this will be addressed by 31 December 2011.

Members learnt of the corporate approach being undertaken to address this issue, and that future updates would be jointly with finance. The Action Plan together with an update on progress would be reported to the next scheduled meeting on 10 November 2011.

Resolved:

That the report be noted.

5 County Durham and Darlington Community Risk Register (CRR)

The Committee considered a report of the Civil Contingencies Unit Manager (for copy see file of Minutes) that provided an update of Durham County Council's contribution to the Durham & Darlington Local Resilience Forum's Community Risk Register (CRR).

Councillor Carr raised an issue that the information provided at AAP meetings by the AAP co-ordinator, on the community input into the management of community risk, may have been misinterpreted by the AAP's. The Civil Contingencies Unit Manager would discuss this with the AAP co-ordinators.

Resolved:

That the report be noted.

6 Partnership Governance Framework

The Committee considered a report of the Assistant Chief Executive (for copy see file of Minutes) that advised the Committee of the Partnership Governance Framework and Durham County Council's involvement with partnerships and which partnerships will be included in the annual audit plan.

The Committee noted that monitoring and reporting arrangements are in place for the CDP and AAP's through the DIG, and bi-monthly report to Cabinet, and that further assurance would be provided by Internal Audit on the effectiveness of governance arrangements in place.

Resolved:

That the report be noted.

7 Update on Duplicate Payments

The Committee considered a report of the Corporate Director, Resources (for copy see file of Minutes) on the actions being taken and plans to reduce the Authority's risk of making duplicate payments.

The Committee noted the staged review of payments that was taking place, and that every payment was subject to the review. A report would come back to committee when the next stage of the review (payments between £500-£1,000) was complete.

Resolved:-

That the recommendations in the report be agreed.

8 Annual Governance Statement for the year April 2010 – March 2011

The Committee considered a report of the Corporate Director, Resources (for copy see file of Minutes) that sought approval of the Final Annual Governance Statement (AGS).

Two minor amendments to the Annual Governance Statement were proposed as detailed on a document tabled at the meeting, (for copy see file of Minutes), following consideration of amendments suggested by the External Auditor.

Resolved:

That the AGS, incorporating amendments tabled, be approved.

9 Internal Audit Progress Report- Quarter Ended 30th June 2011

The Committee considered a report of the Manager of Internal Audit and Risk (for copy see file of Minutes) on the work carried out by Internal Audit during the period April to June 2011.

Resolved:

That the recommendations in the report be agreed.

The Chairman agreed that in order to keep members informed the next item of business was urgent and could be considered.

10 Icelandic Banks

The Corporate Director, Resources advised of the position with the Authority seeking to receive funds following the collapse of the Icelandic banks. An update on the outcome of the court case, if known, would be provided at the meeting on 31 October 2011.

Resolved:

That the recommendations in the report be agreed.

Action Plan- Work of Audit Committee- Part A- 10 November 2011

Ref No.	Date of Meeting	Item No.	Title of Report	Action Required	By Whom	Report Committee (date)/ implemented to
1.	6.1.11 28.7.11	8	Bank Account Reconciliation	Six monthly update reports be provided	Corporate Director, Resources	5.1.12
2.	6.1.11	6	Housing Benefit Inspection	Quarterly update reports on progress made in implementing recommendations Verbal Update provided on 26.5.11. Revs & Bens Manager presented on 28.7.11.	Revs & Bens Manager	10.11.11
3.	26.5.11	8	Final Accounts – Consolidated Action Plan Update	The establishment of a single asset register with asset valuations being carried out on a 12-month rolling basis. Quarterly update reports on progress made regarding single asset register and asset valuations. Gerald Derby be asked to attend future meeting	Gerald Darby	29.9.11
4.	30.6.11	3	Annual Internal Audit Report	Report about improvements made to reduce the risk of duplicate payments being made required at a future meeting.	Head of Finance	TBA
5.	30/6/11	13	Interim Governance Report - Response	Action plan to be completed with timescales and reported to Committee	Corporate Director Resources	TBA

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Audit Committee

10 November 2011



Review of Operational Terms of Reference

Report of Don McLure, Corporate Director Resources

Purpose of the Report

- 1 The purpose of this report is to seek agreement to revisions to the Audit Committee's operational terms of reference and to present a forward plan of business for agreement in accordance with paragraph 6.1 of the terms of reference.

Background

- 2 The need to review its operational terms of reference and to develop a forward plan, to illustrate how the Committee intends to fulfil these, were amongst a number of improvements identified when the Committee undertook a review of its own effectiveness in May 2011.
- 3 The existing operational terms of reference, approved by Audit Committee in 2009, have been updated primarily to reflect changes in membership and its increased responsibilities following the delegation of the authority from full council to approve the final accounts and the annual governance statement. In addition, a number of other amendments have been made to reflect other issues arising from the effectiveness review that were incorporated into an action plan approved by Committee at its meeting on the 30th June 2011. The resultant terms of reference, developed in consultation with external audit, are attached as Appendix 2. Key changes/additions are highlighted for assistance.
- 4 A forward plan of Committee business which illustrates the date of each meeting when each element of the terms of reference will be addressed is attached at Appendix 3. A listing of expected reports to be presented to each meeting cross referenced to the terms of reference is attached at Appendix 4.

Recommendation and reasons

- 5 Members are asked to approve the revised operational terms of reference and the forward pan of committee business, as set out in the Appendices 2, 3 and 4, to help improve the Committee's effectiveness.

Contact: Avril Wallage Tel: 0191 383 3537

Appendix 1: Implications

Finance –

None

Staffing -

None

Risk -

None

Equality and Diversity -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

Chair/Vice Chair, External Audit

Procurement -

None

Disability Discrimination Act -

None

Legal Implications -

None

Audit Committee Operational Terms of Reference

1 Objectives

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

2 Authority

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

Comment [A1]: This change reflects the fact that the Committee is no longer only an Advisory committee.

Comment [A2]: Addition. Assurance map attached was approved by Committee in June 2011.

3 Composition

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

Comment [A3]: Change to reflect changes in Constitution

Deleted: 1¶

4 Terms of Reference

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

Governance Arrangements – General

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

Comment [A4]: Addition

Comment [A5]: Addition

Comment [A6]: Change from review to approve

Comment [A7]: Change from review to approve

Comment [A8]: Addition

Risk Management

- 4.1.9 To review and endorse the Council's risk management strategy and policy prior to approval by Cabinet.
- 4.1.10 To maintain an understanding of the risk management process and the key risks facing the Council.

Deleted: 1¶

4.1.11 To review regular reports from the Corporate Risk Management Group to gain assurance that the Council is monitoring and managing its risks effectively.

4.1.12 To seek further assurance from service managers that risks are being effectively managed as considered **necessary**.

Comment [A9]: Addition

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

Comment [A10]: Addition

Control Environment

4.1.14 To maintain an understanding of key council policies and procedures which seek to provide effective control over the conduct of Council business, the safeguarding of assets and the timely production of accurate and complete financial information and to seek assurance that there are adequate arrangements in place to ensure that these are being adhered to. This should include procedures set out in the Council's Constitution in respect of Contract Procedure Rules, Financial Procedures Rules, (and supporting Financial Management Standards), Scheme of Delegation, and Codes of Conduct for Members and Officers.

4.1.15 To maintain an understanding of the Council's performance management framework.

4.1.16 To review the effectiveness of the Council's Counter Fraud and Corruption Strategy and recommend any material changes required to the Strategy to Cabinet.

4.1.17 To review the effectiveness of the Council's Anti Money Laundering Policy and recommend any material changes required to the policy to **Cabinet**.

Comment [A11]: Addition

4.1.18 To review the effectiveness of the Council's Whistle-Blowing Policy and recommend any material changes required to the policy to **Cabinet**.

Comment [A12]: Addition

4.1.19 To approve the Council's Internal Audit Charter setting out the Internal Audit Strategy and Terms of Reference.

4.1.20 To maintain an understanding of the Internal Audit process and how this relates to risk management.

4.1.21 To endorse and provide challenge to proposed Annual Internal Plans ensuring that Internal Audit work is planned with due regard to risk, materiality and coverage.

4.1.22 To review the effectiveness of Internal Audit by reviewing and monitoring regular progress reports on its work and performance.

Deleted: 1¶

4.1.23 To review the effectiveness of External Audit, including consideration of any potential conflicts of interest.

Comment [A13]: Addition

4.1.24 To review the Head of Internal Audit's annual report, summary of Internal Audit work and the overall assurance opinion that the service can provide on the effectiveness of the Council's internal control environment that will inform the annual governance statement.

4.1.25 To maintain an understanding of the role of External Audit and its relationship with Internal Audit.

4.1.26 To maintain an understanding of the role of other key providers of assurance identified in the Council's assurance framework, both external and internal and ensure adequate arrangements are in place for reviewing the reliability and effectiveness of those assurance providers and for addressing any control weaknesses or improvements that they may identify.

Comment [A14]: Addition

4.1.27 To review External Audit reports and the Annual Audit Letter and ensure that there are appropriate arrangements in place to address any areas of improvement identified and to inform the operation of Council's current or future audit requirements.

4.1.28 To monitor progress made by management in response to both internal and external audit findings and recommendations.

4.1.29 To review the scope and depth of External Audit work as set out in their annual plans.

4.1.30 Within available resources, to be able to request specific pieces of work from Internal and External Audit.

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

4.2.1 To maintain an understanding of the Budget and Policy Framework as set out in the Council's Constitution.

4.2.2 To maintain an understanding of the budget procedures as set out in Finance Procedure Rules and Financial Management Standards.

4.2.3 To maintain an understanding of internal and external reporting requirements.

4.2.4 To approve accounting policies, the approach to accounting estimates and the 'going concern' assertion

Comment [A15]: Addition

Deleted: 1¶

4.2.5 To review the draft un-audited statements of accounts as certified by the S151 Officer. This review should include ensuring that issues raised in previous financial years have been addressed.

4.2.6 To review the Annual Outturn Report and consider how this might impact on the draft **accounts**.

Comment [A16]: Addition

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

Comment [A17]: Change from review to approve

5 Meetings

5.1 The Audit Committee will meet at least four times a year. Meetings will be open to the public, but they may be excluded where information of an exempt or confidential nature is being discussed.

5.2 To help maintain independence, the Head of Internal Audit is the nominated lead officer for the Committee and will hold pre agenda meetings with the Chair and Vice Chair and will attend every meeting (or arrange **deputy**).

Comment [A18]: Change

5.3 The S151 Officer and the Monitoring Officer are key corporate governance officers and they or their nominated deputies will attend each meeting.

5.4 The External Auditor has the right to attend any audit committee meeting.

5.5 Other officers will be invited to attend to present reports and /or answer any questions the Committee may have as considered appropriate to these terms of **reference**.

Comment [A19]: Change to help clarify the purpose of reports and the Ctte's role

5.6 Each report presented to Committee will make reference to the relevant paragraph in these terms of reference to clearly demonstrate how the Committee fulfils its **role**.

Comment [A20]: Addition

5.7 Elected members involvement with other committees should be recorded under declarations of interest at each meeting for the assistance of co-opted members.

Comment [A21]: Addition

5.8 A standard item will be added to each committee agenda for the Committee to be given the opportunity to discuss any exceptional items in private at the end of the meeting with Internal/External **Audit**.

Comment [A22]: Addition

Deleted: 1¶

6 Programme of Work

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

7 Performance and Review

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

Comment [A23]: Change to reflect the need to review these TOR annually and to improve reporting to full council

Deleted: 1¶

Durham County Council Audit Committee - Reporting Forward Plan 2011/12																
Ref	2011/12															
	EA Training	Workshop	26 May	30 June	28 July	29 Sept	31 Oct	10 Nov	5 Jan	16 Feb	22 March	2012/13				
Agenda Items linked to Terms of Reference												Sept	Nov	Feb	March	
1	Authority															
	To report on its work to Full Council															
	Governance Arrangements															
2	To review and endorse the Council's Code of Corporate Governance								X							X
3	To review how the AC's work integrates with the wider performance management framework and standards compliance by consideration of the Council's assurance framework		X												X	
4	To understand the role of overview and scrutiny committee in relation to the review of performance and the assurance it provides on the effectiveness of the councils governance arrangements														X	
5	To approve proposals for the production of the Annual Governance Statement															X
6	To review the effectiveness of the Internal Audit															
7	To approve the draft annual governance statement		X												X	
8	To approve the final annual governance statement														X	
9	To approve and monitor the AGS Action Plan									X						
10	To approve and monitor the AGS Action Plan															
11	To review and endorse the Council's risk management strategy and policy															
12	To maintain an understanding of the risk management process and the key risks facing the Council															
13	To review regular reports from CRMG to gain assurance that the Council is monitoring and managing its risks effectively															
14	To seek further assurance from service managers that risks are being effectively managed as considered necessary		X													
15	To seek assurance on the effectiveness of the operation of risk management framework		X													

Durham County Council Audit Committee - Reporting Forward Plan 2011/12

Appendix 3

		2011/12												2012/13						
	Ref	EA Training	Workshop	26 May	30 June	28 July	29 Sept	31 Oct	10 Nov	5 Jan	16 Feb	22 March	May	June	July	Sept	Nov	Feb	March	
28	4.1.26	To maintain an understanding of the role of other key providers of assurance identified in the Council's assurance framework and ensure adequate arrangements are in place for reviewing the reliability and effectiveness of those assurance providers and for addressing any control weakness or improvements that they may identify													X					
29	4.1.27	To review external audit reports and the Annual Audit Letter						X		X						X		X		X
30	4.1.28	To monitor progress made by management in response to both internal and external audit findings and recommendations						X		X	X					X	X			
31	4.1.29	To review the scope and depth of external audit work as set out in their annual plans						X					X							
32	4.1.30	Within available resources, to be able to request specific pieces of work from Internal and External Audit																		
STATEMENT OF ACCOUNTS																				
33	4.2.1	To maintain an understanding of the Budget and Policy Framework as set out in the Council's Constitution										X								
34	4.2.2	To maintain an understanding of the budget procedures as set out in Finance Procedure Rules and Financial Management Standards										X								
35	4.2.3	To maintain an understanding of internal and external reporting requirements													X					
36	4.2.4	To approve account policies, the approach to accounting estimates and the 'going concern assertion'														X				
37	4.2.5	Review of un-audited accounts													X					
38	4.2.6	Review of Annual Outturn Report and consider how this might impact on the draft accounts														X				
39	4.2.7	To approve final audited statement of accounts															X			
Programme of Work																				
40	6.1	Annual Programme of work to be agreed cross referenced to TOR											X							
Performance and Review																				
41	7.1	Annual self-assessment of effectiveness																X		

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Audit Committee Forward Plan			
Date of Meeting	No	Agenda Item	TOR Ref
10/11/2011	1	Interim Report on work of Audit Committee April- Sept 2011	2.1
	2	Q2 Strategic Risk Management Report	4.1.10
			4.1.11
	3	Q2 Internal Audit Report	4.1.22
			4.1.28
	4	Revised Internal Audit Charter	4.1.19
	5	Fraud and Irregularity Bi Annual Update	4.1.16
	6	Single Asset register Update	4.1.12
	7	Internal Audit Benchmarking Outcomes	4.1.22
	8	Review of Audit Committee's Operational Terms of Reference and approval of forward plan	6.1
	9	Housing Benefit Inspection Update	4.1.12
10	Half Yearly Report to Full Council on the work of the Audit Committee	2.1	
11	Verbal Update on Audit Commission's outsourcing of external audit arrangements	4.1.27	
05/01/12	1	Revised Code of Corporate governance	4.1.1
	2	Preparation of the 2011/12 Annual Governance Statement (AGS)	4.1.4.
	3	Update on 2010/11 AGS Action Plan	4.1.8
	4	Update on Action Plan 2010/11 Final Accounts	4.1.28
	5	Bank Accounts Recondition - Six Monthly Update on Rationalisation of bank accounts	4.1.12
16/02/12	1	Q3 Strategic Risk Management Report	4.1.10
			4.1.11
	2	Q3 Internal Audit Report	4.1.22
			4.1.28
	3	The internal audit process	4.1.25
	4	Review of Anti Money Laundering Policy	4.1.17
	5	Annual Audit Letter	4.1.27
6	Audit of Grant Claims - External Audit Report	4.1.27	
22/03/2012	1	Review of Whistle blowing Policy	4.1.18
	2	Budget and MTFP Setting Process	4.2.1
			4.2.2
	3	Review of the effectiveness of external audit	4.1.23
	4	Update on 2010/11 AGS Action Plan	4.1.8
	5	Action Plan 2010/11 Final Accounts	4.1.28
	6	Proposed revision of contract standing orders etc	4.1.13
May 2012	1	Annual Risk Management Report	4.1.10
			4.1.11
	2	Annual Internal Audit Report	4.1.24
3	Annual Fraud and Irregularity Report	4.1.6	

Audit Committee Forward Plan			
Date of Meeting	No	Agenda Item	TOR Ref
	4	Annual report from Committee to Full Council	2.1
	6	Annual review of the effectiveness of Internal Audit	4.1.5
June 2012	1	Draft Annual Governance Statement 2011/12	4.1.6
	2	Approval of Annual Internal Audit Plan 2012/13	4.1.21
	3	Training on issues relating to final accounts	4.2.3
	4	Approval of Accounting policies	4.2.4
	5	Financial Management Standards	4.1.13
July 2012	1	Q1 Risk Management Report	4.1.10
			4.1.11
	2	Consideration of 2011/12 Draft Accounts	4.2.5
	3	Consideration of 2011/12 Outturn Report	4.2.6
	4	Annual Report from Scrutiny	4.1.3
	5	Annual Reports from other assurance sources	4.1.12
Sept 2012	1	Final Accounts 2011/12	4.2.7
	2	Final Annual Governance Statement 2011/12	4.1.7.
	3	Annual Governance Report 2011/12	4.1.27
	4	Pension Fund Annual Governance Report 2011/12	4.1.27
	5	Internal Audit Progress Report (Up to 31/8)	4.1.22
Nov 2012	1	Q2 Risk Management Report	4.1.10
			4.1.11
	2	Q2 Internal Audit Progress Report	4.1.22
	3	Half year report from Audit Committee to Full Council	2.1
	4	Half yearly report on F & I	4.1.16
Feb 2013	1	Q3 Risk Management Report	4.1.10
			4.1.11
	2	Q3 Internal Audit Progress Report	4.1.22
	3	Annual Audit Letter	4.1.27
	4	Annual Audit of Grant Claims	4.1.27
March 2013	1	Review of Whistle blowing Policy	4.1.18
	2	Budget and MTFP Setting Process	4.2.1
	3		4.2.2
	4	Review of the effectiveness of external audit	4.1.23
	5	Update on 2010/11 AGS Action Plan	4.1.8
	6	Action Plan 2011/12 Final Accounts	4.1.28
	7	Proposed revision of contract standing orders etc	4.1.13

OVERVIEW OF CORPORATE GOVERNANCE ASSURANCE FRAMEWORK APPENDIX

FULL COUNCIL

Leader, Chief Executive, Monitoring Officer and S151 Officer sign AGS on behalf of Full Council

AUDIT COMMITTEE (AC)

Provide independent assurance on the adequacy and effectiveness of the Council's governance arrangements, including the effectiveness of the risk management and the associated control environment. Report bi annually to Full Council on its work

Delegated Authority to approve AGS on behalf of Full Council

ANNUAL GOVERNANCE STATEMENT (AGS)

Key Sources of Assurance

Pension Fund Committee
Oversee the management of the pension fund, including risk, governance and internal control issues

Cabinet:
Receive quarterly reports on performance and risk management to inform key decisions

Internal Audit
Independent opinion on

- compliance with key internal control processes
- the effectiveness of the process for gaining assurance on internal control and risk management
- the effectiveness of controls to manage significant areas of risk

Annual effectiveness review reported to Audit Committee

Risk Management:
Outcomes from formal risk assessment and evaluation as documented in Corporate and Service Risk Registers

Service Risk Managers, supported by corporate risk officers, ensure service strategic risk registers are regularly monitored

The CRMG ensures cross cutting directorate risks are incorporated into the Council's Corporate Strategic Risk Register

External Audit:

- Independent overview of the effectiveness of the financial control environment including internal reporting, internal control and risk management and VFM conclusion.
- Control improvements highlighted in Annual Governance Report and Annual Audit Letter

CMT
Provide a forum for identifying and addressing cross cutting issues that may impact on control environment and risk

Endorse AGS prior to AC

Change Co-Ordination Group;
Challenges annual evaluation of effectiveness of corporate governance arrangements and prepares draft AGS supported by risk and governance manager

Corporate Directors Annual Assurance Statements:
Inform draft AGS

Other external sources of assurance:
Outcomes from reviews of services by external inspectors e.g.

- Ofsted
- CQC
- RIPA inspection (2011)
- IP Standard Accreditation (2011)
- HMRC (2010)
- H & S Executive
- Quality Management Standards
- Audit Commission
- Housing Inspection 2010

Overview and Scrutiny:
Review and and/or scrutinise decisions made or action taken

Assist in policy development and review

Review and scrutinise performance

Make recommendations to Cabinet

Annual Report to Full Council on its work

Standards Committee:
Promote and maintain high standards of member conduct

Working groups:
IPG, 4th Tier Performance Group, Information Security Forum, Information Governance Group

Strategic Procurement Network, MOWG, Performance clinics, 4th Tier Workshops etc

Provide a forum for identifying and addressing cross cutting issues that may impact on control environment and risk management

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Audit Committee

10 November 2011

Strategic Risk Management Progress Report for the Quarter period July – September 2011



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, including the status of the corporate strategic risks, and to give an insight into the work carried out by the Corporate Risk Management Group during the period July to September 2011.

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 30 September 2011, there were 59 strategic risks, a decrease of one from the previous period end at 30 June 2011. In summary, the key risks to the Council are:
 - Any slippage in delivery of the MTFP would require further savings to be made which could result in further service reductions/ job losses;
 - Failure to identify and effectively regulate Contaminated Land – there is a bid for a £100k budget in the next Medium Term Financial Plan to mitigate this risk;
 - The Council may be liable to legal challenge if a single status agreement is not implemented in full;

- The loss of Area Based Grant funding results in the County Durham Partnership (CDP) failing to narrow inequality and deprivation;
- Potential restitution of land charge search fees back to 2005;
- Insufficient number of adequately skilled staff to maintain the expected level of services;
- Delays in processing both new and changes to benefit claims.

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 30 September 2011.
6. Management have identified and assessed these risks using a structured and systematic approach, and are 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.
 - Revenues and Benefit Computer System;
 - Durham Crematorium Cremator Replacement;
 - Greenland Primary School (New Build);
 - Brandon Primary School (New Build);
 - People and Organisational Development Strategy;
 - Integrated Service Delivery Project;
 - Voluntary & Community Sector SLA Project.

Recommendations and reasons

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

Contact: David Marshall Tel: 0191 3834311

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 30 September 2011, there were 59 strategic risks, a decrease of one from the previous period end at 30 June 2011.

The following matrix summarises the total number of strategic risks based on their Net risk assessment as at 30 September 2011. Where there have been changes to the number of risks from the last quarter period end, the risk total as at 30 June 2011 is highlighted in brackets.

Overall number of Strategic Risks as at 30 September 2011

Impact					
Critical	1 (0)	3 (3)	2 (2)		
Major		5 (5)	8 (9)	3 (3)	
Moderate		6 (11)	18 (18)	6 (4)	
Minor		1 (0)	5 (5)	1 (0)	
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

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

1 Beneficial outcomes

Implementation of additional mitigation for the following risks has enabled the Council to improve performance, decision-making and governance:

- Further improvements to the Events Management process are enabling the risk of '*Failure to effectively support events organised by the Council or taking place on Council land*' to be managed at an acceptable level. In addition,

draft procedures are currently out for consultation, and when approved, this will further mitigate this risk. **(NS)**

- A transition plan to ensure continued residential care for all residents affected by the winding-up of a major residential care company has reduced the negative impact on residents, as well as protecting the reputation of the Council. **(AWH)**
- The risk of *'Failing to meet escalating costs of external and high-cost placements'* has been effectively managed due to the close monitoring of the plan to implement a new contract for the placement of children and young people with independent fostering providers. **(CYPS)**
- The risk of salt supplies running out during a severe weather event has been reduced due to the substantial control measures now in place. **(NS)**

2 Significant New and Increased Risks

The likelihood of the risk of a *'Potential claw-back from MMI, the Council's former insurers, under the Scheme of Arrangement'* occurring has increased, following the recent release of their 2010/ 11 Annual report and accounts, which highlighted a further deterioration in MMI's solvency position. **(Resources)**

The likelihood of the risk of a *'Potential restitution of land charge search fees back to 2005'* occurring has increased, as a firm of solicitors has now taken action against all Council's across England and Wales to recover the alleged land charge fees overpayment. **(Resources)**

Six new risks have been identified this quarter:

- There is an increased likelihood of other local authorities passing on *'Increased Adult Care costs to the Council following revision to 'Ordinary residence' guidance'*. **(AWH)**
- *'Industrial Action arising from budget reductions will adversely impact service delivery'*. **(Resources)**
- *'Insufficient funds to cover the Council's self insured period for Employers Liability claims'*. If there is an increase in latent disease claims related to the period before 1996, the insurance fund may not have sufficient funds to cover these liabilities. **(Resources)**
- *'Collection Fund and Debtors collection rates do not reach target set for 2011/12'*. This risk will impact on other Services who depend on this income when setting their budgets for the year, as any decrease in their revenue will add to existing budget pressures. **(Resources)**
- Fuel and energy costs have increased significantly in recent years and industry experts predict an even sharper rise in the next 18 months due to a number of external factors. There is a risk that *'If fuel and energy costs continue to rise, it will have major financial implications for the Council and a wider impact on the community'*. **(Resources)**
- *'The benefits of integrated service delivery will not be fully realised if external contractors fail to deliver the ICT infrastructure in the timescales requested'*. **(CYPS)**

3 Removed Risks

Nine risks have been **removed** from the register in this quarter. This is due in part to greater challenge of the risk with the Services, but also through 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.

4 Key Risks

The risks shown in the table 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'.

Figure1

Impact					
Critical			<i>Risks 1 and 2</i>		
Major				<i>Risks 3, 4 and 5</i>	
Moderate				<i>Risk 7</i>	<i>Risk 6</i>
Minor					
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	RES	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	Altogether Greener	Failure to identify and effectively regulate Contaminated Land	Critical	Possible	Out of the 140 sites identified, the top 10 sites will be assessed during 2011/ 12. There is a bid for a £100k budget in the next Medium Term Financial Plan to mitigate this risk.		The Contaminated land strategy, which will bring this risk to an acceptable level, will not be in place until November 2011
3	RES	Altogether Better Council	The Council may be liable to legal challenge if a single status agreement is not implemented in full	Major	Probable	Letters will be sent to staff in October 2011 advising how the proposals would affect them. Council approval will be obtained prior to commencing formal negotiations, involving Trade Unions.		The project to bring this risk to an acceptable level will be completed by April 2012.
4	RED	Altogether Wealthier	The loss of Area Based Grant funding results in the CDP failing to narrow inequality and deprivation gaps	Major	Probable	Development and implementation of localised performance measurement of outcomes.		The action plan will be in place by July 2011. This will remain a significant risk for at least the next 4 years.
5	RES	Altogether Better Council	Insufficient number of adequately skilled staff to maintain the expected level of services	Major	Probable	Various protocols and guidance for management and staff. Dedicated reorganisation support teams established to effectively support the process for delivering service reviews.		Plans will be in place by April 2012 outlining the policies that will be required to ensure succession planning in the long term.

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
6	RES	Altogether Better Council	Potential restitution of land charge search fees back to 2005	Moderate	Highly Probable	The Council has signed up to a class action defence by LGA appointed solicitors	Likelihood increased	Dependent upon the outcome of the negotiations/litigation currently being defended by lawyers instructed in group litigation
7	RES	Altogether Better Council	Delays in processing both new, and changes to, benefit claims.	Moderate	Probable	Additional resource is being invested to utilise external assistance to carry out detailed packages of work. This will reduce the backlog during periods when the ICT systems are unavailable.		This will remain a high risk until the IT system is fully implemented, which will not be until quarter 4 of 2011/12.

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

Corporate Theme – Altogether Better Council

Ref	Service	Risk
1	RES	The Council may be liable to legal challenge if a single status agreement is not implemented in full
2	RES	Insufficient number of adequately skilled staff to maintain the expected level of services
3	RES	Loss of income from land charge fees
4	RES	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses
5	RES	Industrial Action arising from budget reductions will adversely impact service delivery
6	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
7	RES	Collection Fund and Debtors collection rates do not reach target set for 2011/12
8	RES	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)
9	RES	Delays in processing both new and changes to benefit claims.
10	NS	Period of significant disruption to support Service Delivery during the harmonisation of the HR and Finance function.
11	NS	Failure to effectively support events organised by the Council or taking place on Council land
12	RES	If fuel and energy costs continue to rise it will have major financial implications for the Council and a wider impact on the community
13	RES	Inconsistent approach to managing funding bids by Services could expose the Council to financial losses and reputational damage.
14	RES	Insufficient funds to cover the Council's self insured period for Employers Liability claims
15	NS	The performance of building services does not improve to make them more competitive.
16	NS	Limited knowledge of DEBS live system by some budget holders could adversely impact on service delivery and performance in NS
17	ACE	The data used to produce performance information is of insufficient quality to ensure reliability for decision making purposes
18	RES	Major Interruption to IT Service Delivery
19	RES	Council Services will not be operating effectively due to inadequate level of IT service delivery to end users
20	NS	Industrial Action arising from substantial change programme
21	RES	The New Revenues & Benefits & attendant Cash Management and Document flow systems will not be successfully implemented
22	RES	Due to the amount of change occurring across the Council, the potential for fraud and error is increasing
23	AWH	Work Related Stress – STAFF
24	NS	Consistent health and safety policies, practices and procedures across the Neighbourhoods Service are not embedded
25	NS	Harmonised policies and action with regards to licensing and enforcement are not delivered across all areas
26	ACE	Uncertainty/legal disputes over the tenure of Community Buildings, resulting in failure to achieve the aims of the CB Strategy
27	ACE	Failure to co-ordinate infrastructure support to the V&CS, leading to a failure to channel resources to those in greatest need.
28	RES	Commercial and complex litigation cases outside the capacity of Legal and Democratic Resources
29	ACE	Failure to consult or impact assess decisions on communities leading to discrimination or not promoting equality of opportunity

Ref	Service	Risk
30	RES	Failure to comply with legislation (Data Protection Act, Freedom of Information Act, Copyright Act, H&S, etc.)
31	CYPS	Uncertain, large-scale financial demands (e.g. on Safeguarding and Specialist Services), leading to breached MTFP targets.

Corporate Theme – Altogether Wealthier

Ref	Service	Risk
32	RED	The loss of Area Based Grant funding results in the CDP failing to narrow inequality and deprivation gaps
33	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.
34	RED	Private housing stock condition worsens with adverse implications for local economy, health & neighbourhood sustainability.
35	RED	Reduced future allocations of deprivation based grants to County resulting from changes to Council's new deprivation status.
36	RED	East Durham Homes additional Government funding is not forthcoming due to Government cut backs.

Corporate Theme – Altogether Better for Children and Young People

Ref	Service	Risk
37	CYPS	Children/families experience lack of interface between Adult/Children's Services as a result of failure to work closely together
38	CYPS	Failure to deliver integrated services (incl NHS) by Sept 2011, resulting in breach of grant condition and missed MTFP targets.
39	CYPS	The benefits of integrated service delivery will not be fully realised if external contractors fail to deliver the ICT infrastructure in the timescales requested.
40	CYPS	Failure to deliver the restructured BSF programme on time and with minimal service disruption
41	RED	Failure to adequately support young people into employment or training

Corporate Theme – Altogether Safer

Ref	Service	Risk
42	RED	Disused and unmaintained Coal Authority mine workings on DCC land could result in serious injury/financial claims against the Council
43	CYPS	Failure to protect child from death or serious harm (where service failure is a factor or issue) – CYPS
44	AWH	A service failure of Safeguarding leads to death or serious harm to a service user.
45	ACE	Failure to prepare for, respond to and recover from a major incident or interruption, and to provide essential services.
46	NS	Damage to Highways assets as a result of a severe weather event.
47	AWH	Unauthorised encampment
48	AWH	Risk of injury to gypsies, travellers and staff due to site-related hazards
49	AWH	Violence and Aggression Staff
50	RED	Serious injury or loss of life due to Safeguarding failure (Transport Service)

Corporate Theme – Altogether Greener

Ref	Service	Risk
51	NS	Failure to identify and effectively regulate Contaminated Land
52	NS	Failure to effectively develop the proposed Waste Management Solution

Corporate Theme – Altogether Healthier

Ref	Service	Risk
53	CYPS	Failure to meet escalating costs of external and high-cost placements effectively
54	AWH	Management and administration of service users medications
55	AWH	Potential financial, operational, and reputational risks arising from proposed NHS Reforms
56	AWH	Inability to manage markets for the delivery of Adult Social Care Services
57	AWH	Increased cost to the authority from revision to “Ordinary residence” guidance
58	AWH	Inability to transform social care infrastructure and support systems in line with personalisation/transformation requirements
59	AWH	Potential failure in the external care provider market resulting in the closure of residential care homes

Audit Committee

10th November 2011

**Internal Audit Progress Report
Quarter Ended 30th September 2011**



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 April to September 2011.
- 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 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 where measurable at this stage

BACKGROUND

- 3 Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
- 4 To help improve the audit planning process, a revision to the annual audit planning cycle was approved by Audit Committee in February 2011. The audit planning year now covers the period July to June to allow audit plans to be developed following the approval of service plans and the MTFP.
- 5 As a consequence of this change, an interim audit plan covering the period April to June 2011 was approved by Audit Committee in March 2011.

- 6 A 5 year strategic audit plan together with the annual plan for July to June 2012 was approved by Corporate Management Team (CMT) and Audit Committee on the 8th June and the 30th June 2011 respectively.
- 7 The interim plan and work programmed for the first 3 quarters of the annual plan determine the audit programme of work for the financial year 2011/12 for performance monitoring and reporting purposes to inform the annual audit opinion.
- 8 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. Details of how our assurance opinions are derived are given in Appendix 2.
- 9 It is managers' responsibility to ensure that effective controls operate within their service areas. However we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner.
- 10 The method of audit follow up will vary according to the priority of recommendation.
- 11 Audit recommendations are allocated a priority ranking reflecting the significance of the audit findings to which they relate. Details of how we define the significance of audit findings are also given in Appendix 2.

PROGRESS AGAINST PLANNED WORK

- 12 A summary of progress made in delivering the 2011/12 plan is given below:
 - 1 of the 11 counter fraud reviews is complete and a further 7 are in progress.
 - 25 out of 44 planned assurance reviews due to be completed by Q2, including those carried over from last year, are complete (draft or final report issued). A further 24 are in progress, including some scheduled for Q3.
 - 4 of the 32 of planned advice and consultancy type audits are complete and a further 17 are in progress.
 - 35 unplanned reviews have been added to the plan to address new or emerging risks, of which 22 relate to investigations. One review has been added in substitution for planned work at the request of the service. In all other cases, time required for unplanned work has been met from the contingency provision for new and emerging risks.
 - All planned grant certification work is complete

RESPONSE TO AGREED AUDIT RECOMMENDATIONS

- 13 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. In addition, listings of all recommendations outstanding at the end of each month are produced and issued to a nominated representative to assist management monitoring processes. Good progress continues to be made by managers in the implementation of recommendations since these revised procedures were introduced.

PERFORMANCE INDICATORS

- 14 A summary of our actual performance compared to agreed target performance indicators is given in Appendix 3.
- 15 As can be seen the % of planned assurance reviews complete is 23%, (25 out of 107) compared with an annual target of 90%. However, 24 audits were in progress at the end of the quarter. These are at various stages of completion. Assuming an average completion rate of 50%, actual performance is increased to 35% compared with a Q2 target completion rate of 41%.
- 16 The provision for new and emerging risks made (contingency provision) included in agreed plans for this financial year was 560 days. At the end of quarter 2 this had been reduced to 230 days. 330 days have been transferred to cover:
- additions to the plan (unplanned work summarised in Appendix 2)
 - additional time required to complete some planned work
 - an element of over programming built into the interim plan
 - work originally scheduled for Q5 (April-June 2012) that has been brought forward.
- 17 Assumptions made over the number of audit days available for the year when the plan was prepared have been revised as at the 30th September due to:
- Promotion of Senior Auditor to a position within ACE (Permanent Vacancy)
 - Extension of 2 Senior Auditors beyond planned original agreed dates (temporary vacancy)
 - Flexible working agreement for Principal Auditor (Temporary)
- These vacancies equate to 229 productive audit days.
- 18 Given the current draw down on contingency for unplanned work, if this shortfall is not addressed over the next 6 months, the target completion of planned assurance work is estimated to be 70%. Arrangements are therefore being made to address the shortfall through the engagement of agency staff and / or through the Internal Audit Partnership agreement with PwC. The cost of this backfill will be met from the under spend arising from vacancies.

RECOMMENDATIONS

- 19 Members are asked to note the progress made on delivering the internal audit plan for 2011/12.

Contact: Avril Wallage Tel: 0191 383 3537

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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Findings

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

Impact Rating	Assessment Rationale
Critical	<p>A finding that could have a:</p> <p>Critical impact on operational performance (Significant disruption to service delivery)</p> <p>Critical monetary or financial statement impact (In excess of 5% of service income or expenditure budget)</p> <p>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)</p> <p>Critical impact on the reputation of the Council (Significant reputational damage with partners/central government and/or significant number of complaints from service users)</p> <p>Critical impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)</p>
Major	<p>A finding that could have a:</p> <p>Major impact on operational performance (Disruption to service delivery)</p> <p>Major monetary or financial statement impact (1-5% of service income or expenditure budget)</p> <p>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)</p> <p>Major impact on the reputation of the service within the Council and/or complaints from service users</p>
Minor	<p>A finding that could have a:</p> <p>Minor impact on operational performance (Very little or no disruption to service delivery)</p> <p>Minor monetary or financial statement impact (less than 1% of service income or expenditure budget)</p> <p>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)</p>

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

LIKELIHOOD			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	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 or 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

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Findings

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

Impact Rating	Assessment Rationale
Critical	<p>A finding that could have a:</p> <p>Critical impact on operational performance (Significant disruption to service delivery)</p> <p>Critical monetary or financial statement impact (In excess of 5% of service income or expenditure budget)</p> <p>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)</p> <p>Critical impact on the reputation of the Council (Significant reputational damage with partners/central government and/or significant number of complaints from service users)</p> <p>Critical impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)</p>
Major	<p>A finding that could have a:</p> <p>Major impact on operational performance (Disruption to service delivery)</p> <p>Major monetary or financial statement impact (1-5% of service income or expenditure budget)</p> <p>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)</p> <p>Major impact on the reputation of the service within the Council and/or complaints from service users</p>
Minor	<p>A finding that could have a:</p> <p>Minor impact on operational performance (Very little or no disruption to service delivery)</p> <p>Minor monetary or financial statement impact (less than 1% of service income or expenditure budget)</p> <p>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)</p>

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

LIKELIHOOD			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	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 or 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

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AUDIT COMMITTEE

10th November 2011



Report of the Audit Committee to County Council for the Period April 2011 to October 2011

Councillor Edward Bell, Chair of the Audit Committee

Purpose of the Report

- 1 To present a draft report of the work of the Audit Committee for the period April to October 2011, for agreement prior to reporting to full Council at its meeting on 7th December 2011.

Background

- 2 In accordance with best practice, the Audit Committee has agreed to report a summary of its work to Full Council.
- 3 Six monthly reporting was agreed, but due to the need to report the approval of the Statements of Accounts to Full Council, the attached report also makes reference to the Special Audit Committee held 31st October 2011 for this purpose.

Recommendations and Reasons

- 11 Members agree the draft report as attached for onward reporting to County Council on 7th December 2011.

Contact: Avril Wallage, Manager of Internal Audit & Risk Tel 0191 383 3537

Appendix 1: Implications

Finance

None

Staffing

None

Risk

None

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

County Council

7th December 2011



Report of the Audit Committee for the Period April 2011 to October 2011

Councillor Edward Bell, Chair of Audit Committee

Purpose of the Report

1. To inform the Council of the work of the Audit Committee during the period April to October 2011 and how this committee has been successful in improving governance across the Council.

Background

2. The Audit Committee of the County Council has been in place since 2007.
3. The role of the committee is set out in its terms of reference within the Constitution approved by Council.
4. Good corporate governance requires independent and effective assurance processes to be in place to ensure effective financial management and reporting in order to achieve the Council's corporate and service objectives. It is the responsibility of the Audit Committee to undertake these aspects of governance on behalf of the Council.
5. The specific objectives of the Audit Committee set out in the Council's Constitution are to provide independent assurance to Cabinet and Full Council over the:
 - Adequacy and effectiveness of the Council's governance arrangements, including the effectiveness of the risk management framework and the associated control environment.
 - Financial Reporting of the Council's Statement of Accounts ensuring that any issues arising from the process of drawing up, auditing and certifying the Council accounts are dealt with properly.
6. The membership and terms of reference of the Committee are set out in the Council's Constitution.
7. The membership during the period April 2011 to October 2011 was as follows:

Chair: Cllr Edward Bell

Vice Chair: Cllr Owen Temple

Members: Cllr Reg Ord
Cllr Colin Carr
Cllr Brian Myers
Cllr Dennis Southwell
Cllr Barbara Harrison
Cllr Michele Hodgson
Cllr Linda Marshall

Co-optees: Ms Katherine Larkin Bramley
Mr Thomas Hoban

Summary of Meetings

26th May 2011

8. The Committee considered 3 reports from the Corporate Director Resources relating to the work of Corporate Risk Management to gain assurance that the Council is managing its risks effectively:
 - the first report highlighted changes to the key corporate and service strategic risks arising during the period January to March 2011;
 - the second summarised the work of Corporate Risk Management during the whole of 2010/11;
 - the third report detailed the findings from an external review carried out by Zurich Municipal, the Council's Insurers, providing independent assurance to the Committee on the effectiveness of the operation of the Council's risk management framework.
9. The Committee considered a report from the Manager of Internal Audit and Risk, which outlined the work and performance of Internal Audit during the period January to March 2011 to gain assurance on the effectiveness of the Council's control environment.
10. The Committee received an update from the Corporate Director Resources on the performance of the payment of invoices to gain assurance that risks associated with late payments were being effectively managed.
11. The Committee considered an update report of the Corporate Director, Resources on the progress made on the implementation of recommendations made by the external auditor in the Annual Governance Report to gain assurance that improvements identified were being addressed. Further assurance was requested on progress being made on the development of a single asset register and asset revaluation.
12. The Committee considered 2 reports from the Corporate Director, Resources relating to Housing Benefit that provided assurance that

identified improvements in the governance arrangements relating to the service were being effectively addressed:

- the first was an update on the implementation of recommendations from the Audit Commission's Housing Benefits Inspection;
- the second related to progress on the implementation of the integrated Revenues and Benefits System that would address many of the improvements identified in the Inspection report. The Committee asked that the Revenue and Benefits Manager attend the September meeting to provide further assurance.

13. The Committee noted the response provided by the Chair on behalf of the Committee, required by the external auditor to fulfil International Auditing Standards (IAS), relating to the Council's arrangement for the management of fraud and compliance with relevant laws and regulations.

14. The Committee considered and approved a report of the External Auditor outlining the Pension Fund Audit Plan for 2010/11.

30th June 2011

15. The Committee considered the Annual Internal Audit Report for 2010/11, and the overall opinion provided, to gain assurance on the adequacy and effectiveness of the Council's control environment to inform the Annual Governance Statement.

16. The Committee considered a report of the Corporate Director Resources, on the outcome of the annual review of the effectiveness of Internal Audit to gain assurance that the opinion provided in the Annual Audit Report could be relied upon.

17. The Committee considered a report from the Manager of Internal Audit and Risk outlining the risk based internal audit strategy. A proposed Strategic Audit Plan 2011-2016 was noted and the 2011/12 Audit Plan, which is the first year of the strategic plan, was approved. In reviewing this strategy the Committee considered how and where it gets the assurance it needs to be able to fulfil its role. This is illustrated by the Council's overall assurance framework which is attached at Appendix 2 for approval.

18. The Committee agreed an action plan to improve its effectiveness following a self assessment workshop held in May 2011. A copy of the Action Plan is attached at Appendix 3 for information.

19. The Committee noted the Department of Communities and Local Government consultation exercise in relation to proposals on the future of public audit, following the decision to disband the Audit Commission, and the response provided to the consultation by the Corporate Director, Resources.

20. The Committee noted the Risk Management Improvement Plan to gain assurance that actions required, following the review of the Strategic Risk

Management Framework by Zurich Municipal, had been incorporated and were being addressed.

21. The Committee approved the revised Risk Management Strategy and Policy following the annual review. An example risk assessment was demonstrated to ensure the Committee understood how this would work in practice.
22. The Committee considered and noted a report of the Corporate Director Resources, on the implications for the Council of the Bribery Act 2010 which came into effect from 1 July 2011.
23. The Committee considered the External Auditor's Interim Governance Reports relating to the 2010/11 audit of the Pension Fund and Durham County Council. The response to recommendations made to improve the control environment, provided by the Corporate Director Resources, was noted.
24. The Committee approved the draft 2010/11 Annual Governance Statement and noted the significant improvements made to the Council's governance arrangements during the year.
25. The Committee noted a letter from the External Auditor relating to a risk identified to the Group Accounts Opinion Audit.
26. The Committee considered the Annual Fraud Report 2010/11 provided by the Manager of Internal Audit and Risk, to gain assurance on the effectiveness of the Council's Counter Fraud and Corruption Strategy.

28th July 2011

27. The Committee considered the draft 2010/11 Statement of Accounts that had been certified on the 30th June in accordance with statutory requirements.
28. The Committee reviewed the Final Outturn Report for the General Fund and Housing Revenue Account and considered the implications for the Statements of Accounts.
29. The Committee agreed the Annual Report of the Chair of the Audit Committee summarising the work of the Committee in 2010/11 that was reported to full Council at its September meeting.
30. The Committee noted progress on the consolidation of the Council's bank accounts to gain assurance that risks associated with operating several banks accounts were being addressed.
31. The Committee considered a progress report of the External Auditor that outlined progress on the delivery of their responsibilities. The report also provided an update on key emerging national issues and developments of interest to the Committee.

29th September 2011

32. The Committee received an update from the Corporate Director Resources on the status of the final accounts. It was noted that the Council's combined Statement of Accounts were not yet complete. A set of accounts, including the pension fund, which was complete, was tabled at the meeting together with the Pension Fund Annual Governance Report, but were not considered by the Committee. The difficulties in finalising the accounts were noted and assurance provided by both the External Auditor and the Corporate Director that the accounts would be submitted for approval at a special meeting to be convened for this purpose on the 31st October 2011.
33. The Committee considered a report of the Corporate Director, Regeneration and Economic Development, that provided an update on the development of a Single Asset Register. Given the importance of this to the preparation of the 2011/12 Accounts, the Committee asked for a further update to be provided at the next scheduled meeting.
34. The Committee received an update report from the Civil Contingencies Unit Manager on the management of risks identified in the Durham and Darlington Local Resilience Forum's Community Risk Register.
35. The Committee considered an update report from the Assistant Chief Executive on the Council's Partnership Governance Framework and approved those partnerships on which assurance will be provided as part of the 2011/12 Internal Audit Plan.
36. The Committee considered a report of the Corporate Director Resources, which provided assurance on improvements being made to reduce the risk of duplicate payments.
37. The Committee approved the Council's Annual Governance Statement which will be published as part of the Statement of Accounts.
38. The Committee considered a progress report on the work and performance of Internal Audit, and the assurance provided on the control environment, for period the April to June 2011.
39. The Committee noted the verbal update provided by the Corporate Director Resources on the latest position regarding actions being taken to recover funds lost through the collapse of Icelandic Banks.

Special Audit Committee 31st October 2011

40. The Committee approved the Council's 2010/11 Statements of Accounts. In giving this approval the Committee considered a report from the Corporate Director Resources explaining the process for signing off the accounts and problems encountered in their preparation. The Committee also considered the Annual Governance Reports made by the External Auditor in relation to both the Pension Fund and Durham County Council.

It was noted that the External Auditor will issue an unqualified opinion on the accounts of the County Council, the Group Accounting Statements, the Pension Fund Accounting Statements and the Value for Money Conclusion. This is a much improved position from last year where a qualified VFM opinion was provided in relation to the County Council's Statements.

41. In considering the Annual Governance Reports, the Committee:

- Noted adjustments made to the financial statements to correct errors disclosed during the audit
- Noted adjustments due to errors that management had declined to amend on the grounds that the total of these unadjusted misstatements do not materially affect the accuracy/integrity of the Statement of Accounts and approved this non adjustment in a letter of representation.

It was noted that the main errors in the draft County Council accounts primarily related to capital accounting entries for property, plant and equipment. The Corporate Director Resources provided assurance that work in progress to develop a single asset register and to strengthen capital accounting practices, as part of the unitisation of the finance function, would deliver the improvements required for the current year accounts. Progress on this together with recommendations made in the Annual Governance Reports will be monitored by the Committee.

How the Audit Committee has made a difference during the first 7 months of 2011/12

42. The Committee made a significant difference to the Council's governance, control and risk framework during the period April to October by :

- Striving to help support the Council deliver its objectives and priorities by being a proactive and reactive body encouraging the early reporting of any risk and control issues to ensure that appropriate and timely action is taken to address them
- Continuing to raise the profile of the Internal Audit and Risk Management Service through its reports to Audit Committee
- Independent questioning and contributing to the development and control of internal audit plans
- Seeking assurance on the effectiveness of corporate risk management arrangements
- Seeking assurance on the effectiveness of the Council's corporate governance arrangements from a number of different assurance sources
- Improving the accountability of service managers to respond to outstanding internal audit reports and the implementation of agreed internal audit recommendations thereby helping to drive improvement in controls to manage risks effectively

- Continuing to provide regular challenge and demanding accountability on the effectiveness of the implementation and operation of key financial systems
- Challenging the level of internal audit resources and their work to ensure that the service is effective and a reliable assurance opinion on the Council's controls framework is provided
- Challenging how the Annual Governance Statement has been determined and reviewing the assurance framework in place to ensure that the Council's corporate governance arrangements are effective
- Challenging progress being made to overcome the control issues and difficulties encountered in preparing the Council's Statements of Accounts

Recommendations and reasons

43. Members note the report and the work undertaken by the Audit Committee during the period April to October 2011
44. Members note the Action Plan agreed to improve the effectiveness of the Audit Committee attached at Appendix 2.
45. Members approve the Council's overall assurance framework attached at Appendix 3.

Contact: Avril Wallage, Manager of Internal Audit & Risk, Tel 0191 383 3537

Appendix 1: Implications

Finance - There are no direct financial implications arising for the Council as a result of this report.

Staffing - None.

Risk – Not a key decision

Equality and Diversity/ Public Sector Equality Duty - None

Accommodation - None

Crime and disorder - The Audit Committee provide independent assurance that the Council's arrangements to combat the risk of loss through fraud are effective and all reported potential fraudulent acts are appropriately investigated and reported to the police where it is appropriate to do so.

Human rights - None

Consultation - None

Procurement – None.

Disability issues – None.

Legal Implications – None.

Audit Committee

10 November 2011



Review of Internal Audit Charter

Report of the Manager of Internal Audit & Risk

Purpose of the Report

- 1 The purpose of this report is to seek approval to a revised Internal Audit Charter.

Background

- 2 The Internal Audit Charter is the framework that outlines the terms of reference and audit strategy for the Internal Audit Service.
- 3 The Charter was last reviewed by the Committee in October.2010. A revised Charter is attached at Appendix 2. Amendments to the existing Charter are now required to reflect revised audit practises introduced to improve the risk based approach to internal auditing and to concurrently help embed operational risk management. These changes are reflected in a revised methodology for determining the importance of audit findings, recommendations and assurance opinions as set out in Appendix A of the Charter.

Recommendation and reasons

- 4 In accordance with paragraph 83 of the Internal Audit Charter, Members are asked to approve the revised Internal Audit Charter attached.

Contact: Avril Wallage Tel: 0191 383 3537

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



INTERNAL AUDIT CHARTER

**October
2011**

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Introduction

1. The purpose of this Charter is to establish the terms of reference for the Durham County Council Internal Audit Service and outline how the service will be delivered and developed through its Audit Strategy.

Statutory Basis

2. The Council is responsible for maintaining an adequate and effective Internal Audit function under the Accounts and Audit Regulations 2011. The guidance accompanying this legislation states that proper internal control practices for Internal Audit are those contained within CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
3. Our statutory responsibility and rights of access are included in the Council's Financial Regulations which are part of the Council's Constitution.

Definition

4. The CIPFA Code of Practice for Internal Audit 2006 defines Internal Audit as:
5. "An assurance function that provides an independent and objective opinion to the organisation on risk management, control and governance **by evaluating their effectiveness in achieving the organisations objectives**. It objectively examines evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources".

Strategic Aims

6. Our overall strategy is to support the Council achieve its aims and objectives through the provision of a high quality internal audit service that gives management reasonable assurance on the effectiveness of the Council's internal control environment and acts as an agent for change by making recommendations for continual improvement. The service aims to be flexible, pragmatic and to work in collaboration with management to suit organisation needs. Through a risk based approach to audit planning, the service will make a positive contribution to corporate governance arrangements and assist management in developing a framework for achieving objectives within acceptable levels of risk.

Objectives of Internal Audit

7. Our primary objective is the provision of reasonable, not absolute, evidenced based assurance on the effectiveness of the whole of the Council's risk

management, control and governance environment to the Corporate Management Team and the Audit Committee.

8. The provision of our annual assurance opinion will be in compliance with professional guidelines and in accordance with the Accounts and Audit regulations 2011 and will be included in the Council's Annual Governance Statement which forms part of the Council's published annual Statement of Accounts.
9. To determine the audit opinion the internal audit service will review, appraise and report upon:
 - The adequacy of risk identification, assessment and mitigation
 - The adequacy and application of controls to mitigate identified risk
 - The adequacy and extent of compliance with the Council's corporate governance framework
 - The extent of compliance with relevant legislation
 - The extent to which the organisation's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money
 - The quality and integrity of financial and other management information utilised within the organisation
10. When presenting the annual audit opinion the Head of Internal Audit will:
 - Disclose any qualification to that opinion, together with the reasons for that qualification
 - Present a summary of the audit work undertaken from which the opinion is derived, including reliance placed on the work of others
 - Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement
 - Compare the work actually undertaken to the work that was planned and summarise the performance of the internal audit service
 - Comment on compliance with the CIPFA Code of Practice for internal Audit
11. Other objectives include:
 - Supporting the Section 151 Officer (Chief Finance Officer) in discharging his statutory duties for ensuring proper administration of the Council's financial affairs.
 - Championing good governance by helping to improve the Council's risk management, control and governance processes by providing management with timely advice and guidance.
 - Supporting the Audit Committee in fulfilling its governance responsibilities as detailed in the Committee's terms of reference set out in the Council's Constitution.

- Supporting Officers and Members in identifying and understanding exposure to risk and providing advice on control design, techniques and strategies.
- Working with other assurance and review bodies to ascertain the extent to which reliance can be placed on the work of other auditors and inspectorates to maximise assurance and the effectiveness of audit resources available.
- Helping to promote a strong counter fraud culture across the Council, through the development and effective implementation of the Council's Counter fraud and Corruption Strategy and Anti-Money Laundering policy.
- Providing quality services through the highest standards of professional practice, quality assurance systems and investment in staff.

Outcomes of Internal Audit

12. Our main outcome is the provision of independent assurance to “those charged with governance”, which within Durham County Council is the Audit Committee, on the effectiveness or otherwise of the Council's risk management, control and governance arrangements and in so doing we contribute to:

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

Independence of Internal Audit

13. To be effective Internal Audit must operate independently and have unrestricted access to all records deemed necessary in the course of our work.

14. We have a right of access to all Members, employees, and agents of the Council, including direct access to the Chief Executive.

15. The Head of Internal Audit can report directly to those charged with governance, officers or Members, at any level.

16. We have a right of access to all information relevant to the Council's functions and services which is necessary to meet our responsibilities. This includes Council information held by or managed by third parties on the Council's behalf.

17. Our independence is achieved by reporting in our own name, ensuring that all Internal Auditors are free from any conflicts of interest and being free from direct management responsibility for the development, implementation or operations of systems.

Scope of Audit Work

18. Our role applies to all functions and services for which the Council is responsible, including those delivered by its partners where appropriate.

19. In addition to the regular review of all key systems of internal control which forms the bulk of our assurance work, we will:

- Respond to requests for support, advice and guidance on implementing and/or improving best practice control procedures for current and new systems.
- Promote the development and effective implementation of Control and Risk Self Assessments (CRSA).
- Provide support, advice and guidance on risk and controls to staff involved in the design and implementation of new systems and processes.
- Provide assistance on key projects, including attendance on project boards, and conduct specialist consultancy and value for money reviews. The scope of this work is agreed with management and is subject to having the necessary resources, skills and ensuring suitable assurance over our independence and objectivity.
- Be alert in all our work to risks and exposure that could allow fraud or corruption to occur and to any indications that a fraudulent or corrupt practice may have been occurring.
- Determine the most appropriate course of action by which fraud and irregularities should be investigated.
- Review the effectiveness of the Council's, and wherever possible its partners', corporate governance and risk management arrangements.

20. It must be noted that whilst Internal Audit will promote the Council's counter fraud policy to deter and prevent fraud, for example participating in the National Fraud Initiative, it does not have responsibility for the prevention and detection of fraud and corruption. We cannot guarantee that fraud or corruption will be detected in our work. Managing the risk of fraud and corruption is the responsibility of managers.

Strategic Audit Planning

21. The level of Internal Audit resources required to examine all of the Council's activities exceeds those available each year. It is, therefore, essential that the work of internal audit is properly planned to ensure that sufficient work is undertaken each year to draw reasonable conclusion and assurance on the

effectiveness of the Council's risk management, control and governance arrangements.

22. Our strategic planning process aims to provide a reasonable level of independent review of the Council's risk management, control and governance systems through periodic audit plans in a way which affords suitable priority to the Council's objectives and risks.
23. The starting point for our strategic planning is understanding the Council's strategic aims and objectives, its corporate governance arrangements and the assurance framework in place by which those charged with governance gain confidence that any risks which may impact on the achievement of those aims and objectives are effectively identified, assessed and managed.
24. In consultation with service managers we will
- Consider the Council's risk across two categories:
 - a. **Strategic Risks** - these are the business risks that may arise both internally and externally from the Council and should be included in Corporate and Service Strategic Risk Registers
 - b. **Operational Risks** - these are the risks that arise directly from the core activities of delivering services that may not always be documented
 - Identify key service delivery activities, and their objectives in supporting the delivery of Council's strategic aims and objectives, on which assurance is required by those charged with governance (the Audit Universe)
 - Review the Council's assurance arrangements in place to clearly map out an integrated assurance framework of all known sources of assurance, independent or otherwise, and identify any gaps and duplication
 - Assess the reliability of other assurance sources
 - Risk assess each key service activity, and key systems that supports the delivery of service objectives, to determine our priorities for reviewing operational risks.
25. Strategic risk registers will inform but not drive the internal planning process and we will audit those risks where controls have been identified as the means of managing the risk. Priority will be given to those risks which have a high gross score and a low net score, where the effective management of the risk is heavily dependent on the identified controls, and there is little or no other source of assurance.
26. Assurance on the strategic risk of fraud and corruption will be provided each year with some specific targeted fraud prevention and detection reviews as part of a risk assessed counter fraud programme of work.

27. We aim to review operational risks relating to key service activities and key systems within a 5 year rolling programme, dependent on an audit assessment of known risks and the reliability of other assurance sources. Some key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial systems, may be subject to annual review. The timing of reviews will be agreed in consultation with management wherever possible.

Annual Audit Plans

28. Annual audit plans will be developed to provide a reasonable level of independent assurance on both strategic and operational risks to enable an annual opinion on the entire control environment to be given.

29. The preparation of the annual plan will also consider any strategic objectives of the service in relation to delivering any commitments under Service Level Agreements or undertaking certain reviews at particular frequencies to fulfil statutory requirements.

30. In addition to our risk based assurance reviews, our annual audit plans will also include provision for our advice and consultancy role. This provision covers time set aside for reactive and proactive value added work and includes:

- Proactive, responsive and innovative solutions to problems and opportunities to help the organisation achieve its business objectives
- Timely response to ad hoc requests for advice on the identification, assessment and mitigation of risks through effective controls
- Timely response to ad hoc requests for advice on the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks
- Planned involvement in new initiatives or working groups established to help identify and access risk and design suitable controls
- Undertaking VFM reviews in accordance with the Council's VFM strategy.
- Investigation of irregularities and suspected fraud and corruption
- Grant certification work requiring independent assurance that grant terms and conditions have been met.

31. The level of audit resources required to deliver, at the very least, both a minimum level of independent assurance and adequate provision for advice and consultancy will be considered by the Head of Internal Audit. Minimum assurance levels will be informed by the maturity of the Council's risk management arrangements and the reliance that can be placed on other assurance sources. Any concerns the Head of Internal has over the quantity and quality of skills available to deliver the required level of assurance, or to add value through its advice and consultancy work, will be referred to the Section 151 Officer, (Chief Financial Officer), and the Audit Committee for consideration.

32. Strategic and annual plans will be endorsed by the Corporate Management Team and approved and monitored by the Audit Committee.

Audit Approach

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

Strategic Risk

Our reviews of strategic risks will provide assurance that:

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

Operational Risk

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

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

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

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

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

contacts to formally agree the scope of each review, identified keys risks, potential impact and expected key controls.

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

Audit Reporting

40. All audit assignments will be the subject of formal reports and all assurance reviews will include an audit opinion.
41. Our reporting structure is designed to ensure that final versions of reports are agreed with managers and are both accurate and practical.
42. Towards the end of an audit we will arrange an exit meeting with the key contact where we will share and discuss our initial findings. If this is not practical, we will issue an informal draft report to the key contact which will set out our initial findings.
43. The purpose of the exit meeting/informal draft stage is to give feedback and to eliminate any inaccuracies in our findings so that these can be resolved before a formal draft report is issued.
44. Draft reports will ask the key contact to provide a management response to the recommendations made and agree target implementation dates and responsible officers.
45. To assist managers in their response we categorise the importance of our recommendations as High, Medium, Low or advisory. Details of how we assess the importance of audit findings leading to these recommendation rankings are given in Appendix A.
46. It is the responsibility of managers to address audit findings and implement audit recommendations or other agreed appropriate action, or accept the risk resulting from not taking action.
47. We will also provide an overall assurance opinion on each audit review to help us inform our overall opinion required to support the Council's Annual Governance Statement.
48. The determination of our audit assurance opinion is derived from the overall level of assurance, positive as well as negative, of the effectiveness of controls operating in each specific area reviewed and is informed by the risk identified through our recommendation rankings. Where a Limited assurance opinion is given the control framework in place is considered to be ineffective and requires improvement to maintain an acceptable level of control. Further

details of how we arrive at our assurance opinions together are given in Appendix A.

49. Management responses to recommendations made in draft reports will be incorporated into audit reports that will then be reissued as finals. Copies of all final reports are shared with the Council's External Auditor on request.
50. The CRA will be updated with any further expected controls identified through the audit process and details of actual controls in place, and issued to key contacts as part of the reporting process. If controls are considered to be inadequate, recommended action to improve controls will also be entered to provide services managers with a form of operational risk register that, in the absence of a more formal approach to operational risk management, can then be used by service managers to regularly review identified risks and the control framework put in place to mitigate those risks. i.e provide a basis for regular Control Risk Self Assessment. (CRSA). It is recommended that the CRSA is reviewed by service managers at least annually.
51. Wherever possible the circulation of audit reports will be agreed at the outset and will have due regard to confidentiality and legal requirements. Any information gained in the course of audit work remains confidential without limiting or preventing internal audit from meeting its reporting responsibilities to the wider organisation.
52. To assist in the progressing of draft reports to final report stage, monthly listings of the status of all reports issued (informal, formal and final) , will be produced and issued to a nominated directorate representative to assist managements own monitoring processes.
53. We will follow-up progress made by managers on the implementation of all high and medium priority recommendations. In addition, service listings of all recommendations outstanding at the end of each month will be produced and issued to a nominated directorate representative to assist management's own monitoring processes.
54. To ensure that adequate progress is made by management we request that management response is provided with 20 working days. If a response has not been received within this timescale the following escalation process will then be invoked:
 - A reminder will be sent to the key contact, and copied into the relevant head of service , requesting a response within the next 10 days
 - If a response is still not forthcoming, a second reminder will be issued direct to the head of service, advising that if a response is not received with the next 5 days the matter will be reported to the relevant Corporate Director
 - All draft reports remaining outstanding at the end of each quarter will be reported to the Audit Committee.
55. We will report quarterly to Directorate Management Teams on progress made on delivering the agreed annual plan, overdue responses to draft reports, any significance issues arising from work and progress made by managers in implementing audit recommendations.

56. To help focus attention on areas of significant risk, quarterly progress reports will include by exception details of all audits resulting in a limited or no assurance opinion.
57. Member involvement in the process is a critical element in the audit reporting framework in that information is provided to support the effective working of the Audit Committee. We report the following to Audit Committee:

Annual Audit Plan

Quarterly Internal Audit Progress reports:

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

Annual Audit Report to:

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

Responsibilities of Managers

58. Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence.
59. We strive to build effective working relationships with all our stakeholders, internal and external, by encouraging an environment of mutual trust, confidence and understanding.
60. A key relationship is with managers. Managers at all levels need complete confidence in the integrity, independence and capability of internal audit.
61. Managers' role is to manage the risks facing their service and to maintain an adequate and effective system of internal control to mitigate these risks. Managers are also responsible for ensuring that staff are aware of the processes and procedures required to operate the control systems in place.

62. It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of fraud and irregularities. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.
63. We will endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and if detected, we will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
64. We encourage managers to maximise the effectiveness of the outcome of internal audit work by:
- Commenting on, and inputting to, strategic and annual audit plans.
 - Working with audit staff in the development of a control and risk assessments (CRA) for the service activity or system as part of the preparation and planning stage of each assurance review.
 - Agreeing terms of reference, informed by the CRA where applicable, for each audit assignment to ensure attention is focused on areas of greatest risk or concern.
 - Giving information and explanations that are sought during audit reviews.
 - Providing access at all reasonable times to premises, personnel, documents and assets as necessary.
 - Giving early notification of plans for change, including potential new initiatives, operational systems and processes.
 - Ensuring key contacts provide responses to draft audit reports within the required timescales.
 - Ensuring agreed actions arising from audit recommendations are carried out efficiently and on a timely basis
 - Notifying internal audit of any suspected fraud, irregularity, improper use or misappropriation of the Council's property or resources.
 - Pending investigations and reporting, take all responsible steps to prevent further loss and to secure records and documents against removal or alteration.
 - Acting in line with the Council's disciplinary procedures.

Relationship with the Audit Committee

65. The Council has adopted best practice in implementing an Audit Committee. This committee is independent of both the Executive and Scrutiny function, and reports directly to the Council on matters it feels are relevant. Terms of reference, reflecting best practice, have been agreed.

-
66. The existence of an independent and effective Audit Committee helps to convey to staff and the public the importance Members and Officers attach to risk management, corporate governance and internal control.
67. The Audit Committee is not just the concern of auditors as it has responsibility for ensuring that the Council has good corporate governance arrangements in place to help deliver the best services to support the Council's priorities, aims and objectives and ensure excellent use of resources.
68. Internal audit is one of a number of areas of assurance that contribute to the Council's corporate assurance framework. It does this by providing an opinion on the level of assurance the Council can place upon the entire internal control environment and by making recommendations to improve it. This includes Internal Audit's evaluation of the effectiveness of the Council's risk management and corporate governance arrangements.
69. It is important that the Council seeks independent assurance about the mechanisms underpinning the various aspects of governance and one of the responsibilities of the Audit Committee is to review the effectiveness of Internal Audit.

Audit Resources, Skills and Service Quality

70. In order for Internal Audit to demonstrate high standards of professional conduct, the Internal Auditor must be impartial in discharging all responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity.
71. The service operates in accordance with standards of best professional practice applicable to internal audit as identified through the Institute of Internal Auditors (IIA) and International Auditing Standards, but with particular reference to the CIPFA Code of Practice for Internal Audit in Local Government, as CIPFA is recognised as the key professional body for providing advice and guidance to Internal Audit in the public sector. This Code is identified as representing 'proper practices in relation to internal audit' and governs the way in which we operate. Policies and standard working practices have been put in place to ensure audit staff understand and comply with the Code and best professional practice.
72. In addition, the Council recognises and formally adopts the CIPFA Statement of Professional Practice on Ethics, as appropriate standards by which the conduct of the Internal Audit Service can be measured.
73. The service is provided by Durham County Council's in house internal audit team, supported in specialist areas as and when considered necessary by a third party partner. The staffing structure will, as far as possible, be comprised of a suitable mix of qualifications, experience and skills.
74. The Head of Internal Audit ensures internal audit resources are sufficient to meet its responsibilities and achieve its objectives. Resource requirements

are reviewed annually in relation to draft annual audit plans. Resources will be considered in terms of available days and the skills and experience of audit staff.

75. Individual training needs are identified in accordance with the Council's Performance Appraisal Scheme. As well as basic training in audit techniques and the development of specialist skills, the service is committed to coaching and mentoring its staff and to providing opportunities for continuous professional development (CPD).
76. Internal review of work standards is undertaken through a system of management review of working papers and reports prior to release.
77. Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Technical Information Service, "TIS online", the Finance Advisory Network (FAN) and the Institute of Internal Auditors (IIA) as well as liaison with external audit and networking with other internal audit services.
78. A suite of performance indicators (PI's) and targets has been developed to measure and monitor the performance and effectiveness of the service. The current PI's are detailed in Appendix B. PI's and targets will be reviewed annually.
79. The service is a member of the CIPFA IPF Audit Benchmarking Club.
80. Performance progress reports are submitted on a quarterly basis to the Audit Committee.
81. In accordance with the requirements of the Accounts and Audit Regulations 2011, an annual review of the effectiveness of the internal audit service is undertaken by the Audit Committee informed by a review of the service carried out by the Corporate Director Resources. By reviewing the service the Audit Committee is able to gain assurance that the service is effective and that it can place reliance on its work and the annual audit opinion.
82. The outcome from the annual effectiveness review is reported to the Corporate Management Team and Audit Committee as part of the Annual Internal Audit Report.

Approval and Review

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

Key Contact

Head of Internal Audit

Avril Wallage, Manager of Internal Audit & Risk
(Chief Internal Auditor)

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Address

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Resources Directorate
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County Hall
Durham
DH1 5UE

Other Related Documents

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

Risk Management Strategy

Constitution – Financial Procedure Rules

Constitution – Local Code of Corporate Governance

Constitution – Codes of Conduct

Counter Fraud and Corruption Strategy

Confidential Reporting Code (Whistle Blowing Policy)

Fraud Response Plan

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 of 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)

ASSESSMENT OF AUDIT FINDINGS, RECOMMENDATIONS AND AUDIT OPINIONS

APPENDIX A

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 are 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

Efficiency		
Objective: To provide maximum assurance to inform the annual audit opinion		
KPI	Measure of Assessment	Target & (Frequency of Measurement)
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage as at 31 st	90% (Quarterly)
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)
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)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)
Quality		
Objective: To ensure that the service is effective and adding value		
KPI	Measure of Assessment	Target & (Frequency of Measurement)
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly) 100%
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% Overall average score 4.50
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly) 60%
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)

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Audit Committee

10 November 2011

Single Asset Register



**Joint Report of Stuart Timmiss Head of Planning and Assets and
Jeff Garfoot Head of Finance**

Purpose of the Report

- 1 The purpose of the report is to provide an update on the development of a Single Asset Register.

Background

- 2 At a meeting of this Committee held on 29 September 2011, Members were advised that the Council would have a single Asset Register in place by 31 December 2011.
- 3 A joint scoping meeting between Assets and Finance was convened at the beginning of October and the main tasks were agreed as follows:-
 - The Asset Register would reflect the Financial Accounts by 31 December 2011
 - Assets and Finance would work together to achieve that goal over the coming months.
 - Assets and Finance would agree a strategy for working together and produce a work plan.
- 4 It was also agreed that:
 - Two Database Officers from Assets would be placed within Finance to assist in an advisory capacity to complete the CIPFA spreadsheets which have been used to collate the relevant property information. These will be loaded into the Asset Manager.Net system to give the Council a Single Asset Register.
 - Assets would liaise with CIPFA to agree a data loading schedule.
 - Any changes to the spreadsheets would be logged for auditing purposes.
 - Finance would complete the former Teesdale District spreadsheet which would be completed first and used as a test case.
- 5 The Database Officers commenced working within Finance on 6 October and have looked to identify any major issues and assess resource requirements. They are now working with Finance colleagues on the validation of the spreadsheets in preparation for data loading.

- 6 A comprehensive work plan outlining each specific task and potential timescale has been prepared and attached at Appendix 2. The work plan will be reviewed at weekly Project Team meetings as the basis of assessing progress and identifying risks where the project timescale may be in jeopardy. The work plan has been provided to CIPFA and ICT to assist them in scheduling in the specific data loading tasks.
- 7 Assets have also worked with Corporate Risk Management to identify the risks attached to delivering this project. Five key risks associated with this action plan have been identified and are listed in Appendix 3 together with mitigating actions in place to monitor and reduce the likelihood of the risks occurring.
- 8 Internal Audit will also be providing some data checking support in terms of resolving any Cost Centre queries with the Service Accountants and assurance that reconciliations are carried out prior to transfer. The ICT Project Lead for a Single Asset Register is also assisting with the project.

Recommendations and reasons

- 9 Members are asked to note work in progress to establish a single asset register by 31 December 2011 to gain assurance that the risks arising from problems encountered this year in preparing the Statement of Accounts are being managed effectively.

Contact: Gerard Darby Tel: 0191 3834528

Appendix 1: Implications

Finance -

None

Staffing -

None

Risk -

None

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: Work Plan

Task Ref	Task	Sub Task Ref	Sub Task	Primary Contact	Proposed Start Date	Proposed End Date	Actual Start Date	Actual End Date
1	Upgrade DCC Asset Manager:Net to v 6.49.2							
		1.1	Provide DCC Asset Cost Centre data to Internal Audit to check Cost Centres	Vicki Stainthorpe (Internal Audit)/Assets/Finance	19/09/2011	05/10/2011	19/09/2011	05/10/2011
2	Upgrade Easington Asset Manager:Net to v 6.49.2							
		3.1	Liaise with ICT re placing data on FTP site	Adam Macdonald (ICT)	06/10/2011	06/10/2011	06/10/2011	06/10/2011
3	Transfer DCC Asset Manager:Net to CIPFA Hosting							
		3.2	CIPFA perform transfer of data to their database server	Anthony Graham (CIPFA)	17/10/2011	20/10/2011	18/10/2011	19/10/2011
		3.3	Test transfer successful	ALL	21/10/2011	21/10/2011	19/10/2011	19/10/2011
4	CIPFA Split of Police and Fire Assets							
		4.1	CIPFA perform split of Police/Fire data onto separate database in TEST environment	Phil Dentith (CIPFA)	31/10/2011	03/11/2011		
		4.2	Police and Fire test access	Beverly White (Police and Fire)	03/11/2011	03/11/2011		
		4.3	Roll-over Police and Fire Asset Manager:Net in TEST environment	Anita Hawkins (Finance)/Lesley Endean (Assets)	04/11/2011	04/11/2011		
		4.4	CIPFA apply to LIVE database	Phil Dentith (CIPFA)	04/11/2011	04/11/2011		
5	Request export of Easington Asset Manager:Net data							
		5.1	Liaise with CIPFA re export (Lesley Conway)	Lyn Alderson/Simon Green (CIPFA)	18/10/2011	18/10/2011	17/10/2011	17/10/2001
6	CIPFA create TEST Environment of DCC, Police and Fire Asset Register							
		5.2	Roll-over Easington Asset Manager:Net to 2011	Lesley Endean (Assets)	18/10/2011	18/10/2011	17/10/2011	17/10/2011
		5.3	Arrange for CIPFA to export data go to 9.1 below	Lesley Conway (CIPFA)	24/10/2011	25/10/2011	25/10/2011	25/10/2011
7	Allow Transactions for next Financial Year on TEST system							
		6.1	CIPFA to create a copy of the DCC Asset Manager:Net for Testing purposes	Phil Dentith (CIPFA)	24/10/2011	27/10/2011	24/10/2011	
		7.1	Liaise with CIPFA re use of TEST system	Lyn Alderson (Assets)	27/10/2011	27/10/2011	27/10/2011	
		7.2	Under CAPS Module Tick relevant box	Lyn Alderson (Assets)/Lesley Endean (Assets)	27/10/2011	27/10/2011	27/10/2011	
		7.3	Enter Property Transactions	Lesley Endean (Assets)	27/10/2011	28/10/2011	28/10/2011	
		7.4	Log which records have undergone transactions	Lesley Endean (Assets)	27/10/2011	28/10/2011	28/10/2011	
		7.5	Test roll-over into 2011/12 on TEST DCC Asset Manager:net	Phil Dentith (CIPFA)	28/10/2011	28/10/2011	28/10/2011	
		7.6	Check Transactions have been processed correctly	Lesley Endean (Assets)	28/10/2011	28/10/2011	28/10/2011	

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Appendix 3: Risk Assessment

Five key risks associated with this action plan have been identified and are listed below together with mitigating actions in place to monitor and reduce the likelihood of the risks occurring:-

ICT resources are unavailable on the dates required for the database transfer to CIPFA, due to other work commitments, which will have an adverse impact on the timetable for data transfer.

Actions –

- a) Asset management are in constant communication with ICT with details of the work progress and highlight the urgency of the database transfer requirements.
- b) ICT attend the weekly project meeting and liaise with other officers involved with the process.

Lack of capacity and resources to complete the asset capital accounting information will impact on CIPFA's timetable for data merging.

Actions –

- a) Finance have confirmed additional resource is available to assist with the data transfer.
- b) Data base officers are working within the Finance office to ensure joined up working.
- c) Other database officers will assist with other tasks as required.
- d) Audit will assist to validate cost centres.

Slippage to the data transfer timetable will occur if CIPFA does not deliver the transfer within their 3 day timetable.

Actions -

- a) additional time has been built into the timetable as a contingency measure.
- b) monitor progress following each transfer.
- c) if there are any lessons learned from each transfer these will be taken forward into the next transfer to quicken the process.

Once roll-over of data complete the financial and assets information may not reconcile.

Action –

- a) Finance and data base teams are working towards ensuring reports reconcile before data transfer.
- b) Independent assurance to be provided by Internal Audit.

Slippage of former district data merger timetable if CIPFA does not merge the data within the five day.

Action -

- a) monitor progress following each transfer.
- b) if there are any lessons learned from each merger these will be taken forward into the next merger to quicken the process.

These risks will be monitored by the work progress group and any changes reported to senior management.

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Audit Committee
10 November 2011



Benefits Inspection Action Plan

Report of Don McLure, Corporate Director Resources

Purpose of Report

- 1 To update Audit Committee on the status of the Benefits Inspection Action Plan (BIAP) and to set out how the performance of the Benefits Service is being monitored and managed, now and going forward.

Background

- 2 The Audit Commission's report relating to the Housing Benefit Inspection carried out in 2010 was reported to the Audit Committee in January 2011. Consideration of the report allowed the Committee to gain an understanding of the work carried out and provided the Committee with assurance on the adequacy and effectiveness of governance arrangements in place.
- 3 A number of areas for improvement were highlighted in the report and the Committee asked for updates on progress to be provided quarterly to gain assurance that adequate progress was being made to address recommendations made.
- 4 Verbal and written updates on the benefit service have been provided at previous meetings. This reports aims to provide assurance that adequate arrangements are in place to continually monitor the effectiveness of the benefit service through a new performance management framework.

Quarterly Performance Management

- 5 In 2011/12 a new performance management framework (PMF) for the Resources service grouping was introduced. Key performance indicators and actions from the Council Plan, Service Plan and other key action plans (such as the BIAP, Investors in People Action Plan etc.) were brought into Resources' PMF arrangements.
- 6 Resources' PMF is monitored and managed quarterly through reports to Resources Management Team, discussion at individual Heads of Service performance clinics, and where appropriate, corporate reports to Corporate Management Team [CMT], Cabinet and relevant Scrutiny committees.
- 7 Through these performance management arrangements, the actions in the BIAP have been subject to significant reporting and challenge and it has become clear during 2011/12 that many of the actions are either complete or no longer reflect current circumstances.

Additional Performance Management

- 8 Corporate Management Team (CMT) initiated a 'performance clinic' approach for Benefits Service performance management in the summer of 2011. Alternating comprehensive written reports and verbal updates are now presented to every fortnightly CMT. Reports focus on the implementation of the new Benefits ICT system, staffing and accommodation issues, benefits processing times (actual processing and against a forecasting model), mitigating actions to assist throughout the implementation period (such as the out-sourcing of work packages), and external communications.
- 9 Whilst the new ICT system is due to 'go live' on 6 December, it is likely that the above fortnightly performance management arrangements will continue until the end of the current financial year.

Continuing Performance Management

- 10 It is now two years since the BIAP was developed and many of the actions contained therein are no longer relevant; it is therefore time to draw a line under the BIAP and to report on and manage revised actions that reflect current circumstances. Performance reporting and management for the remainder of 2011/12 will feature the current situation and challenges facing the Benefits Service and its customers.
- 11 The Altogether Better Council (ABC) priorities for the next Council Plan 2012 – 2016 have been revised and now include a new priority:
- ❖ ABC 14 - A Benefits Service that pays our customers the right amount at the right time.
- 12 Key actions to realise this ABC priority are currently being identified and will be included in the service grouping and corporate PMFs and will thereby be subject to ongoing regular reporting, management and scrutiny throughout 2012/13.

Recommendations

- 13 Audit Committee is asked:
- To note the current performance arrangements for the Benefits Service
 - To agree that the Benefits Service performance management has moved on and the actions contained in the BIAP are obsolete.
 - To agree that the proposed performance management arrangements going forward are appropriate and that they will provide the Committee with assurance that identified improvements required to the benefit service will be addressed.

Contact: Bev Stobbart

0191 3833602

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