



Audit Committee

Date **Thursday 5 January 2012**
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 meetings held on 31 October 2011 and 10 November 2011 (Pages 1 - 10)
2. Declarations of Interest
3. Local Code of Corporate Governance - Report of Corporate Director Resources (Pages 11 - 32)
4. Corporate Governance Timetable for 2011/12 Review - Report of Corporate Director Resources (Pages 33 - 38)
5. Action Plan for Corporate Governance Improvements - Report of Corporate Director Resources (Pages 39 - 42)
6. Consolidated Action Plan 2010/11 Audit of Accounts - Report of Corporate Director Resources (Pages 43 - 48)
7. Bank Account Rationalisation - Report of Corporate Director Resources (Pages 49 - 52)
8. Annual Audit Letter - Report of External Auditor (Pages 53 - 68)
9. Strategic Risk - Contaminated Land Update - Report of Corporate Director Neighbourhood Services (Pages 69 - 72)
10. Single Asset Register - Update by Corporate Director Resources
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 10 November 2011 (Pages 73 - 74)
14. Bank Reconciliation Internal Audit Report - Report of Manager of Internal Audit and Risk (Pages 75 - 96)
15. 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
28 December 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 Special Meeting of the **Audit Committee** held at the County Hall, Durham on **Monday 31 October 2011** at **11.00 a.m.**

Present:

Councillor E Bell in the Chair

Members of the Committee:

Councillors C Carr, L Marshall, B Myers, R Ord, D J Southwell and O Temple.

Co-opted Members

Mr T Hoban, and Ms K Larkin-Bramley.

An apology for absence was received from Councillor M Hodgson

1 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, and Councillor DJ Southwell in relation to East Durham Homes.

2 Statement of Accounts for the year ended 31 March 2011

The Committee considered a report of the Corporate Director, Resources that sought approval of the Accounts for the County Council for the financial year ended 31 March 2011 (for copy see file of Minutes).

The Corporate Director, Resources advised that during the audit, while working with the External Auditor, a number of amendments were highlighted which had been included in the Statement of Accounts presented to the Committee. The Corporate Director advised of the process for signing off the accounts and the problems encountered in their preparation. He advised of the arrangements in place to strengthen the accounting practices, including staff restructuring, and development of the Single Asset register, and pointed out that the Committee would receive regular update reports on the Action Plan consolidating recommendations made by the external auditor in both the interim and final governance reports.

The inclusion of a note in the Statement of Accounts that would provide an explanation on the cost variance for the Investment Management Fees for 2009/10 and 2010/11 was considered, but not included in the final version, however a detailed explanation was provided to the Committee.

In response to a question from Mr Hoban, clarification would be provided on the outturn position for the County Council General Fund, in relation to the variance for central costs.

Further information would be provided to Councillor Temple, if there was anything significant to explain why total debtors had increased from the previous year.

The Committee thanked the Corporate Director, and his staff for all their hard work in producing the accounts.

Resolved:

That the Statement of Accounts be approved.

4 Annual Governance Reports 2010/11

The Committee considered the Annual Governance Reports in relation to both Durham County Council, and Durham County Council's Pension Fund (for copy see file of Minutes).

The External Auditor presented the reports to the Committee. He would expect to complete his final review and closure procedures, and issue an unqualified opinion, after the Committee had considered the Annual Governance Reports, and had approved the revised financial statements, as undertaken earlier in the meeting.

He would issue an unqualified opinion on the accounts, the group accounting statements, the Pension Fund Account Statements, and the Value for Money Conclusion. It was noted that it was a much improved position from the previous year where a qualified VFM opinion was provided on the County Council's Statements.

The Committee considered the detailed comments made by the External Auditor in the annual governance reports. He had advised that during the year the Council had faced a number of significant challenges including the implementation of new financial systems, dealing with the transition to IFRS, ongoing issues following Local Government Re-organisation, and responding to a highly challenging budget settlement.

The Corporate Director, Resources provided assurance that work in progress to develop a single asset register and to strengthen capital accounting

practices, would deliver improvements required for the following year. The Committee would monitor progress against the action plan.

At a future meeting of the Committee further information would be provided on the auditor's fee setting out the discount given to the Authority and the fee agreed for the additional work undertaken.

Resolved:

1. That the Annual Governance Reports of the Audit Commission be noted.
2. That the letter of representation be agreed.

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

5 Icelandic Banks

The Corporate Director, Resources provided the Committee with an update on the position with the Authority seeking to receive funds following the collapse of the Icelandic banks. The matter was considered in Supreme Court of Iceland on 26 September, with the outcome announced on 28 October, which found in favour of Local Authorities remaining as preferential creditors.

Resolved:

That the position be noted.

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DURHAM COUNTY COUNCIL

AUDIT COMMITTEE

At a Meeting of the Audit Committee held at the County Hall, Durham on Thursday 10 November 2011 at 10.00 a.m.

Present:

Councillor E Bell in the Chair

Members of the Committee:

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

Co-opted Member

Mr T Hoban

An apology for absence was received from Ms K Larkin-Bramley.

1 Minutes

The Minutes of the meeting held on 29 September 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.

3 Review of Operational Terms of Reference

The Committee considered a report of the Corporate Director, Resources that sought agreement to revisions to the Audit Committee's operational terms of reference and which presented a forward plan of business for agreement in

accordance with paragraph 6.1 of the terms of reference (for copy see file of Minutes).

The Manager of Internal Audit and Risk advised that paragraph 5.7 of the report would be amended to reflect the practice of members making declarations of interest at meetings, in that they were not required to declare individual declarations relating to memberships on committees at each meeting, and that a generic declaration on this could be made by the Committee.

Resolved:

That the recommendations in the report be agreed.

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

The Committee considered a report of the Corporate Director, Resources which highlighted the strategic risks facing the Council, including the status of the corporate strategic risks, and gave an insight into the work carried out by the Corporate Risk Management Group during the period July to September 2011 (for copy see file of Minutes).

In order for members to be kept informed and seek assurance, the report on Contaminated Land that had been presented to Cabinet in October 2010, would be updated and presented to the next meeting.

Resolved:

That the recommendations in the report be agreed.

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

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

Resolved:

That the report be noted.

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

The Committee considered a draft report of the Chair of the Audit Committee (for copy see file of Minutes) of the work of the Audit Committee for the

period April to October 2011, for agreement prior to reporting to full Council at its meeting on 7 December 2011.

Resolved:

That the recommendations in the report be agreed.

7 Review of Internal Audit Charter

The Committee considered a report of the Manager of Internal Audit and Risk (for copy see file of Minutes) that sought approval to a revised Internal Audit Charter, which is the framework that outlines the terms of reference and audit strategy for the Internal Audit Service.

The Charter would be updated to reflect the request of the Audit Committee for it to be advised of any significant recommendations overdue. Where such recommendations remain over due the following quarter, the responsible manager should attend audit committee to provide an explanation for the delay.

Resolved:-

That the Charter be approved subject to the addition outlined above.

8 Single Asset Register

The Committee considered a joint report of the Head of Planning and Assets, and Head of Finance (for copy see file of Minutes) which provided an update on the development of a Single Asset Register.

It was pointed out that the work plan attached to the report had been prepared and sent out with the committee papers. Much work had been undertaken since then, and assurance was provided that the targets set were on track. Members learnt of the resources that were being, and would be input into this to ensure delivery on time. Any further updates to the Committee would be accompanied by an up to date work programme, being distributed on the day of the meeting.

Resolved:

That the recommendations in the report be agreed.

9 Benefits Inspection Action Plan

The Committee considered a report of the Corporate Director, Resources (for copy see file of Minutes) that provided an update on the status of the Benefits

Inspection Action Plan (BIAP) and which set out how the performance of the Benefits Service is being monitored and managed, now and going forward.

The Head of Finance (Financial Services) emphasised the importance that this was being given by the Authority, and members were given an update on the processes and timescales involved in moving to one new system.

Resolved:

That the recommendations in the report be agreed.

10 Audit Commission Procurement Strategy

The External Auditor advised of the procurement processes in place for local authorities, fire authorities, and police authorities in securing external auditors for the future.

Resolved:

The Committee noted the position.

Action Plan- Work of Audit Committee- Part A- 5 January 2012

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. Verbal update provided by Corporate Director, Resources 29.9.11. Report received by Committee on 10.11.11	Revs & Bens Manager	5.1.12
3.	29.9.11	4	Single Asset Register	Gerard Darby presented a report to Committee. Agreed action plan and progress update be monitored by Ctte in order to receive assurance in place by 31 December'11. Joint report with finance was presented to Committee on 10.11.11	Gerald Darby/ Jeff Garfoot	5.1.12
4.	29.9.11	7	Duplicate Payments	Beverley White gave update on 29.9.11. Once next stage of review complete, update report be provided to Ctte	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
6.	29.9.11	10	Icelandic banks	Update on the outcome of the court case provided at meeting on 31.10.11	Corporate Director, Resources	5.1.12

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Audit Committee

5 January 2012

Local Code of Corporate Governance

Report of Corporate Management Team



Don McLure, Corporate Director Resources

Purpose of the Report

1. This report seeks approval of the revised Local Code of Corporate Governance.

Background

2. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way these functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
3. The Council has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework – ‘Delivering Good Governance in Local Government’ and is based upon the 6 core principles. This Code is a public statement, included in the Constitution, which sets out the way the Council will meet its commitment to demonstrate that it has the necessary Corporate Governance arrangements in place to perform effectively. It represents a key component of the Council’s governance arrangements, and applies to all Council Members, Officers, Partners and stakeholders in their dealings with the Council.
4. In line with agreed practice, the Code has been revised following the completion of our annual review of the effectiveness of the Council’s corporate governance arrangements. The revised Code is attached in Appendix 2, with deletions from the previous Code marked with a strikethrough, and other changes underlined.

Recommendations and reasons

5. To approve the revised Local Code of Corporate Governance, attached in Appendix 2, for inclusion in the Council’s Constitution.

Contact: David Marshall Tel: 0191 3834311

Appendix 1: Implications

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

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

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

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

Accommodation - Asset management is a key component of effective corporate governance

Crime and Disorder – None.

Human Rights - None.

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

Procurement – None.

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

Legal Implications – None.

DURHAM COUNTY COUNCIL

LOCAL CODE OF CORPORATE GOVERNANCE

INTRODUCTION

Corporate governance is a term used to describe how organisations direct and control what they do. As well as systems and processes this includes cultures and values. For local authorities this also includes how a council relates to the communities that it serves. Good corporate governance requires local authorities to carry out their functions in a way that demonstrates accountability, transparency, effectiveness, integrity, impartiality and inclusivity. Corporate governance is also the structure through which strategic objectives are set and performance monitored. Best practice principles in that regard flow from the three core components of the Turnbull report, namely; the assessment of corporate risk; effective management systems and the enabling of the organisational culture.

Durham County Council is committed to demonstrating that it has the necessary corporate governance arrangements in place to perform effectively.

This Code is a public statement that sets out the way the Council will meet that commitment. As such it represents a key component of the Council's governance arrangements. The Code has been developed in accordance with and is consistent with the CiPFA / SOLACE Delivering Good Governance in Local Government Framework and is based upon the following 6 core principles:

- **Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area**
- **Members and officers working together to achieve a common purpose with clearly defined functions and roles**
- **Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**
- **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**
- **Developing the capacity and capability of members and officers to be effective**
- **Engaging with local people and other stakeholders to ensure robust public accountability**

In the following tables, the Code details how the Council meets these core principles and the supporting principles that underpin them. To complement this, the Code also highlights the key documents and functions which contribute to the Council's good governance arrangements.

The mechanisms for monitoring and reviewing the Council's corporate governance arrangements are set out in the Code.

THE COUNCIL'S CORPORATE GOVERNANCE PRINCIPLES

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

Supporting Principle	To achieve this:
<p>1.1 Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcome for citizens and service users.</p>	<p>The Sustainable Community Strategy 2010-2030 (SCS) produced by the Council in conjunction with its partners on the County Durham Partnership (CDP) demonstrates its shared long-term vision for the future of County Durham, namely 'Altogether Better Durham'.</p> <p>The Local Area Agreement 2008-2011 (LAA) between local partners and the Government, which ends on 31 March 2011, sets out for a three year period agreed targets for the 35 performance indicators which we believe are key to County Durham together with targets for 16 statutory education and early years indicators.</p>
<p>1.2 Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning</p>	<p>The SCS and the accompanying three year action plan is based on consideration of a broad range of information and evidence and consultation with a wide range of stakeholders.</p>
<p>1.3 Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money</p>	<p>The GDP Performance Management Framework, which is a locally led performance framework, measures the impact and progress of the SCS over a three year period via a of a basket of indicators aligned to the priority themes and key objectives. These indicators present a balanced scorecard of performance across five types of indicator.</p> <p>Timely, objective and understandable information about the Council's activities, achievements, performance and financial position is provided by annually publishing:</p> <ul style="list-style-type: none"> • The Council Plan, which contains the Council's corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the Council's own improvement agenda; • Service Improvement Plans at a Service Grouping level which detail the planned actions to deliver the Council's vision;

Supporting Principle	To achieve this:
	<ul style="list-style-type: none"> • Externally audited Annual Statement of Accounts; • Independently verified performance information. <p>The Council aims to deliver high quality services by:</p> <ul style="list-style-type: none"> • Developing effective relationships and partnerships with other public sector agencies and the private and voluntary sectors; • Responding positively to the findings and recommendations of external auditors and statutory inspectors and putting in place arrangements for the implementation of agreed actions; • Ensuring procurement practices are effective and securing external funding where available; • Identifying performance improvements through the development and monitoring of Council and Service improvement plans. and continuous improvement through the Corporate Improvement Plan; • Linking other governance processes and procedures, such as the Asset Management Plan and Partnership Governance Framework, to the Council priorities. <p>The Council has appropriate performance frameworks for specific areas of service and for partnership arrangements:</p> <ul style="list-style-type: none"> • The Council Plan, the SCS, Area Action Partnerships, and the Medium Term Financial Plan (MTFP), contribute into the corporate performance management arrangements, and the Council has a framework of quarterly reporting to Cabinet and Overview and Scrutiny on corporate performance; • The Improvement and Planning Group (IPG) oversee Council performance management issues; • The Development Improvement Group, which oversees the performance management arrangements of the County Durham Partnership, <u>consists of two groups, namely a performance group that meets quarterly to consider performance, and a strategic group made up of high level officers from the Council, Police, Fire and Health which meets monthly.</u> This latter group considers how key public sector plans for change align, and where efficiencies and <u>greater value for money can be achieved through strategic integration, shared services and joint</u>

Supporting Principle	To achieve this:
	<p>commissioning;</p> <ul style="list-style-type: none"> • The performance and quality of service delivery of the Community and Voluntary sectors is measured against a standard Service Level Agreement that they all work to; • <u>Quarterly performance sessions in each Service to review performance;</u> • <u>Extended Management Team meetings; consisting of Chief Executive, Directors and Heads of Service, which include a programme of activity linked to the strategic management of the Council;</u> • <u>A Quarterly Performance Management Report produced by all Service Groupings which includes a summary of achievements and identifies areas with significant performance challenges where a more in depth analysis of performance and improvement work should be carried out;</u> • <u>A comprehensive schedule of the necessary savings to enable us to deliver a balanced budget and MTFP are achieved. Detailed and frequent monitoring of this programme is undertaken by CMT and Cabinet.</u>

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles

To achieve this:	
<p>Supporting Principle</p> <p>2.1 Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function</p>	<p>The Council ensures that the necessary roles and responsibilities for the governance of the Council are identified and allocated so that it is clear who is accountable for decisions that are made. The Council does this by:</p> <ul style="list-style-type: none"> • Electing a Leader of the Council and nominating a Cabinet made up of Cabinet Members with defined executive responsibilities; • Clearly describing, in the Council's Constitution, the role of the Leader and Deputy Leader of the Council, Executive Members, Executive Support Members, <u>the Chairman and Vice-Chairman of the Council</u>, the Chairman and Vice-Chairman of a Committee, Opposition Group Leader, Frontline Councillors, Corporate Parenting Panel Members, Non-Elected Members, the Chief Executive and other Statutory senior management appointments; • Detailing the collective role and management arrangements for the Corporate Management Team and Extended Management Team in the Corporate Management Framework; • Agreeing a scheme of delegated responsibilities to Directors; • Annually appointing Committees to discharge the Council's Regulatory and Scrutiny responsibilities; • Maintaining effective and comprehensive arrangements for the scrutiny of services and for holding the Cabinet to account; • The Chief Executive being responsible and accountable for all aspects of operational management (Head of Paid Service); • A nominated Senior Officer being responsible for the proper administration of its financial affairs (S151 Officer); • A nominated Senior Officer being responsible for actions taken in accordance with Statute and Regulation (Monitoring Officer); • Developing protocols that ensure effective communications between Members and Officers; • Developing a Councillor Compact outlining the mutual expectations of the Officers and Members; • The Leader of the Council regularly reviewing the Cabinet member portfolios.
<p>2.2 Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard</p>	
<p>2.3 Ensuring relationships between the authority, its partners and the public are clear so that each knows what to expect of the other</p>	

Supporting Principle	To achieve this:
	<p>The Council enhances constructive working relationships between authority Members and Officers by:</p> <ul style="list-style-type: none"> • The Leader of the Council and Chief Executive meeting on a weekly basis to discuss emerging issues, management and policy items; • Members and Officers working together on the workload of the Cabinet which is managed through a system of Cabinet pre-agenda meetings; • Corporate Directors holding regular briefing sessions with Cabinet Portfolio Members and support Members; • Clear principles of how media relations work with elected Members. <p>When working in partnership, the Council ensures that:</p> <ul style="list-style-type: none"> • Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority; • There is clarity about the legal status of the partnership; • Representatives of the organisations both understand and make clear to all other parties the extent of their authority to bind their organisation to partner decisions; • Formal guidance is provided for Members when representing the Council on outside bodies and partnerships.

3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

To achieve this:	
<p>Supporting Principle</p> <p>3.1 Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance</p> <p>3.2 Ensuring that organizational values are put into practice and are effective</p>	<p>The Council fosters a culture of behaviour based on shared values, high ethical principles and good conduct. The Council does this by establishing and keeping under review:</p> <ul style="list-style-type: none"> • The Council’s own values on Leadership as enshrined in the Council Plan and evidenced in Codes of Conduct that sets a standard for behaviour; • The Code of Conduct for Elected Members, Voting Co-opted Members and Independent Members of the Standards Committee; • The Code of Conduct for Employees; • The Code of Practice for Members and Officers dealing with planning matters; • The Statutory Declaration of Acceptance of Office, which all Members are required to sign. Similar arrangements exist for independent members of the Standards Committee and Voting Co-opted members of the Scrutiny Committee; • A Protocol governing Member/Officer relations; • Key protocols, such as the Contract Procedure Rules and the Financial Procedure Rules; • The roles of Members and Officers in decision-making; • Appropriate and timely advice and guidance to both Members and Officers; • Systems for reporting and dealing with any incidents of fraud and corruption; • A Register of Interests and declaration of Gifts and Hospitality accepted; • <u>The Single Equalities Scheme and supporting Equality and Diversity Policy;</u> • The Councillor Compact. <p>The Confidential Reporting Code (Whistle blowing policy) and the Council’s complaints procedures provide mechanisms for the public to raise concerns about potential breaches of conduct. They are accessible on the Council’s website, are communicated to all Officers and Members, and have been brought to the attention of School Governing Bodies. These procedures form part of the Council’s approach to counter-fraud and are linked to the Councils’ Counter Fraud and Corruption Strategy.</p>

Supporting Principle	To achieve this:
	<p>The Council's Standards Committee has an independent Chair and has been given a deliberately broad remit, with responsibilities for:</p> <ul style="list-style-type: none"> • All complaints handling and oversight of other relevant codes and protocols; • The local assessment of Member conduct complaints in accordance with the Standards Committee (England) Regulations 2008; • Promoting and monitoring the application and delivery of these codes and protocols and promoting positive and trusting relationships within the Council; • Monitoring complaints handling by Services, including dip-sampling of completed investigations; • Reporting annually to the Council on its business which includes details of Member conduct complaints and Local Government Ombudsman investigations; • Communicating openly to a wider public through its Annual Report publicised as part of the Full Council papers; • Dealing with any breach of the Member Code under Standards Committee Procedures. <p>All Standards Board investigations into Member conduct are maintained and monitored by the Monitoring Officer and her staff.</p> <p>Quarterly statistics and annual returns containing information about the effectiveness of local standards arrangements are submitted online to the Standards Board for England by the Council's Monitoring Officer.</p> <p>The Council uses the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority.</p> <p>Any breach of the Employee Code of Conduct is investigated in accordance with the Council's disciplinary procedure.</p> <p>Under the Member Code of Conduct, Members (including Co-Opted Members with voting rights):</p> <ul style="list-style-type: none"> • are required to register details of their personal interests in the Authority's Register of Gifts,

Supporting Principle	To achieve this:
	<p>Interests and Hospitality, which is available on-line;</p> <ul style="list-style-type: none"> • who become aware of any changes to his/her interests to provide details of that change to the Monitoring Officer within 28 days; • are required to review their declarations of standing interests on an annual basis. <p>Gifts and hospitality and conflicts of interest are registered as and when required throughout the year, and details are available online. Member declarations and registrations are maintained and monitored by the Monitoring Officer and her staff.</p> <p>The Monitoring Officer issues advice and guidance (usually on an annual basis) reminding Corporate Directors of their responsibilities under the Code of Conduct in relation to gifts and hospitality. Staff declarations are maintained and monitored by their Head of Service.</p> <p>The Council's partnership governance framework makes clear reference to Codes of Conduct applying to any partnership working.</p> <p>In pursuing the vision of a partnership, the Council agrees a set of behavioural values with our key partners, against which decision making actions can be judged. Such values are demonstrated by partners' behaviour both individually and collectively.</p>

4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

Supporting Principle		To achieve this:
<p>4.1 Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny</p>	<p>The Council is transparent about how decisions are taken and recorded. The Council does this by:</p> <ul style="list-style-type: none"> • Ensuring that all decisions are made in public and recording those decisions and relevant information and making them available publicly (except where that information is exempt under the provisions of the Freedom of Information Act or determined as being confidential by Government or otherwise exempt by the Council); • Rules and procedures which govern how decisions are made; • <u>Publishing details of statutory and delegated responsibilities on the Council website as part of the Constitution on the on DCC website.</u> • <u>Publish an Executive Forward Plan of decisions for next 4 months on the Council website;</u> • <u>A Freedom of Information publication scheme.</u> 	<p>The Council ensures that effective, transparent and accessible arrangements are in place for <u>recording and dealing with complaints.</u></p> <p>The Council ensures that appropriate legal, financial and other professional advice is always considered as part of the decision-making process and the Council will always observe both specific requirements of legislation and general responsibility by law.</p> <p>The Council actively recognises the limits of lawful activity placed on the authority by, for example, the ultra vires doctrine, but also strives to utilise its powers to the full benefit of the community.</p> <p>The Council recognises the limits of lawful action and observes both the specific requirements of legislation and the general responsibilities placed on the authority by public law.</p>
<p>4.2 Having good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs</p> <p>4.3 Ensuring that an effective risk management system is in place</p> <p>4.4 Using their legal powers to the full benefit of the citizens and communities in their area</p>	<p><u>A Committee Management System is in place to streamline the reporting and decision-making process.</u></p>	

Supporting Principle	To achieve this:
	<p>The Council observes all specific legislative requirements placed upon the authority, as well as the requirements of general law, in particular to integrate the key principles of good administrative law – rationality, legality and natural justice – into its procedures and decision making processes.</p> <p>Key CIPFA codes, such as the Code on a Prudential Framework for Local Authority Capital Finance, and the Treasury Management Code, are complied with.</p> <p>The Council operates a risk management approach that aids the achievement of its strategic objectives, supports its decision making processes, protects the Council's reputation and other assets and is compliant with statutory and regulatory obligations. The Council annually reviews its risk management strategy and policy, which outlines the formal approach to identifying and managing risk.</p> <p>The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are effective, transparent and accountable to local people and is reviewed and amended on an annual basis as required.</p> <p>The Constitution is reviewed annually by the Constitution Working Group (CWG), which consists of the lead Members from each political party and is chaired by the Leader of the Council.</p> <p>The Officer Scheme of Delegation is reviewed annually in line with the review of the Council's Constitution.</p> <p>Information is provided for senior officers to understand what they can or cannot do under the Scheme of Delegation.</p> <p>The Council has appointed the Corporate Director of Resources as Chief Financial Officer (CFO) and Section 151 Officer. The CFO is involved in all Corporate Management Team discussions, and reviews all reports to Cabinet which have financial implications. The CFO also provides an opinion under section 25 of the Local Government Act 2003 on the reserves for the County Council, which Members consider when setting the budget.</p>

Supporting Principle	To achieve this:
	<p>The Council ensures the services it delivers are effective and meet the community's needs by:</p> <ul style="list-style-type: none"> • Comprehensive consultation to develop the SCS and the accompanying three year action plan; • Delivering services to meet local needs through the SCS, and putting in place policies and processes to ensure that they operate effectively in practice; • Recording and reviewing the number and type of complaints, average time to respond and the number of satisfied customers who have used this process. These reports can be found on the Council's intranet and website; • Comparing information about our services with services provided by similar organisations, assessing why levels of efficiency, effectiveness and quality are different elsewhere and considering other alternative means of service provision to maximise opportunities and improve value for money where appropriate; • Holding various public consultation events; • Multi-agency Area Action Partnerships (AAP) who are fully engaged with identifying and resolving local priorities, and utilise locality budgets allocated to each AAP to drive improvements to service quality. Progress on achieving these improvements is monitored by the AAP Boards; • <u>Producing a Performance Statement quarterly that includes a summary of achievements and identifies areas with significant performance challenges where a more in depth analysis of performance and improvement work should be carried out;</u> • Regularly presenting to Cabinet and Corporate Management Team reports on the budgetary control statement and quarterly outturn reports. <p>The Council has an Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes to ensure internal control systems are effective and that policies and practices are in compliance with statutory and other regulations and guidance.</p>

5. Developing the capacity and capability of members and officers to be effective

Supporting Principle		To achieve this:
<p>5.1 Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles</p>	<p>The Council ensures that those charged with the governance of the Council have the skills, knowledge and experience they need to perform well. The Council does this by:</p> <ul style="list-style-type: none"> • Operating robust recruitment and selection processes; • Implementing a Member Development Strategy; • Maintaining the Investor in People Standard; • Cascading regular information to Members and Staff; • Investing in Member and Officer Leadership Training; • Providing resources that support Member and Officer Development; • Promoting schemes and supporting ongoing professional development; • Consistent application of the <u>People and Organisational Strategy</u>; • <u>An Employee Support Programme to support employees through the restructuring process associated with the MTFP outcomes;</u> • Personal Development Plans; • Providing training to help Members understand their role on committees; • Assessing personal development needs as part of the induction process for both Members and Officers. 	
<p>5.2 Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group</p>	<ul style="list-style-type: none"> • A Member Training and Development Strategy and Member Learning and Development Programme; • Evaluating the effectiveness of Member development planning and evaluation via the Member Development Group which is chaired by a Member; • A training programme, “Building Resilient Organisations Programme”, for Corporate Management Team (CMT) and extended management team members; • <u>Continued IIP accreditation;</u> • Individual personal development of senior officers as part of the Council’s employee performance appraisal arrangements. 	
<p>5.3 Encouraging new talent for membership of the authority so that best use can be made of individuals’ skills and resources in balancing continuity and renewal</p>	<ul style="list-style-type: none"> • A Member Training and Development Strategy and Member Learning and Development Programme; • Evaluating the effectiveness of Member development planning and evaluation via the Member Development Group which is chaired by a Member; • A training programme, “Building Resilient Organisations Programme”, for Corporate Management Team (CMT) and extended management team members; • <u>Continued IIP accreditation;</u> • Individual personal development of senior officers as part of the Council’s employee performance appraisal arrangements. 	

6. Engaging with local people and other stakeholders to ensure robust public accountability

Supporting Principle		To achieve this:
<p>6.1 Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships</p>	<p>The Council seeks and responds to the views of stakeholders and the community by:</p> <ul style="list-style-type: none"> • Forming and maintaining relationships with the leaders of other organisations; • Ensuring Partnership arrangements demonstrate clear, appropriate governance accountabilities; • Producing plans for service delivery within the community; • A County Durham Partnership Community Engagement and Empowerment framework developed by the GDP to shape and support a common vision and approach for community engagement by partners in County Durham, so that people feel able to influence decision making; • Using an approach that recognises that people are different and gives everyone the same or an equal opportunity to information, advice and support in ways that are suited to the needs or circumstances of the individual; • Encouraging a climate of openness by holding regular Cabinet meetings at various locations throughout County Durham including former district council offices; • Encouraging and supporting the public in submitting requests for aspects of the Council's Service to be scrutinised; • Providing and supporting ways for citizens to present community concerns to the Council; • Providing for the public the opportunity to ask questions or make representations at full Council, Cabinet and Regulatory Committees; • Publishing annually a Council Plan providing information in relation to the Council; • Continually developing clear channels of communication; • Providing a modernised ICT Service that meets the needs and aspirations of the organisation and the communities we serve; • Issuing the Council's newsletter, Durham County News, to every household in the County; • Developing AAPs in fourteen areas of the County to help determine the local priorities for their area which will be fed into the community planning process; • Consulting AAPs on the development of our MTFP to identify local priorities for action, test strategic priorities at a local level and seek innovative ideas from local people on how to realise efficiencies by working more closely with our partners; 	
<p>6.2 Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning</p>		
<p>6.3 Making best use of human resources by taking an active and planned approach to meet responsibility to staff</p>		

Supporting Principle	To achieve this:
	<ul style="list-style-type: none"> • Consulting with partners when developing the council's own three year MTFP, working with key agencies to develop complementary proposals and consulting on a joint basis with the Police and <u>NHS County Durham and Darlington</u>; • Drawing upon the locality arrangements of other public service providers such as the Police, the <u>County Durham and Darlington NHS Foundation Trust</u> and <u>the Tees, Esk and Wear Valley NHS Foundation Trust</u> through its partnership arrangements; • The <u>Engagement and Third Sector team</u> promoting and supporting the Council's approach to community engagement and supporting Members in their community leadership role; • Providing Member support both at County Hall and offices across the County; • Community Development Officers working closely with the Council and communities in building partnerships that strengthen the voice of local people and help the Council improve the way it listens and responds to the people of County Durham; • Undertaking a Countywide Residents Survey on a regular basis; • <u>Consulting with the community during the process to develop the MTFP</u>; • Consulting effectively with children and young people, service users and carers and key client groups to help plan and be involved in the design, delivery and evaluation of local services; • Staff surveys and consultations with staff and Trade Unions • <u>'Open Doors', a responsive staff engagement mechanism which captures and quickly responds to questions, compliments, suggestions and complaints raised by staff.</u> <p>The Council has developed a partnership governance framework (PGF) to enable partnerships to be identified, recorded and reported upon to provide a mechanism for their effectiveness to be assessed.</p> <p>To strengthen community governance, the AAP boards comprise seven Members of the public selected through open recruitment; seven Members chosen from partner agencies working in the area and seven selected from local elected Members - including town and parish councillors - on a politically balanced basis for that area. They have a rotating chair, so that they are not indefinitely controlled by the <u>County Council</u> administration.</p> <p>The Durham Local Councils Charter outlines the relationship between the County Council and Town and Parish Councils.</p>

MONITORING AND REVIEW

The Council has two Committees that are responsible for monitoring and reviewing the various aspects of the Council's Corporate Governance arrangements.

The **Audit Committee** is responsible for the Council's arrangements relating to;

- Monitoring and reviewing the risk, control and governance processes and associated assurance processes to ensure internal control systems are effective and that policies and practices are in compliance with statutory and other regulations and guidance;
- Approving the Council's Accounts prior to approval by the County Council;
- External audit;
- Internal audit;
- Risk Management;
- Making recommendations concerning relevant governance aspects of the Constitution;
- Reviewing the effectiveness of Internal Audit.

The **Standards Committee** has responsibility for promoting high ethical standards across the Council, overview of the Member and Officer codes and other relevant protocols together with the Council's complaints handling regime.

These two Committees will ensure that the Council's governance arrangements are kept under continual review through;

- Reports prepared by officers with responsibility for aspects of this Code;
- The work of Internal Audit;
- External Audit opinion;
- Other review agencies and Inspectorates;
- Opinion from the Council's Statutory Officers.

Within Durham County Council there is one Overview and Scrutiny Management Board and six Overview and Scrutiny Committees who support the work of the Executive and the Council as a whole. They allow a greater involvement in Council business by involving non-councillors from the wider public sector, and voluntary and community groups to help them in their work, and also work with Partners, including the County Durham Partnership. They may also be consulted by the Executive or the Council on forthcoming decisions or the development of policy.

The main Overview and Scrutiny Management Board has the following remit:

- To oversee and co-ordinate the work of Overview and Scrutiny and its Committees;
- To ensure effective liaison across the work of the committees re: cross cutting issues;
- To be the strategic driver of the Overview and Scrutiny function;
- To consider as appropriate scrutiny member involvement in regional scrutiny;

- Arrangements within the context of the Sub National Review/Single Integrated Regional Strategy and associated issues;
- The establishment of appropriate liaison with the Executive in the interests of achieving common aims and continuous improvement for the Council;
- To encourage appropriate community involvement in the Overview and Scrutiny role.

In general, the Overview and Scrutiny Management Board and its Committees will:

- Review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
- Make reports and/or recommendations to the full Council and/or the Cabinet in connection with the discharge of any functions;
- Consider any matter affecting the area or its inhabitants;
- Exercise the right to ask the Cabinet to reconsider any decisions they have made (call-in).

The Annual Governance Statement

Each year the Council will publish a Governance Statement. This process is managed by the Resources Management Team and will provide an overall assessment of the Council's corporate governance arrangements and an appraisal of the key controls in place to manage the Council's principal governance risks, together with proposed improvements that will be made. The Statement will also provide details of where improvements need to be made in accordance with the Accounts and Audit (Amendment) (England) Regulations 2006.

The Annual Governance Statement will be published as part of the Council's Annual Statement of Accounts and will be audited by our External Auditors.

CORPORATE GOVERNANCE FRAMEWORK

Corporate Governance comprises the systems and processes, cultures and values, by which the Council is directed and controlled and through which we account to, engage with and where appropriate, lead the community

1. Focus on purpose of the authority, vision for local area and outcomes for the community	2. Members and officers working together to achieve a common purpose	3. Promoting values and upholding high standards of conduct and behaviour
4. Taking informed and transparent decisions, scrutinised and risk managed	5. Developing capacity of Members and Officers to be effective	6. Engaging with local people to ensure public accountability



Key Documents which support the achievement of the core principles

- Annual Governance Statement
- Annual Statement of Accounts
- Anti Money Laundering Policy
- Asset Management Plan
- Asset Register
- Cabinet and Committee Reports
- Benefits Fraud Policy and Booklets
- Benefits Sanctions Policy
- Budgetary Control Statement
- Business Contingency Plans
- Buzz Magazine (employee)
- Code of Conduct - Members
- Code of Conduct – Employees
- Code of Conduct – Benefit Officers
- Complaints Policy and Procedures
- Council Consultation and Engagement Strategy
- Counter Fraud and Corruption Strategy
- Confidential Reporting Code
- Constitution
- Contract Procedure Rules
- Contracts Register
- Corporate Management Framework
- Councillor Compact
- Council Plan
- County Durham Compact
- County Durham Trade Union Partnership Agreement
- Countywide Resident Survey
- Data Protection Policy
- Data Quality Policy
- Disciplinary Policy and toolkit
- Durham County News (countywide magazine)
- Employee Appraisal Records
- Employee Support Programme
- External Audit Reports
- Financial Procedure Rules
- Forward Plan of Decisions
- Forecast Outturn Reports
- Freedom of Information Policy
- HR Policies

- Health and Safety Policy, Procedures and Handbook
- Induction Pack
- Information Security Policy and Manual
- Inspection Reports
- Internal Audit Plan
- Internal Audit Reports
- Job Description
- Key Performance Indicators
- Local Code of Corporate Governance
- Local Member Consultative charter
- Media Relations Strategy/Protocol
- Medium Term Financial Plan
- Members Allowance Scheme and Procedures
- Member Handbook
- Member Personal Development Plans
- Minutes of meetings
- Officer & Member Declaration of Interest Register and Policies
- Officer and Member Gifts & Hospitality Register and Procedures
- Officer Subsistence and Travel Procedures
- Overview and Scrutiny Annual Report
- Partnership Governance Framework
- ~~Partnership Register~~
- People and Organisational Development Strategy
- Performance Management Reports
- Policy Framework Procedure Rules
- Procurement Strategy
- Records Management Policy
- Risk Management Strategy and Policy
- Single Equality Scheme
- Strategic Risk Registers
- Scheme of Delegation
- Service Improvement Plans
- Sustainable Community Strategy
- Town and Parish Council Charter
- Transparency Webpage
- Treasury Management Policy and Strategy

Contributory Processes/Regulatory Monitoring

- Access to Information
- Budget Process
- Communication Framework
- Consultation Framework
- Democratic Engagement
- Member Briefings
- Internal Audit
- External Audit
- Improvement and Planning Group
- Development Improvement Group
- Cabinet
- Corporate Management Team
- Service Management Teams
- Audit Committee
- Overview and Scrutiny Committee
- External Inspection and Review Agencies
- Partnerships
- Constitution Working Group
- Monitoring Officer
- Member Officer Working Group for capital
- Member Development Group
- Planning and Performance Group
- Standards Committee
- Strategic Procurement Network
- Corporate Risk Management Group
- Information Governance Group
- Equality and Diversity Steering Group
- Corporate Consultation Group
- Resources Management Team

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Audit Committee

5 January 2012

**Corporate Governance Timetable for
2011/12 Review**

Report of Don McLure, Corporate Director, Resources

1. Purpose of the Report

The purpose of this report is to inform the Audit Committee of the timetable and key steps in the process to review of the Councils corporate governance arrangements for 2011/ 12.

2. Background

The Council has approved, adopted and published on its website, a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework – “Delivering Good Governance in Local Government”. This statement explains how the Council has complied with the code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement (AGS).

In order to prepare the AGS each year, the Council has a responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. Those charged with governance must seek adequate assurance that its corporate governance arrangements are effective and identify any significant areas of improvement. The Resources Management Team (RMT) co-ordinates and oversees the Council’s corporate assurance arrangements, and prepares the AGS to demonstrate how far the Council complies with the principles of good governance and recommending improvements, to be published in the Council’s Annual Statement of Accounts.

Attached in Appendix 2, for your information, is a timetable outlining the key actions and dates to complete the 2011/ 12 review.

3. Key steps in the gathering of evidence during the 2011/ 12 review

In gathering the evidence to support the AGS, the following approach will be adopted:

3.1 Consideration of corporate sources of assurance

The Council’s corporate governance arrangements were documented during the 2010/ 11 review, and updated during the year as appropriate. Key officers have been identified who will be able to confirm any changes in the governance arrangements since the last review. This will then be used to demonstrate how the Council meets the 6 core principles of the CIPFA/ SOLACE Framework. The evidence to support this will be from a variety of assurance sources, including:

- Results of the review of the effectiveness of the Council's governance arrangements;
- The identification of key documents, processes and procedures that support the governance framework, many of which may have been revised during the year;
- Self-assessment;
- Additional evidence provided from Services;
- Partnership governance arrangements.

3.2 Service assurance on the effectiveness of the governance framework

We will liaise with the key contacts in each Service to establish any additional good governance in place during the year which demonstrates how the Council meets the 6 core principles, and assurances gained to place reliance on those arrangements. This will support the Corporate Directors and the Assistant Chief Executive to complete an assurance statement for their Service Grouping.

4. Recommendations and reasons

The Audit Committee are requested to approve the timetable and key steps in the process to review the Councils corporate governance arrangements for 2011/ 12.

Contact: David Marshall Tel: 0191 3834311

Appendix 1: Implications

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

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

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

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

Accommodation - Asset management is a key component of effective corporate governance

Crime and Disorder – None.

Human Rights - None.

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

Procurement – None.

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

Legal Implications – None.

Appendix 2: Corporate Governance Timetable 2011/ 12

2011/12 REVIEW OF EFFECTIVENESS OF CORPORATE GOVERNANCE (CRITICAL MILESTONES IN BOLD)			
	Process Step	Date	Responsibility
		2011	
1	Update RMT on implementation of 2010/11 AGS Action Plan	30 November	Risk and Governance Mgr
2	Update CMT on implementation of 2010/11 AGS Action Plan	7 December	Risk and Governance Mgr
		2012	
3	Audit Committee – update on 2010/11 AGS Action Plan	5 January	Risk and Governance Mgr
4	Gather evidence to review the effectiveness of the Councils Governance arrangements	Commence 1 Jan - complete by 31 March	Services and Risk and Governance Manager
5	Update RMT on implementation of 2010/11 AGS Action Plan	February – date to be confirmed	Risk and Governance Mgr
6	Update CMT on implementation of 2010/11 AGS Action Plan	29 February	Risk and Governance Mgr
7	Contact key partnership bodies to complete a partnership governance statement	1 March	Risk and Governance Mgr
	Confirm with Finance (Annette Geragusian) which bodies in the Group Accounts are material enough for a governance statement to be produced	By 1 March	Risk and Governance
8	Contact the selected Group Account bodies to provide governance statement	By 7 March	Risk and Governance
9	Audit Committee – update on 2010/11 AGS Action Plan	22 March	Risk and Governance Mgr
10	Receive completed governance statement from partnership bodies	By 31 March	Risk and Governance Mgr
11	Using the information gathered in the effectiveness review, the Service contact will draft their Directors Assurance Statement for Corporate Director approval (using part-populated template)	By 15 April	Service contact/ Risk and Governance Manager
12	Receive governance statement from Group Account bodies	(dependent on the timetable to produce final accounts in the Group Accounts body)	Risk and Governance Mgr
13	Write a first draft AGS 2011/12	1 April to 16 May	Risk and Governance Mgr
14	Directors Assurance Statement approved by Corporate Director and incorporated into draft AGS	By 6 May	Risk and Governance Mgr

2011/12 REVIEW OF EFFECTIVENESS OF CORPORATE GOVERNANCE (CRITICAL MILESTONES IN BOLD)

	Process Step	Date	Responsibility
15	Update RMT on implementation of 2010/11 AGS Action Plan and close it off. RMT to approve <ul style="list-style-type: none"> the draft AGS for 2011/12. the 2011/12 AGS action plan (including owners for the actions) 	June – date to be confirmed	Risk and Governance Mgr/ RMT
16	Draft AGS presented to CMT (including the update CMT to close off the 2009/10 AGS Action Plan)	20 June	Risk and Governance Mgr
17	Draft AGS approved by Audit Committee	28 June Audit Committee meeting	Risk and Governance Mgr
18	Draft AGS approved by Full Council	25 July	Risk and Governance Mgr
19	The Final AGS is ratified at Audit committee, signed by the Chief Executive and Council Leader and published as part of the Statement of Accounts.	27 September Audit Committee meeting	Corporate Director Resources
20	RMT to approve draft revision of Code of Corporate Governance	October – date to be confirmed	Risk and Governance Mgr
21	CMT to approve draft revision of Code of Corporate Governance	7 November	Risk and Governance Mgr
22	Audit Committee to approve draft revision of Code of Corporate Governance	22 November	Risk and Governance Mgr

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Audit Committee

5 January 2012



Action Plan for Corporate Governance Improvements

Report of Don McLure, Corporate Director Resources

Purpose of the Report

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

Background

2. The Council has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework – 'Delivering Good Governance in Local Government'. The Annual Governance Statement (AGS) explains how the Council complies with this code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a Statement on Internal Control.
3. To inform the 2010/11 AGS, the annual review of the effectiveness of corporate governance arrangements was carried out. In support of this review, all Corporate Directors were asked to provide an assurance statement to ensure that there is understanding council wide of the Council's governance arrangements and that they are embedded within each operational area including project and partnership responsibilities.
4. From this review, a number of areas for improving corporate governance have been identified. These were reported in the 2010/11 AGS, and are documented in a governance action plan attached to this report in Appendix 2.

Recommendations and reasons

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

Contact: David Marshall Tel: 0191 3834311

Appendix 1: Implications

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

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

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

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

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

Crime and Disorder – None.

Human Rights - None.

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

Procurement – None.

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

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

Appendix 2: Annual Governance Statement – Action Plan

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

No.	Significant governance issue	Further Action Required	Lead Officer	Target Implementation Date	Status as at December 2011
1	A number of significant weaknesses in the system of financial control.	The actions to address the financial systems weaknesses will be incorporated into the Resources Service Improvement Plan or the Corporate Improvement Plan. Progress on these improvement plans will be monitored by CMT throughout the year. This action has been carried forward from the 2010/ 11 Annual Governance Statement.	Don McLure	Throughout 2011/ 12	An action plan is being finalised to take forward improvements. We will be reporting on this regularly to Audit Committee and the key elements will be included in the Resources Service Plan.
2	Pay Harmonisation and Single Status.	Implement the Pay and Conditions project	Kim Jobson	April 2012	On target.
3	Implement revised Financial Management Standards.	The revised Financial management standards should be finalised and implemented. This action has been carried forward from the 2010/ 11 Annual Governance Statement.	Jeff Garfoot	Dec 2011	Target date revised to 31 March 2012, due to prioritisation of resources to other areas of work.
4	Business Continuity	Develop a robust ICT architecture without single points of failure, and with data stored securely by implementing a new backup strategy across two physically segregated server environments.	Phil Jackman	March 2012	Capital application for funding this work is currently being developed. It is likely that, if the capital bid is approved, the implementation will be later than the planned target date.
5	Changing Government Policy on the Ethical Framework.	Review the ethical framework and implement a new compliant, fit for purpose and workable ethical structure for the Council.	Colette Longbottom	March 2012	The Localism Act received royal assent on the 15th November. The provisions relating to the ethical framework were changed significantly. It is planned to take a report to Council in early 2012, setting out options.
		Provide advice and guidance to Members and Officers on the new ethical structure.	Colette Longbottom	March 2012	On target

No.	Significant governance issue	Further Action Required	Lead Officer	Target Implementation Date	Status as at December 2011
6	Implement an Information Management and Governance Strategy	Implement an Information Management and Governance strategy. This action has been carried forward from the 2010/ 11 Annual Governance Statement.	Jenny Haworth	June 2012	A staged approach is being taken to developing the Council's information management and governance arrangements focusing on 3 main areas: records management, data protection, and access to information. A Records Management Policy was agreed in Summer 2010. During 2011 progress has been made in developing Records Retention schedules for all service areas. A new Data Protection Policy was also agreed by Cabinet in May 2011 and awareness raising has taken place with all Heads of Service and Tier 4 managers. Key elements still to be developed are a formal procedure for dealing with access to information requests, including freedom of information and environmental information, and a long term records management strategy for the Council, both of which will be progressed in 2012.
7	Improve accessibility to key policies.	Improve accessibility to key policies and documents via the website/ search engines. This action has been carried forward from the 2010/ 11 Annual Governance Statement.	Roger Goodes	Aug 2012	On target
8	Performance Management of Integrated Teams.	Scope and develop a database of policies and procedures as part of the Council's Intranet.	Roger Goodes	Aug 2012	On target
9	Succession Planning.	Implement a Performance Management Framework for Integrated Services Plans will be developed by April 2012 outlining the implementation of the policies required to ensure effective succession planning in the future.	Carole Payne Kim Jobson	Sep 2011 April 2012	Implemented. This is a long term goal, and will be considered after the unitisation of Human Resources has been completed.

Audit Committee

5th January 2012



**Consolidated Action Plan
2010/11 Audit of Accounts**

Report of Don McLure, Corporate Director Resources

Purpose of the Report

- 1 The purpose of this report is to present an action plan, for Members information, consolidating all agreed recommendations for improving control weaknesses incorporated in the External Auditor's 2010/11 Interim and Final Governance Reports.
- 2 The action plan will be used by management for monitoring purposes and will be updated and reported to the Committee on a regular basis.
- 3 This report is presented in accordance with paragraph 4.1.26 of the Committee's Operational Terms of Reference, "to monitor progress made by management in response to both internal and external audit findings and recommendations".
- 4 An updated action plan incorporating progress made to date will be tabled at the meeting.

Recommendation and reasons

- 5 To note the action plan attached at Appendix 2 to gain assurance that control weaknesses identified through the final account audit process are being appropriately addressed.

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

CONSOLIDATED ACTION PLAN - 2010/11 AUDIT OF ACCOUNTS

INTERIM AND FINAL GOVERNANCE REPORT RECOMMENDATIONS

Interim Recommendation	Final Recommendation	Recommendation	Responsibility completed by	Priority	Date for completion	Comments	Progress	Evidence	System Reconciliations	Bank Reconciliations	Balance Sheet Control	Governance - Policies	Risk
Recommendation 1: Control Environment	ICT related policies should be up-to-date and made available to staff. The Council should provide training to increase awareness of ICT related risks.	ICT related policies should be up-to-date and made available to staff. The Council should provide training to increase awareness of ICT related risks.	ICT - Keith Hollins	Medium	31-Mar-12	The Council has too many ICT policies following LGR and we are in the process of reviewing and replacing these via the Information Security Forum.	✓					✓	
Recommendation 2: Control Environment	The Council should redesign the 'leavers' procedure to ensure the Council deletes all staff leavers with access to any Council IT systems as soon as they leave. In addition, the Council should also ensure they collect all IT equipment as soon as the employee leaves the Council.	The Council should redesign the 'leavers' procedure to ensure the Council deletes all staff leavers with access to any Council IT systems as soon as they leave. In addition, the Council should also ensure they collect all IT equipment as soon as the employee leaves the Council.	ICT - Paul Sanderson	High	31-Oct-11	A new procedure has been developed and will be approved by the ICT Liaison Group, prior to roll out.	✓					✓	
Recommendation 3: Control Environment	The Council should complete exception reports to ensure they have disabled all dormant network accounts.	The Council should complete exception reports to ensure they have disabled all dormant network accounts.	ICT - Keith Hollins	High	31-Oct-11	This will be addressed in the same way as recommendation 2	✓					✓	
Recommendation 4: Control Environment	The Council should develop disaster recovery arrangements to ensure they can recover data if there is a serious disruption. A restore of each key system should be carried out yearly using a full back up of all data, operating systems and application software.	The Council should develop disaster recovery arrangements to ensure they can recover data if there is a serious disruption. A restore of each key system should be carried out yearly using a full back up of all data, operating systems and application software.	ICT - Steve Hodgson	High	31-Dec-11	In line with our ICT Strategy, the Council is focussed on business continuity rather than disaster recovery. Full resiliency testing has been performed successfully at Tanfield but this remains a single point of failure. All key systems are backed up with tapes and data removed off site but we will introduce test restores on an annual basis.	✓					✓	
Recommendation 5: Control Environment	The Council should develop a formal change control policy.	The Council should develop a formal change control policy.	ICT - Bob Gibson	Medium	31-Oct-11	The Council has developed a formal change control policy which is in the process of being rolled out to all parts of the ICT Services.	✓					✓	
Recommendation 6: Migration of former district Information Systems	Officers should try to reduce the number of material information systems in a timely and efficient manner. This will help increase the robustness of the control environment and reduce the likelihood of key control weaknesses arising.	Officers should try to reduce the number of material information systems in a timely and efficient manner. This will help increase the robustness of the control environment and reduce the likelihood of key control weaknesses arising.	Financial Systems Manager/ICT	High	31-Mar-12	There has been a major exercise to transfer day-to-day financial operations from former District systems (Agresso and Masterpiece) to the corporate Oracle E-Business Suite. In addition a new county-wide Income Management System (ICON) went live with effect from 16 th March, since when all income transactions have been processed through a common Income bank account and the former District bank accounts will begin to be phased out. Since 1 April 2011 only a very limited range of transactions are processed through the old financial systems. -Housing Benefit cheque payments (Chester-le-Street and City of Durham). -Council Tax/INDR refunds (Chester-le-Street). - Posting of sundry debt payments. -Processing of sundry debt credit notes and write-offs. -Transaction matching for bank reconciliation purposes. -Journal entries to maintain control account accuracy. -The above will be phased out during the next few months as the implementation of the new OpenRevenues System progresses and outstanding sundry debts are transferred to Oracle. This will facilitate significant savings in the operating costs of the old systems. With effect from 1 April 2012 therefore all user access to the former District financial systems (ie Agresso and Masterpiece) will be amended to view only, with the exception of those staff identified as needing to process items in the list above. Processing of sundry debt payments, credit notes and write-offs will be centralised within Financial Systems Section.	✓					✓	
Recommendation 7: General Ledger	The Council should introduce the review and approval of all journals by a senior officer before they are entered into the general ledger. This will help identify errors before the journal is entered, and as a result save officers time amending the error.	The Council should introduce the review and approval of all journals by a senior officer before they are entered into the general ledger. This will help identify errors before the journal is entered, and as a result save officers time amending the error.	Hilary Appleton	Medium	31-Mar-11	The volume of journals processed will require consideration of this process to ensure that the review and approval of journals is done efficiently. As appropriate, Strategic Finance will issue instruction to all service accounting teams to review and approve journals prior to entering into the General Ledger.	✓					✓	
Recommendation 8: General Ledger	Officers should be able to provide evidence to support the existence of user access controls within the legacy systems. This will provide the Council with assurance that no inappropriate users have the ability to manipulate information within the general ledger without authorisation from a senior officer.	Officers should be able to provide evidence to support the existence of user access controls within the legacy systems. This will provide the Council with assurance that no inappropriate users have the ability to manipulate information within the general ledger without authorisation from a senior officer.	Hilary Appleton	Medium	31-Dec-11	In Oracle, only users with supervisor, ledger manager and General Ledger standard users can enter/change journals. These users, when granted the responsibility, have their access approved by their line manager and service accountant. User access in the legacy systems is reducing with the de-commissioning of the legacy systems.	✓					✓	
Recommendation 9: General Ledger	Officers should review all users with access to the legacy systems. All users who no longer need to use the legacy systems or who left the Councils employment should have their access removed.	Officers should review all users with access to the legacy systems. All users who no longer need to use the legacy systems or who left the Councils employment should have their access removed.	Michael Ross	High	Completed	From March 2011 a monthly list of payroll leavers is being received from the Payroll process in section and compared with current Oracle users and any who have left are having their access terminated. A monthly check is also done on users who have not accessed Oracle in the last 12 months and they also have their access terminated. A review of access to Agresso was performed earlier in the year and it is expected that by 30 September 2011 all update access to Agresso will be removed for all users. Systems Support teams.	✓					✓	
Recommendation 10: General Ledger	The Council should review all opening balances to ensure the general ledger carries them forward accurately. Documentation of the review and approval by a senior officer should be kept on a hard copy file to provide clear evidence of the reviews completion.	The Council should review all opening balances to ensure the general ledger carries them forward accurately. Documentation of the review and approval by a senior officer should be kept on a hard copy file to provide clear evidence of the reviews completion.	Hilary Appleton	Medium	31-Dec-11	Agreed. This is a process that will be documented by Ledger Management and Systems Support teams.	✓					✓	
Recommendation 11: General Ledger	The Council should complete regular trial balances, for example quarterly. Officers should then review the trial balances to ensure the general ledger nets to zero.	The Council should complete regular trial balances, for example quarterly. Officers should then review the trial balances to ensure the general ledger nets to zero.	Hilary Appleton	High	Completed	Being undertaken weekly, daily during the final accounts period. In addition, 30 Apr-11 trial balances are provided by Systems Support as part of the Balance Sheet Control exercise.	✓					✓	
Recommendation 12: General Ledger	The Council should complete the payroll dataset to general ledger reconciliation for the period April to August 2010. Suitable assurance will then be gained over the completeness of payroll transactions within the general ledger for all 2010/11.	The Council should complete the payroll dataset to general ledger reconciliation for the period April to August 2010. Suitable assurance will then be gained over the completeness of payroll transactions within the general ledger for all 2010/11.	Hilary Appleton	Medium	Completed	Completed to 31 March 2011. ResourceLink dataset being reconciled to Oracle at the 30 Jun-11 point of processing.	✓					✓	
Recommendation 13: General Ledger	The Financial System Support team should undertake a review of the general ledger interface file to identify whether it is possible to lock the upload file.	The Financial System Support team should undertake a review of the general ledger interface file to identify whether it is possible to lock the upload file.	Hilary Appleton	Medium	30-Sep-11	Agreed. This will be investigated to investigate whether this is possible.	✓					✓	

Interim Recommendation	Final Recommendation	Recommendation	Responsibility completed by	Priority	Date for completion	Comments	Progress	Evidence	System Reconciliations	Bank Reconciliations	Reconciliations	Control	Policies	Risk
Recommendation 29: Bank Reconciliations	Recommendation 29: Bank Reconciliations	The Council should produce all bank reconciliations punctually to ensure effective control in this area.	David Watchman	Medium	01-Jan-12	Agreed	✓							
Recommendation 30: Bank Reconciliations	Recommendation 30: Bank Reconciliations	The Council should produce bank reconciliations for all bank accounts.	David Watchman	Medium	01-Jan-12	Agreed	✓							
Recommendation 31: Bank Reconciliations	Recommendation 31: Bank Reconciliations	The Council should ensure that all former district bank reconciliations are reconciled to both the former district general ledger and the Oracle general ledger. The Council should inspect and resolve all differences.	David Watchman	High	30-Sep-11	Agreed	✓							
Recommendation 32: Bank Reconciliations	Recommendation 32: Bank Reconciliations	The Council should ensure the review and approval of all bank reconciliations by a senior officer. This will then highlight any errors and incompleteness. The Council should document the review on the reconciliation.	David Watchman	High	30-Sep-11	Agreed	✓							
Recommendation 33: Bank Reconciliations	Recommendation 33: Bank Reconciliations	The Council should formalise the control of former District Council chequebooks.	Hilary Appleton David Watchman	High	31-Dec-11	Agreed. The importance of this is recognised and formal processes have been established for control accounts and balance sheet items.	✓							
Recommendation 34: Housing Rents	Recommendation 34: Housing Rents	The Council should keep confirmation of the review and approval of the new housing rents calculation and system parameters up to date.	Azhar Rafiq	Medium	30-Sep-11									
Recommendation 35: Material Information System Reconciliations	Recommendation 35: Material Information System Reconciliations	The Council should ensure the review and approval of all reconciliations by an independent senior officer. The Council should document this review on the reconciliation.	Hilary Appleton Various - see list of reconciliations	High	31-Dec-11	Agreed. The importance of this is recognised and formal processes have been established for control accounts and balance sheet items.	✓							
Recommendation 36: Material Information System Reconciliations	Recommendation 36: Material Information System Reconciliations	All reconciliations should disclose the name of the reconciliation preparer. This will then clearly evidence a segregation of duties between the roles of preparer and reviewer.	Hilary Appleton Various - see list of reconciliations	High	31-Dec-11	Agreed. The importance of this is recognised and formal processes have been established for control accounts and balance sheet items.	✓							
Recommendation 37: Material Information System Reconciliations	Recommendation 37: Material Information System Reconciliations	The Council should produce all reconciliations punctually. This will ensure the quick identification and correction of errors.	Hilary Appleton Various - see list of reconciliations	High	31-Dec-11	Agreed. The importance of this is recognised and formal processes have been established for control accounts and balance sheet items.	✓							
Recommendation 38: Material Information System Reconciliations	Recommendation 38: Material Information System Reconciliations	The Council should ensure the completion of all reconciliations listed above. This will provide officers with assurance over the completeness of the financial statements.	Hilary Appleton Various - see list of reconciliations	High	31-Dec-11	Agreed. The importance of this is recognised and formal processes have been established for control accounts and balance sheet items.	✓							
Recommendation 39: Material Information System Reconciliations	Recommendation 39: Material Information System Reconciliations	The Council should provide supporting documentation for all reconciliations. Various - see list of reconciliations	Hilary Appleton Various - see list of reconciliations	High	31-Dec-11	Agreed. The importance of this is recognised and formal processes have been established for control accounts and balance sheet items.	✓							
Recommendation 40: Material Information System Reconciliations	Recommendation 40: Material Information System Reconciliations	The Council should ensure that both the accounts payable and accounts receivable control account balances for the Derwentdale site are split in the Oracle general ledger.	Hilary Appleton Various - see list of reconciliations	High	31-Dec-11	Agreed. The importance of this is recognised and formal processes have been established for control accounts and balance sheet items.	✓							
Recommendation 41: Material Information System Reconciliations	Recommendation 41: Material Information System Reconciliations	The Council should ensure that all reconciliations include the opening balances from the general ledgers. As otherwise the reconciliation is incomplete.	Hilary Appleton Various - see list of reconciliations	High	30-Jun-11	Agreed. The importance of this is recognised and formal processes have been established for control accounts and balance sheet items.	✓							
Recommendation 42: Early Substantive Testing	Recommendation 42: Early Substantive Testing	The Council should ensure that cost centres are included only once in the financial statements as well as allocated to the correct BVACOP heading	Hilary Appleton Strategic Finance	High	30-Jun-11	Comments At the time the Auditor's did their interim testing, the downloads that were provided for the hierarchy was a work in progress, and provided with that 'health warning'. Although there should not be duplicates, Systems Support will create a check to do this weekly as well as identifying any omissions from the hierarchy.	✓							
Recommendation 43: IFRS Restatement	Recommendation 43: IFRS Restatement	Officers should provide the IFRS restated opening balances as soon as possible.	Hilary Appleton Strategic Finance	High	30-Jun-11	Provided as part of the Statement of Accounts and working papers.	✓							
Recommendation 1	Recommendation 1	Ensure sufficient resource is devoted to completing the transition to a single assets register as a matter of urgency.	Don McLure Capital Team / Assets Team	High	31-Dec-11	A project team has been put in place to ensure this is completed by the end of 2011. A project plan has been established and work is underway. Progress against this plan is being closely monitored and update reports will be taken to future Audit Committee meetings.	✓							
Recommendation 2	Recommendation 2	Ensure quality control and internal review processes are strengthened as part of the close down process for 2011/12.	Don McLure Strategic Finance	High	31-Jan-12	This will be revisited as part of a review of lessons learned from this year. Good practice has been identified and will be used to inform this.	✓							
Recommendation 3	Recommendation 3	Ensure the draft financial statements include all relevant accounting entries for the year under review.	Don McLure Strategic Finance	High	30-Jun-12	This will be incorporated into revised quality control and internal review processes as part of arrangements for producing the 2011/12 financial statements.	✓							
Recommendation 4	Recommendation 4	Ensure closedown arrangements are managed against a close down plan, clearly identifying roles, responsibilities and target dates.	Don McLure Strategic Finance	High	31-Jan-12	This will be revisited as part of a review of lessons learned from this year. Good practice has been identified and will be used to inform this.	✓							
Recommendation 5	Recommendation 5	Ensure working papers used to prepare the financial statements are collated and maintained to support the audit and financial statements on a timely basis.	Don McLure Strategic Finance and Financial Services	High	30-Jun-12	This will be incorporated into revised closedown procedures for producing the 2011/12 financial statements.	✓							
Recommendation 6	Recommendation 6	Complete reconciliations for accounts receivable and payable to the ledger for all former districts on a monthly basis and evidence this review.	Don McLure Strategic Finance and Financial Systems	High	Complete	This has already been addressed for 2011/12.	✓							
Recommendation 7	Recommendation 7	Perform a self review of compliance against disclosure requirements using the CIPFA disclosure checklist as part of future years' quality assurance processes.	Don McLure Strategic Finance	High	30-Jun-12	This will be incorporated into revised quality control and internal review processes as part of arrangements for producing the 2011/12 financial statements.	✓							

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Audit Committee

5 January 2012

Bank Account Rationalisation



Don McLure, Corporate Director of Resources

Purpose of the Report

- 1 To provide an update on the current position of bank accounts operated by the County Council and the strategy for rationalisation.

Background

- 2 In January 2011, it was reported to the Committee that the County Council was operating over 1,200 accounts, which were categorised as follows:
 - 750 Appointeeship Accounts
 - 450 Petty Cash Accounts
 - 26 Former District Accounts
 - 1 County Fund Account
- 3 Appointeeship accounts are opened on behalf of individuals in the care of the County where there is no family member or close friend that can act as appointee. This is a service that the Council is required to provide and therefore there are unlikely to be opportunities to rationalise these accounts.
- 4 Petty cash accounts are held by many County Council establishments providing services in communities, including almost 300 in schools. It was reported that there was a likelihood that the number of petty cash accounts would reduce significantly following a review due to take place in 2011. However, there has been no movement on this, the review of Petty Cash accounts is linked to the review of the Procure to Pay (P2P)* Process and the introduction of different methods of dealing with the purchases currently made from Petty Cash.
- 5 *The P2P project is a comprehensive review of the end to end process from sourcing of goods and services to procuring them, receiving them and paying for them. The aims of the review are to ensure that:
 - spend is controlled
 - the best prices are achieved
 - staff comply with the Council's procurement policy and procedures
 - the ability to pay invoices on time is improved, and
 - the technology underpinning this is 'fit for purpose'.

The current position

- 6 There are now a total of 20 other bank accounts currently in operation (7 less), of which 18 are former district accounts, 1 is the County Fund Account and 1 is the recently opened Income Collection Account.
- 7 The Income Collection Account was established in March 2011 and now receives the vast majority of former district-related income (e.g. Council Tax, Non-Domestic Rates.), averaging in the region of 10,000 transactions per month.
- 8 The County Fund Account continues to operate for County receipts and payments, but during 2012/13 the income element will gradually move across to the Income Collection Account, so that the County Fund Account will eventually only handle expenditure items.

Former District Accounts

- 9 A list of the 18 former district accounts is shown at Appendix 2.
- 10 As can be seen from this table the intention is to close down numbers 1 to 5 by the end of January 2012 and 6 to 11 by March 2012.
- 11 The remaining accounts (numbers 12 to 18 in the table) will continue to be operated into 2012/13. Whilst this is not ideal, there are dependencies on these accounts for which resolutions will not be fully implemented by 31 March 2012.
- 12 There are a number of factors delaying closure of these remaining accounts including payment card transaction requirements, direct debit collection protocols for leisure establishments and rent collection needs of partner bodies such as Durham City Homes and East Durham Homes.
- 13 However, it is anticipated that each of these issues can be resolved by September 2012.

Conclusion

- 14 By 30 September 2012 it is anticipated that the County will have the following bank account structure in place for its main activities:

- Income Collection Account (Co-operative Bank)

The collection of all Council Tax, NDR, rent (former district income) as well as a part of the former County income that will transfer across during 2012.

- County Fund Account (Co-operative Bank)

All payments made by Durham County Council and any remaining former County income that is still to be transferred to the Income Collection Account.

Contact: David Watchman Tel: 0191 3833940

Appendix 1: Implications

Finance

Staffing

Equality and Diversity

Accommodation

Crime and Disorder

Human Rights

Consultation

Procurement

Disability Discrimination Act

Legal Implications

Appendix 2: Former District Bank Accounts

No.	Account Name	Bank	Anticipated Closure Date
1	Easington DC-Salaries & Wages	Co-operative	January 2012
2	Easington AP	Co-operative	January 2012
3	Sedgefield-SW Account	Co-operative	January 2012
4	Sedgefield-Wages and Drawing	Co-operative	January 2012
5	Teesdale Current Account	Barclays	January 2012
6	Easington DC Collection Fund	Co-operative	March 2012
7	Chester-le-Street Current	Co-operative	March 2012
8	Derwentside DC General	Co-operative	March 2012
9	Easington DC-Rent Allowance	Co-operative	March 2012
10	Sedgefield-GD Account	Co-operative	March 2012
11	Sedgefield-Salaries and Wages	Co-operative	March 2012
12	Derwentside PP	Co-operative	September 2012
13	Wear Valley PP	Co-operative	September 2012
14	Easington PP	Co-operative	September 2012
15	Easington DC General Account	Co-operative	September 2012
16	Wear Valley General	Co-operative	September 2012
17	City of Durham General	Co-operative	September 2012
18	Sedgefield General	Co-operative	September 2012

Annual Audit Letter

Durham County Council

Audit 2010/11



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Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two main elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

Key audit risk

Our findings

Unqualified audit opinion



Proper arrangements to secure value for money



Audit opinion and financial statements

The second year of the new Council has again been challenging. It faced several significant challenges, including:

- implementing new financial systems;
- dealing with the transition to International Financial Reporting Standards (IFRS), which many councils struggled with;
- continuing to address continuing issues following local government reorganisation; and
- responding to a challenging budget settlement following the comprehensive spending review.

All of these pressures had an adverse impact on the Council's capacity to produce good quality financial statements and working papers. Because of this my audit took longer than expected and the Council missed the 30 September deadline for publishing its audited financial statements.

My audit also identified significant weaknesses in the Council's financial systems, which officers are addressing as part of the migration to new systems in 2011/12.

The Council recognises there is much room for improvement and has developed an action plan to strengthen its arrangements for preparing its 2011/12 financial statements.

Value for money

I issued an unqualified conclusion on 31 October 2011 stating the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This reflects an improvement in the Council's arrangements since my last audit when I issued a qualified VFM conclusion because of weakness in some areas.

The Council faces significant financial pressures because of the difficult economic climate and decreases in funding. This means resources will be constrained over the next few years. The Council recognised this at an early stage and has been proactive in identifying and delivering savings so far. The medium term financial plan (MFTP) recognises the need for more reductions and is underpinned by an efficiency improvement programme. This sets out how the Council will review services and deliver more savings in the future.

Audit certificate

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The audit certificate serves to close my audit. I issued the 2010/11 certificate on 31 October 2011.

Current and future challenges

The Council is working in an increasingly demanding environment but it has high expectations of what it can achieve.

The Council has made significant progress since its creation but recognises the need to ensure continuous improvement remains at the heart of its agenda. It faces large financial challenges in the coming years, and it is likely that it will need to deliver more for less. The Council's plans already include initiatives to preserve its underlying financial health while delivering essential services. While the Council's finances remain comparatively healthy, it continues to recognise the need to ensure future financial risks are identified early and managed properly. These challenges include managing the impact of various central government initiatives.

Below I focus on some of the key challenges facing the Council going forward.

Challenges

Economic downturn and pressure on the public sector

In his comprehensive spending review (CSR) announcement in October 2010, the Chancellor set out a significant financial challenge for the public sector.

Comments

The Council faces significant challenges arising from the impact of the economic downturn and decreases in funding. Its financial plans include significant savings targets (£123.5 million over the four years to 2014/15) to deliver its planned services within the reduced financial settlement from the government. Delivery of the planned savings will require close monitoring to minimise the risk of overspending budgets.

My work on this year's VfM conclusion found the Council had taken prompt, effective action to achieve the savings required in 2010/11 arising from in-year decreases in funding. Other continuing decreases are included in the medium term financial plan (MTFP). This is underpinned by a continuing efficiency improvement programme that sets out how the Council will review services and deliver more savings in the future. The Council recognises the need to continue to monitor delivery of planned savings, taking forward planned reviews of services for other opportunities to reduce spending and increase income. These are monitored closely as part of budgetary control and in developing the MTFP for the next four years.

I will update my conclusion on financial resilience as part of my 2011/12 audit.

Challenges

Changes to the Housing Revenue Account (HRA) Funding Regime

The government proposes to reform the council housing finance system which will result in the existing Housing Revenue Account (HRA) subsidy being abolished and replaced with a one-off redistribution of debt. This will have a significant impact on the Council's treasury management activities.

Comments

The Council has identified and considered the implications of these changes. They will result in the end of current annual negative subsidy payments to central government. It will be replaced by a one-off repayment of debt and a move to a self-financing system where housing rents will be kept locally.

Officers are considering this as part of the MTFP review this year. Recent announcements show that rent proposals will require the Council to borrow around £55 million to finance a payment to government on 28 March 2012, significantly increasing Council borrowings. The government's review of the overall subsidy system is now overdue. The final debt settlement figure, now due the end of November, could be significantly higher than estimated due to various factors including the recent increase in RPI to 5.6 per cent.

The Corporate Director Resources and his team are developing a strategy for borrowing and accounting for this new debt. Officers are also considering the longer term implications of the new system.

I will review the Council's arrangements in this area as part of my 2011/12 audit.

Single Status and Equal Pay

The introduction of Single Status arrangements has been a massive challenge for all local authorities given the complexities involved. This has been even more of a challenge in Durham following Local Government Reorganisation. This was because each of the former councils in Durham had approached the implementation of the single status agreement in a different way and had different arrangements for remunerating their employees.

Since Local Government Reorganisation the Council has been progressing with harmonisation of pay and conditions. A new pay and grading structure has been developed and posts assigned to this through job evaluation. Negotiations have started with the trade unions on the results from job evaluation and proposed changes to pay and conditions.

So far claims up to 2008 have been settled and offers prepared for most claims for the period to December 2010. Existing claims are due to be settled by the end of the year. Amounts for employees who have not yet submitted a claim will be settled in early 2012. The Council has made provision for outstanding settlements with current and former employees for actual or potential claims under equal pay legislation. The settlement process is continuing which means the final amounts involved and the payment timescale remain uncertain.

I tested the Council's total provision as part of my audit of the 2010/11 financial statements and decided that it was fairly stated. I will revisit this in my 2011/12 audit.

Challenges

Treasury Management

All councils face challenges in how they manage debt and investments, including increasing long-term interest rates and decreases in central government support for capital expenditure. These are magnified by reduced revenue funding from central government and a decline in the availability of affordable long-term loans from the commercial market.

Comments

The Council has a sound track record on treasury management and is aware of the need to manage these challenges effectively. Treasury management activity is controlled by agreed performance indicators which help ensure that over the medium term, net borrowing is only for capital purposes. Members have recently set a new indicator to control overall borrowing.

The Council inherited £7 million of deposits from the former Derwentside District Council that were invested across the Icelandic banks:

- Glitnir (£4 million);
- Landsbanki (£2 million); and
- Kaupthing (£1 million).

All of these banks effectively collapsed in October 2008. The Council currently estimates an 82 per cent recovery for Kaupthing and following the recent Icelandic Supreme Court decision, 100 per cent recovery for Glitnir deposits and 98 per cent for Landsbanki.

Financial statements and annual governance statement

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The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an unqualified opinion on the Council's financial statements on 31 October 2011.

Although my opinion was unqualified, my audit has again identified significant scope to improve:

- arrangements for producing the financial statements;
- the quality of the financial statements themselves; and
- supporting working papers.

In particular, the financial statements I received for audit were not of the expected standard as they omitted the group financial statements and some other disclosure notes. Detailed audit work subsequently identified many other errors and omissions, which needed to be corrected. In particular, there were many errors in accounting for property, plant and equipment. Working papers to support the financial statements were also not available when agreed and were not adequate in some areas.

Consequently, my audit took longer than anticipated and the Council missed the 30 September deadline for publishing its audited financial statements.

Although this year's financial statements were the first prepared under International Financial Reporting Standards (IFRS), which involved a significant amount of extra work for the Council, it is clear that there is significant room for improvement.

With this in mind we have agreed a detailed action plan with officers to ensure next year's arrangements for producing and auditing next year's financial statements are strengthened to ensure:

- the processes for producing the draft financial statements are strengthened;
- the number of, and value of, errors and omissions in the draft financial statements are reduced;
- working papers to support the figures in the financial statements are improved; and
- statutory deadlines are met.

Significant weaknesses in internal control

In my interim and annual governance reports to Members I noted that the large number of financial systems in continued use during 2010/11 continued to perpetuate control weaknesses. My work on these systems identified several weaknesses that could have led to errors in the financial statements.

I am pleased to report the Council made good progress in 2010/11 bringing the former districts off the old Agresso ledger onto the E Business Oracle system. This project represented a significant additional workload for the finance team. The organisation also had to implement International Financial Reporting Standards this year which alone was a major project and has caused many Local Authorities difficulties because of its scope and complexity.

During 2011/12 the Council has invested considerable effort in resolving this position. In particular, it has:

- accelerated its programme to switch off old systems and move to single systems eg general ledger; and
- introduce new systems for cash collection and revenues and benefits.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. I issued an unqualified conclusion on 31 October 2011 stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This outcome reflects an improvement in the Council's arrangements since my last audit when I issued a qualified VFM conclusion due to weakness in several areas. My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>My focus was on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future. I considered the Council's financial planning, financial governance and financial control arrangements.</p> <p>I concluded the Council's arrangements has robust arrangements in place to secure financial resilience and these were operating effectively.</p> <p>The Council understands the financial challenges and risks it faces. Senior officers and members provide constructive scrutiny on financial matters. It has effective arrangements to establish its strategic financial position and to develop it budgets. It has also updated its medium term financial plan (MTFP) to reflect the savings required over the next four years.</p> <p>In relation to the delivery of the 2010/11 budget I was satisfied the Council had achieved its plans, including delivering the planned savings for the year.</p>

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

My work in this area involved an assessment of how the Council manages its funds. This included consideration of how resources are prioritised and arrangements to ensure resources are used to their maximum benefit.

I concluded the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

A balanced four-year medium term financial plan for the four-year period 2011/12 to 2014/15 was agreed in February 2011. The main objective of the programme is to achieve budget savings of up to £123.5 million by 2014/15 while maintaining focus on its vision and priorities for the county which were developed with partners following local government reorganisation. An updated four-year MTFP has been developed and discussed with members for the period 2012/13 to 2015/16.

Whilst the financial position is challenging, the creation of the new single unitary means the Council has significant opportunities for economies of scale and efficiencies in service delivery. This will help it to deliver the required savings.

The Council recognises the need to ensure sufficient capacity is provided to deliver the programme effectively. Many projects to be delivered in 2011/12 are now in the implementation phase. Accurately monitoring savings from these projects will continue to be important if budget savings are to be achieved as planned.

Closing remarks

I have discussed and agreed this letter with the Leader, Chief Executive, Assistant Chief Executive and the Corporate Director Resources. I will present the letter at the Audit Committee on 5 January 2012 and will provide copies to all Council Members.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit progress reports (update report to meetings of the Audit Committee)	Selected Audit Committee meetings during year
Audit fee letter	March 2010
Audit plan	January 2011
Interim governance report	April 2011
Annual governance report	October 2011
Audit report, including audit opinion on the financial statements for the year ended 31 March 2011, value for money conclusion and audit certificate	October 2011
Whole of Government Accounts assurance statement	November 2011
Annual audit letter	November 2011

The Council has continued to take a positive and constructive approach to our audit. I wish to thank members and officers for their support and cooperation during the audit.

Cameron Waddell
District Auditor
November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Scale fee ¹	637,000	617,000	20,000
Non-audit work	15,000	15,000	0
Total	652,000	632,000	20,000

The actual fee charged was £20,000 higher than that originally proposed. This is because of the extra time required to complete the audit of the financial statements.

Page 65 ⁱ The final amount paid to the Audit Commission was £580,303. This was because the Council received a 6 per cent rebate for the additional work required for IFRS implementation (£32,115) and further 3.5 per cent rebate to reflect changes in the approach to value for money work (£24,582).

Appendix 2 – Glossary

Annual governance statement

Governance is about how authorities ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Authority on the extent to which it complies with its own local governance code. This includes how it has monitored the effectiveness of its governance arrangements in the year and any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



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Audit Committee

5 January 2012

Strategic Risk – Contaminated Land - Update



Report of Neighbourhoods Service

Joanne Waller, Head of Environmental Health and Consumer Protection

Purpose of the Report

1. The purpose of this report is to update the Audit Committee on the strategic risk of 'Failure to identify and effectively regulate Contaminated Land'.

Background

2. The industrial history of the region has left a legacy of contamination in, on and under many areas of land within County Durham. This contamination can have potentially serious effects on human health and the environment.
3. The Council is under a statutory duty to inspect their area for contaminated land by virtue of Part 2A of the Environmental Protection Act 1990, as inserted by section 57 of the Environment Act 1995. This legislation also requires local authorities to produce a contaminated land strategy (CLIS), which describes the overall approach the council will take to deal with contaminated land in its area.

Current status of the risk

4. 'Failure to identify and effectively regulate Contaminated Land' was identified as a strategic risk in 2010, and a key mitigation of this risk was the development of a contaminated land strategy, which was agreed by Cabinet on 6 October 2010. Support was also given to the commencement of the new inspection programme as from 1 April 2011, subject to the availability of suitable and sufficient resources.
5. It was estimated that the inspection, sampling and analysis costs associated with each inspection would be between £8,000 - £10,000 per inspection and based upon the predicted annual inspection programme this would require additional resource of circa £100,000 per annum to implement the proposed strategy.
6. Whilst the exact costs of implementing the contaminated land strategy are only estimated, Cabinet were advised at that time, that it was

unlikely that these additional costs would be met from the existing EHCP service budgets.

7. A bid for further investment in the EHCP service has however been submitted for 2012 and will be considered by the Council as part of the medium term financial planning framework. This would allow the inspection programme to commence focusing on our priority sites.
8. An officer responsible for the management of this risk will be attending the Committee meeting.

Recommendations and reasons

9. Audit Committee to confirm that this report provides assurance that the strategic risk of 'Failure to identify and effectively regulate Contaminated Land' is being effectively managed within the risk management framework.

Background Papers:

Contaminated Land Inspection Strategy – Report to Cabinet, 6 October 2010.

http://www.durham.gov.uk/MINAGENDASPDF/Cabinet/061010_Item_6_Contaminated_Land_1.pdf

http://www.durham.gov.uk/MINAGENDASPDF/Cabinet/061010_Item_6_Contaminated_Land_2.pdf

Contact: Gary Hutchinson Tel: 03000 261007

Appendix 1: Implications

Finance – There will be a financial cost incurred to address this risk.

Staffing - None

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 – The Council is under a statutory duty to inspect their area for contaminated land by virtue of Part 2A of the Environmental Protection Act 1990, as inserted by section 57 of the Environment Act 1995.

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of the Local Government Act 1972.

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