



Audit Committee

Date **Thursday 16 February 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 meeting held on 5 January 2012 (Pages 1 - 8)
2. Declarations of interest
3. Strategic Risk Management Progress Report for the Quarter period October to December 2011 - Report of Corporate Director Resources (Pages 9 - 22)
4. Internal Audit Progress Report Quarter Ended 31 December 2011 - Report of Manager of Internal Audit and Risk (Pages 23 - 30)
5. Risk Management Strategy and Policy - Report of Corporate Director Resources (Pages 31 - 36)
6. Update on AGS Action Plan - Financial Management Standards and Business Continuity - Update by Corporate Director Resources
7. Consolidated Action Plan 2010/11 Audit of Accounts - Report of Corporate Director Resources (Pages 37 - 52)
8. Update on Single Asset Register - Update by Corporate Director Resources
9. External Audit Progress Report - Report of External Auditor (Pages 53 - 78)
10. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration.
11. 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)

12. Internal Audit Progress Report Quarter Ended 31 December 2011 - Report of Manager of Internal Audit and Risk (Pages 79 - 106)
13. 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
8 February 2012

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

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Thursday 5 January 2012 at 10.00 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:

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

Co-opted Members:

Mr T Hoban and Ms K Larkin-Bramley

Apologies:

Apologies for absence were received from Councillor O Temple and Councillor D J Southwell.

1 Minutes

The minutes of the meetings held on 31 October and 10 November 2011 were agreed as a correct record and signed by the Chairman.

2 Declarations of Interest

Declarations of interest were provided by Members of the Committee. A generic declaration of interest would be recorded given that Members were school governors, members of various Committees of the Council, former District Councillor's and bodies such as the Probation Board, Fire Authority and Police Authority. Together with other declarations from Ms Larkin-Bramley, a declaration be provided that she is a lecturer at New College Durham.

3 Strategic Risk - Contaminated Land Update

The Committee considered a report of the Head of Environmental Health and Consumer Protection which provided an update on the strategic risks associated with contaminated land and the potential 'failure to identify and effectively regulate contaminated land' (for copy see file of Minutes).

The Committee were informed that the Council had a statutory duty to inspect and produce a strategy in respect of contaminated land.

Funding had not been made available for the current financial year which meant that the strategic risk remained high. A further bid had been submitted for 2012 and would be considered by the County Council as part of the Medium Term financial planning framework.

In response to a question from Councillor Carr regarding the position the Council would find itself in given the possible failure to undertake inspections, the Head of Environmental Health and Consumer Protection informed the Committee that because of the strategic nature of the function there would be associated risks which included a lack of confidence in the Council, risks to health as well as the potential impact it could have on future planning and development and the County Durham Plan.

Resolved

(i) That the report provided assurance that the strategic risk relating of 'failure to identify and effectively regulate contaminated land' was being effectively managed within the risk management framework, subject to planned funding becoming available and;

(ii) That the Committee place on record their strong support for the bid made through the Medium Term Financial Planning process.

4 Local Code of Corporate Governance

The Committee considered a report of the Corporate Director, Resources which sought approval of a revised Local Code of Corporate Governance following the completion of an annual review of effectiveness of the County Council's Corporate Governance arrangements (for copy see file of Minutes).

Resolved

That the revised Local Code of Corporate Governance be agreed for inclusion in the Council's Constitution.

5 Corporate Governance Timetable for 2011/12 Review

The Committee considered a report of the Corporate Director, Resources which provided a review of the Corporate Governance timetable for 2011/12.

The Risk and Governance Manager informed the Committee that a process of evidence gathering would take place between January and March 2012. This exercise, carried out annually, assists with the update of the Local Code of Corporate Governance.

Resolved

That the Corporate Governance timetable and key steps of the process to review the Council's corporate governance arrangements for 2011/12 be approved.

6 Action Plan for Corporate Governance Improvements

The Committee considered a report of the Corporate Director, Resources which provided details of progress on the implementation of the governance action plan which highlighted area of improvement arising from the annual review of the effectiveness of corporate governance arrangements. The plan also provided a list of key actions and targets for significant governance issues, the majority of which were well ahead and on target (for copy see file of Minutes).

The Committee discussed at length, the major restructure of finance and the revised target dates for the implementation of revised financial management standards.

Resolved

That the recommendations contained in the report be agreed and that an update on the implementation of the action plan be brought to the next meeting of the Committee which contained more detail in relation to items 1, 3 and 4, together with a 'predicted date' for completed plans. An update on the remaining issues would be provided to the Committee in March.

7 Consolidated Action Plan 2010/11 Audit of Accounts

The Committee noted a report of the Corporate Director, Resources which detailed an action plan which consolidated all agreed recommendations for improving control weaknesses incorporated in the External Auditors 2010/11 interim and final governance reports (for copy see file of Minutes).

The Committee were informed that the action plan aimed to address concerns around the financial management framework and would be monitored and updated by management. All managers named in the action plan would be accountable to ensure key changes could be delivered.

The Committee expressed concern that some elements of the action plan appeared to be out of date and that some events appeared to have passed. Inconsistencies in the progress column also made it unclear as to whether tasks had been completed. It was agreed that the future action plans to the Committee should incorporate a RAG rating which would improve clarity. Updates on progress should be a standard item at each committee meeting. The monitoring of this action plan addresses the assurance required in relation item 1 of the previous report relating to the action plan agreed to address corporate governance issues identified in the 2010/11 Annual Governance Statement.

In response to a question from Councillor Carr relating to the financial systems used by the former District Council's, the External Auditor reassured the Committee that no transactions were now being processed on the systems but that they still needed access to them to conduct their testing as part of the final accounts audit process for 2011/12.

8 Bank Account Rationalisation

The Committee noted a report of the Corporate Director, Resources which provided the latest position in relation to bank accounts operated by the County Council and the rationalisation strategy (for copy see file of Minutes).

9 Annual Audit Letter

The Committee considered a report of the External Auditor which presented the Annual Audit Letter for 2010/11 (for copy see file of Minutes).

The External Auditor informed the Committee that an unqualified opinion had been provided on 31 October 2011 which stated that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources which reflected an improvement in the Council's arrangements since the last audit when a qualified value for money conclusion was issued because of weaknesses in some areas. The Committee were informed that reasonable progress continued to be made and the auditors were working very closely with the Corporate Director, Resources and his staff. Future risks and issues such as the economic downturn, changes to housing revenue account funding, single status and equal pay and treasury management would prove challenging.

It was suggested by the External Auditor that the Committee may be interested in receiving a report on changes to HRA funding in relation to implications for 2011/12 accounts, referring to page 6 of the Annual Audit Letter.

Resolved

That a report be brought to Committee on changes to HRA funding.

10 Single Asset Register

The Committee were provided with a verbal update regarding work around the single asset register, a key piece of work which was one of the main factors in the delay of approving last years accounts by the end of September 2011.

The Committee were informed that this year's exercise, phase 1, relating to land and buildings, was slightly behind schedule and further reconciliation work being undertaken. The deadline for completion of the exercise had been revised to 31 January 2012, however, the Committee were assured that this would not cause any problems and they would be notified should any key issues arise.

A risk assessment had been carried out and it was noted that the exercise had been fully resourced, with colleagues in Finance and Assets working extremely well together.

11 Exclusion of the Public

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

12 Minutes

The minutes of the meeting held on 10 November 2011 were agreed as a correct record and signed by the Chairman.

13 Bank Reconciliation Internal Audit Report

The Committee noted a report of the Manager of Internal Audit and Risk which gave a summary of findings following a review of the control environment relating to bank reconciliation (for copy see file of Minutes).

The Committee were informed that some recommendations had now been completed, whilst others remained pending. Areas of concern, set-out in the report, were being addressed and management progress on the implementation of agreed actions would be monitored in accordance with standard audit follow up processes.

The Manager of Internal Audit and Risk informed the Committee that this area of work would be revisited in six months time. Any work carried out by Internal Audit would be reported back to the Committee on an ongoing basis.

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Action Plan- Work of Audit Committee- Part A- 16 February 2012

Ref No.	Date of Meeting	Item No.	Title of Report	Action Required	By Whom	Report to Committee (date)/ implemented
1.	6.1.11 28.7.11 5.1.12	8	Bank Account Rationalisation/ Reconciliation	Six monthly update reports be provided	Corporate Director, Resources	30.7.12
2.	29.9.11 10.11.11 5.1.12	4	Single Asset Register	Update on achievement of revised phase 1 target 31/1/12	Gerald Darby/ Jeff Garfoot	16.2.12 Item 8 on Agenda
3.	29.9.11	7	Duplicate Payments	Up date report once next stage of review of potential duplicates complete	Bev White	TBA
4.	29.9.11 31.10.11	10	Icelandic banks	Update - as and when necessary	Corporate Director, Resources	TBA
5.	5.1.12	6	Corporate Governance Improvements	Update on the implementation plan be brought to the next meeting - relating to items 1,3 and 4 together with a predicted date for completed plans. Remaining issues provided to March meeting.	Risk and Governance Manager	16.2.12 22.3.12 Item 6 on Agenda
6.	5.1.12	7	Consolidated Action Plan – Final Accounts	Update to be brought as a standard item to every meeting – report format to be amended to clearly show progress and status of each recommendation – using RAG rating	Jeff Garfoot	16.2.12 Item 7 on Agenda
7.	5.1.12	9	Annual Audit Letter	Report to be brought to Committee outlining changes and implications of changes to HRA Funding	Jeff Garfoot	TBA

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Audit Committee

16th February 2012

Strategic Risk Management Progress Report for the Quarter period October to December 2011



Report of Corporate Management Team

Don McLure, Corporate Director Resources

Purpose of the Report

1. The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period October to December 2011.

Background

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

Current status of the risks to the Council

4. As at 31st December 2011, there were 60 strategic risks, an increase of one from the previous period end at 30 September 2011. In summary, the key risks to the Council are:
 - Any slippage in delivery of the MTFP would require further savings to be made which could result in further service reductions/ job losses;
 - Failure to identify and effectively regulate Contaminated Land – there is a bid for a permanent £100k revenue budget from 2012/13 in the Medium Term Financial Plan that will be considered by Cabinet on 8 February 2012 to mitigate this risk;
 - The Council may be liable to legal challenge if a single status agreement is not implemented in full;
 - The loss of Area Based Grant funding results in the County Durham Partnership (CDP) failing to narrow inequality and deprivation;

- Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA);
- If the recommendations in the Annual Governance Report (AGR) are not addressed this will result in continued problematic closure of accounts;
- Potential restitution of land charge search fees back to 2005;
- Insufficient number of adequately skilled staff to maintain the expected level of services;
- Industrial Action arising from the period of significant change will adversely impact service delivery;
- Increased demand for Housing Solution Service beyond current staffing capacity due to changes in Government Welfare legislation;
- Delays in processing both new and changes to benefit claims.

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

5. Appendix 4 of this report lists all of the Council's strategic risks as at 31 December 2011.
6. Management has identified and assessed these risks using a structured and systematic approach, and are taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.
7. The following, ongoing projects have been supported in various ways, including risk analysis through workshops and meetings, giving critical feedback on risk management documentation and procedures, attending project / board meetings and helping to maintain the risk register through challenge and identifying controls.
 - Revenues and Benefit Computer System;
 - Durham Crematorium Cremator Replacement;
 - Greenland Primary School (New Build);
 - Brandon Primary School (New Build);
 - Integrated Service Delivery Project;
 - Digital Durham;
 - Academies;
 - Catchgate Childrens Home (New Build).

Recommendations and reasons

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

Contact: David Marshall Tel: 0191 3834311

Appendix 1: Implications

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

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

Risk – Not a key decision

Equality and Diversity/ Public Sector Equality Duty - None

Accommodation - None

Crime and disorder - None

Human rights - None

Consultation - None

Procurement – None.

Disability issues – None.

Legal Implications – None.

Appendix 2: Background

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

Together they jointly take responsibility for embedding risk management throughout the Council, and are supported by the Manager of Internal Audit and Risk, the lead officer responsible for risk management, as well as the Risk and Governance Manager. Each Service Grouping also has a designated Service Risk Manager to lead on risk management at a Service Grouping level, and act as a first point of contact for staff who require any advice or guidance on risk management.

Collectively, the Risk Champions, Service Risk Managers and the Risk and Governance Manager meet together as a Corporate Risk Management Group. This group monitor the progress of risk management across the Council, advise on strategic risk issues, identify and monitor corporate cross-cutting risks, and agree arrangements for reporting and awareness training.

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

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

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

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

Appendix 3: Strategic Risks

Risks are assessed at two levels:

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

As at 31 December 2011, there were 60 strategic risks, an increase of one from the previous period end at 30 September 2011.

The following matrix summarises the total number of strategic risks based on their Net risk assessment as at 31 December 2011. Where there have been changes to the number of risks from the last quarter period end, the risk total as at 30 September 2011 is highlighted in brackets.

Overall number of Strategic Risks as at 31 December 2011

Impact					
Critical	1 (1)	2 (3)	2 (2)		
Major		3 (5)	7 (8)	5 (3)	
Moderate		6 (6)	17 (18)	7 (6)	3 (0)
Minor		0 (1)	4 (5)	2 (1)	1 (0)
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

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

1 Beneficial outcomes

The winding-up of a major residential care company was a key risk to the Council. Effective management of the risk ensured that all homes were either closed or transferred to new owners under a transition plan, which maintained continued residential care for all residents affected.

2 Significant New and Increased Risks

- The risk of *“Failure to adequately support young people into employment or training”* has been reworded to *“Employment Services for young people (18-24 year olds) are un-coordinated between service groups”*. This is to reflect the fact that, since the loss of Area Based Grant, the Council is no longer the lead agency for this action. The net likelihood has also **increased** to probable following the significant increase in youth unemployment for the area. **(RED)**
- The likelihood of the risk *“Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)”* has **increased** to probable following the publication of MMI statement of accounts. **(RES)**
- The likelihood of the risk *“Industrial Action arising from the period of significant change will adversely impact service delivery”* has **increased** to highly probable in light of recent events. **(RES)**
- The likelihood of the risk *“Increased cost to the authority from revision to ordinary residence guidance”* has **increased** to highly probable. **(AWH)**

Six new risks have been identified this quarter:

- *“Increased demand for the Housing Solution Service beyond current staffing capacity as a result of changes in Government Welfare Legislation”*. **(RED)**
- *“Adverse impact on Durham City Homes revenue, capacity and resources and tenants due to changes in Government legislation”*. **(RED)**
- *“Building Services could lose business if a significant number of Local Authority schools opt to become academies”*. **(NS)**
- *“The Twin Bins project is not delivered to programme.”* **(NS)**
- *“Providing an improved service under unitisation of Finance Services could be compromised during the period of significant change.”* **(RES)**
- *“If the fundamental recommendations in the Annual Governance Report (AGR) are not addressed this will result in continued problematic closure of accounts.”* **(RES)**

3 Removed Risks

Five risks have been **removed** from the register in this quarter. This is due in part to greater challenge of the risk within the Services, but also through effective management of the risks by the Services as all mitigating actions have been completed to reduce them to a level where management now consider existing controls to be adequate.

4 Key Risks

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

Impact					
Critical			<i>Risks 1 and 2</i>		
Major				<i>Risks 3, 4, 5, 6 & 7</i>	
Moderate				<i>Risk 11</i>	<i>Risk 8, 9, & 10</i>
Minor					
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	RES	Altogether Better Council	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses.	Critical	Possible	The Delivery plan implementation will be monitored by CMT and Cabinet.		This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage.
2	NS	Altogether Greener	Failure to identify and effectively regulate Contaminated Land.	Critical	Possible	Out of the 140 sites identified, the top 10 sites will be assessed during 2011/ 12. There is a bid for a permanent £100k revenue budget from 2012/13 in the Medium Term Financial Plan that will be considered by Cabinet on 8 February 2012 to mitigate this risk		Once the first phase of inspections (i.e. the top 10 sites) has been completed during 2011/12, this will provide a clearer position on the resource and funding needed to inspect the remaining 130 sites.
3	RES	Altogether Better Council	The Council may be liable to legal challenge if a single status agreement is not implemented in full.	Major	Probable	Letters will be sent to staff in October 2011 advising how the proposals would affect them. Council approval will be obtained prior to commencing formal negotiations, involving Trade Unions.		The project to bring this risk to an acceptable level will be completed by April 2012.
4	RED	Altogether Wealthier	The loss of Area Based Grant funding results in the CDP failing to narrow inequality and deprivation gaps.	Major	Probable	Development and implementation of localised performance measurement of outcomes.		An action plan for CDP is in place. This will remain a significant risk for at least the next 4 years.

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
5	RES	Altogether Better Council	Insufficient number of adequately skilled staff to maintain the expected level of services.	Major	Probable	Various protocols and guidance for management and staff. Dedicated reorganisation support teams established to effectively support the process for delivering service reviews.		Plans will be in place outlining the policies that will be required to ensure succession planning. This is a long term goal, and will be considered after the unitisation of Human Resources has been completed.
6	RES	Altogether Better Council	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA).	Major	Probable	The cost of any clawback will be met from the Insurance Reserve	Likelihood increased	Dependent on the Supreme Court ruling due early 2012.
7	RES	Altogether Better Council	If the fundamental recommendations in the Annual Governance Report (AGR) are not addressed this will result in continued problematic closure of accounts.	Major	Probable	Action plan to address the issues is being implemented.	New risk	This will be addressed in line with the target dates of the action plan.
8	RES	Altogether Better Council	Potential restitution of land charge search fees back to 2005.	Moderate	Highly Probable	The Council has signed up to a class action defence by LGA appointed solicitors		Dependent upon the outcome of the negotiations/litigation currently being defended by lawyers instructed in group litigation

Ref Page 18	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
9	RES	Altogether Better Council	Industrial Action arising from the period of significant change will adversely impact service delivery.	Moderate	Highly Probable	Arrangements in place to ensure continuity of essential services during industrial action.	Likelihood increased	
10	RED	Altogether Better Council	Increased demand for Housing Solution Service beyond current staffing capacity due to changes in Government Welfare legislation.	Moderate	Highly Probable	Communicate to residents and Housing providers the impact the Reforms will have on them.	New risk	
11	RES	Altogether Better Council	Delays in processing both new, and changes to, benefit claims.	Moderate	Probable	Additional resource is being invested to utilise external assistance to carry out detailed packages of work. This will reduce the backlog during periods when the ICT systems are unavailable.		This will remain a high risk until the IT system is fully implemented, which will not be until quarter 4 of 2011/12.

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

Corporate Theme – Altogether Better Council

Ref	Service	Risk
1	RES	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses.
2	RES	The Council may be liable to legal challenge if a single status agreement is not implemented in full.
3	RES	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA).
4	RES	Insufficient number of adequately skilled staff to maintain the expected level of services.
5	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO.
6	RES	If the fundamental recommendations in the Annual Governance Report (AGR) are not addressed this will result in continued problematic closure of accounts.
7	RED	Increased demand for the Housing Solution Service beyond current staffing capacity as a result of changes in Government Welfare Legislation.
8	RED	Adverse impact on Durham City Homes revenue, capacity and resources and tenants due to changes in Government legislation.
9	RES	Potential restitution of search fees going back to 2005.
10	RES	Industrial Action arising from the period of significant change will adversely impact service delivery.
11	RES	Collection Fund and Debtors collection rates do not reach target set for 2011/12.
12	RES	Inability to address the delays in processing both new and changes to benefit claims.
13	NS	Failure to effectively support events organised by the Council or taking place on Council land.
14	RES	Major Interruption to IT Service Delivery.
15	RES	If fuel and energy costs continue to rise it will have major financial implications for the Council and wider impact on the community.
16	NS	Building Services could lose business if a significant number of Local Authority schools opt to become academies.
17	NS	Period of significant disruption to support Service Delivery during the unitisation of the HR and Finance function.
18	RES	Inconsistent approach to managing funding bids by Services could expose the Council to financial losses and reputational damage.
19	RES	Insufficient funds to cover the Council's self insured period for Employers Liability claims
20	RES	Providing an improved service under unitisation of Finance Services could be compromised during the period of significant change
21	ACE	The data used to produce performance information is of insufficient quality to ensure reliability for decision making purposes.
22	NS	The Twin Bins project is not delivered to programme.
23	NS	The performance of building services does not improve to make them more competitive.
24	NS	Limited knowledge of DEBS live system by some budget holders could adversely impact on service delivery and performance in NS.
25	RES	The New Revenues & Benefits & attendant Cash Management and Document flow systems will not be successfully implemented.
26	RES	Due to the amount of change occurring across the Council, the potential for fraud and error is increasing.
27	NS	Consistent health and safety policies, practices and procedures across the Neighbourhoods Service are not embedded across NS.
28	ACE	Failure to consider equality implications of decisions on communities leading to discrimination/not promoting equality of opportunities.
29	ACE	Failure to consult with communities on major policy changes leading to legal challenge and delay in the implementation of change
30	CYPS	Unpredictable, volatile financial demands (e.g. Looked After Children), leading to MTFP targets and cash limits being breached
31	NS	Harmonised policies and action with regards to licensing and enforcement are not delivered across all areas.

Ref	Service	Risk
32	ACE	Uncertainty/legal disputes over the tenure of Community Buildings, resulting in failure to achieve the aims of the Community Buildings Strategy.
33	AWH	Work Related Stress - STAFF
34	ACE	Failure to co-ordinate infrastructure support to the Voluntary & Community Sector, leading to a failure to channel resources to those in greatest need.

Corporate Theme – Altogether Wealthier

Ref	Service	Risk
35	RED	Reduced future allocations of deprivation based grants to county resulting from changes to Council's new deprivation status.
36	RED	The loss of Area Based Grant funding results in the CDP failing to narrow inequality and deprivation gaps.
37	RED	Private housing stock condition worsens with adverse implications for local economy, health & neighbourhood sustainability.
38	RED	Diminishing Capital Resources, continuing depressed land values and slow growth in the private sector will impact on the ability to deliver major projects and Town initiatives within proposed timescales.
39	RED	East Durham Homes additional Government funding is not forthcoming due to Government cut backs

Corporate Theme – Altogether Better for Children and Young People

Ref	Service	Risk
40	CYPS	Failure to meet escalating costs of external and high-cost placements effectively.
41	CYPS	Children/families experience lack of interface between Adult/Children's Services as a result of failure to work closely together.
42	CYPS	Integrated Service Delivery benefits will not be realised if contractors fail to deliver the ICT infrastructure on time.
43	CYPS	Failure to deliver the restructured BSF programme on time and with minimal service disruption.
44	RED	Employment Services for young people (18-24 year olds) are un-coordinated between service groups.

Corporate Theme – Altogether Healthier

Ref	Service	Risk
45	AWH	Inability to manage markets for the delivery of Adult Social Care Services.
46	AWH	Potential financial, operational, and reputational risks arising from proposed NHS Reforms.
47	AWH	Increased cost to the authority from revision to "Ordinary residence" guidance.
48	AWH	Management and administration of service users' medications.
49	AWH	Inability to transform social care infrastructure and support systems in line with personalisation/transformation requirements

Corporate Theme – Altogether Safer

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

Corporate Theme – Altogether Greener

Ref	Service	Risk
59	NS	Failure to identify and effectively regulate Contaminated Land.
60	NS	Failure to effectively develop the proposed Waste Management Solution.

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Audit Committee

16th February 2012

**Internal Audit Progress Report
Quarter Ended 31st December 2011**



Report of Manager of Internal Audit & Risk

PURPOSE OF THE REPORT

- 1 The purpose of this report is to inform Members of work carried out by Internal Audit during the period April to December 2011.
- 2 The report aims to:
 - Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit
 - Advise you of significant issues where controls need to improve to effectively manage risks
 - Advise you of any other types of audit work carried out such as grant certification or consultancy reviews where an assurance on the control environment may not be applicable
 - Advise you of amendments to planned work
 - Advise you of unplanned work carried out or to be carried out
 - Track progress on the response to audit reports and the implementation of agreed audit recommendations
 - Advise you of any changes to the audit process
 - Provide an update on our performance indicators comparing actual performance against planned where measurable at this stage

BACKGROUND

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

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

PROGRESS AGAINST PLANNED WORK

- 12 A summary of progress made in delivering the approved plan is given below:
 - 2 of the 11 counter fraud reviews are complete and a further 7 are in progress.
 - 51 out of 105 planned assurances are complete. A further 32 are in progress.
 - 8 out of 24 planned advice and consultancy type reviews are complete and a further 10 are in progress.
 - .All planned grant certification work is complete
- 13 A number of unplanned reviews have also been carried out this quarter to address new of emerging risks.

RESPONSE TO AGREED AUDIT RECOMMENDATIONS

- 14 To provide independent assurance that adequate progress is made in the implementation of agreed recommendations at the appropriate service operational level, all high and medium recommendations contained within

actions plans within individual audit reports are followed up by internal audit. In addition, listings of all recommendations outstanding at the end of each month are produced and issued to a nominated representative to assist management monitoring processes. Good progress continues to be made by managers in the implementation of recommendations since these revised procedures were introduced.

PERFORMANCE INDICATORS

- 15 A summary of our actual performance compared to agreed target performance indicators is given in Appendix 3.
- 16 The % of planned assurance reviews complete is 49% compared with an annual target of 90%. However, a further 32 reviews were in progress at the end of the quarter. These are at various stages of completion. Assuming an average completion rate of 50%, actual performance is increased to 64%.
- 17 Savings from current temporary vacancies are being utilised to bring in additional resource to address the slippage during the current quarter.

RECOMMENDATIONS

- 18 Members are asked to note the progress made on delivering the internal audit plan for 2011/12 to gain assurance on the adequacy and effectiveness of the Council's internal control environment.

Contact: Avril Wallage Tel: 0191 383 3537

Appendix 1: Implications

Finance

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

Staffing

None

Risk

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

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

None

Findings

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

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

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

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

Priority of our recommendations

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

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

Overall Assurance Opinion

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

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

Performance Indicators for 2011/12

Objective: To provide maximum assurance to inform the annual audit opinion			
Efficiency	Measure of Assessment	Target & (Frequency of Measurement)	Q3 Actual
KPI			
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% (Quarterly)	49% of annual target. If 50% WIP considered 64%
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Quarterly)	93% 16 days on average
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response Average time taken is also reported for information	95% (Quarterly)	94% 4 days on average
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100%
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	93%
Quality			
Quality	Measure of Assessment	Target & (Frequency of Measurement)	Q3 Actual
KPI			
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	96%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (4 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	92%
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	Overall average score 4.47 52%
Cost			
Cost	Measure of Assessment	Target & (Frequency of Measurement)	Q3 Actual
KPI			
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	2010/11 – No 2011/12 – Yes

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Audit Committee

16 February 2012

Risk Management Strategy and Policy



Report of Don McLure, Corporate Director Resources

Purpose of the Report

1. This report seeks approval of the draft Risk Management Strategy and Policy attached in Appendix 2.

Background

2. In line with the CIPFA/SOLACE guidance 'A keystone for Community Governance', the purpose of this policy and strategy is to determine and successfully deliver the risk management objectives that will deliver the five key principles set out in that guidance. It defines a systematic approach to how business risk will be managed across the Council.
3. The policy and strategy applies to all Council employees and Service functions. It does not replace those areas of the Council work where there is a need for specialised risk assessment for specific statutory requirements or where a policy is in place that requires a specialised risk assessment to be completed e.g. health and safety. Specific guidance should be referred to separately where there is such a need. A risk management manual is in place to support this policy and strategy and includes more detailed examples and guidance in order to address risk management issues.
4. The Corporate Risk Management Group (CRMG) oversee the implementation of this policy and strategy, and in line with best practice they have undertaken an annual review of the Council's business risk management arrangements. The revised policy and strategy were agreed at the CRMG meeting on 4 January 2012, and are attached in Appendix 2, with deletions from the previous policy and strategy marked with a strikethrough, and other changes underlined.

Recommendations and reasons

5. Audit Committee to approve the Risk Management Strategy and Policy.

Contact: David Marshall Tel: 0191 3834311

Appendix 1: Implications

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

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

Risk – Not a key decision

Equality and Diversity/ Public Sector Equality Duty - None

Accommodation - None

Crime and disorder - None

Human rights - None

Consultation - None

Procurement – None.

Disability issues – None.

Legal Implications – None.

Appendix 2: Risk Management Policy and Strategy

Version Date	Version Ref.	Revision History	Reviser	Approved By	Review Date
16 February 2012	3.0	Revision of the previous County Council risk management strategy and policy to meet the demands of the new Authority	Dave Marshall	Audit Committee	Jan 2013

Risk Management Policy Statement

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

The County Council needs to operate within the statutory framework and it recognizes that its ability to achieve its objectives and successfully execute its strategies will be enhanced by ensuring that risk management is an integral part of its business philosophy, service planning and delivery arrangements. It is essential that the Council's approach is holistic, recognizing the concept of risk in its widest sense, embracing broader strategic, political, legal, social, environmental, technical and economic risks.

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

In line with the CIPFA/SOLACE guidance 'A keystone for Community Governance', the Council's key purpose in relation to risk management is to establish and maintain a systematic strategy, framework and processes for managing risk. This will be delivered by following the principles of:

- Accountability.
- Effectiveness.
- Integrity.
- Openness and Inclusivity.
- Relevance.

Risk Management Strategy

Aim

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

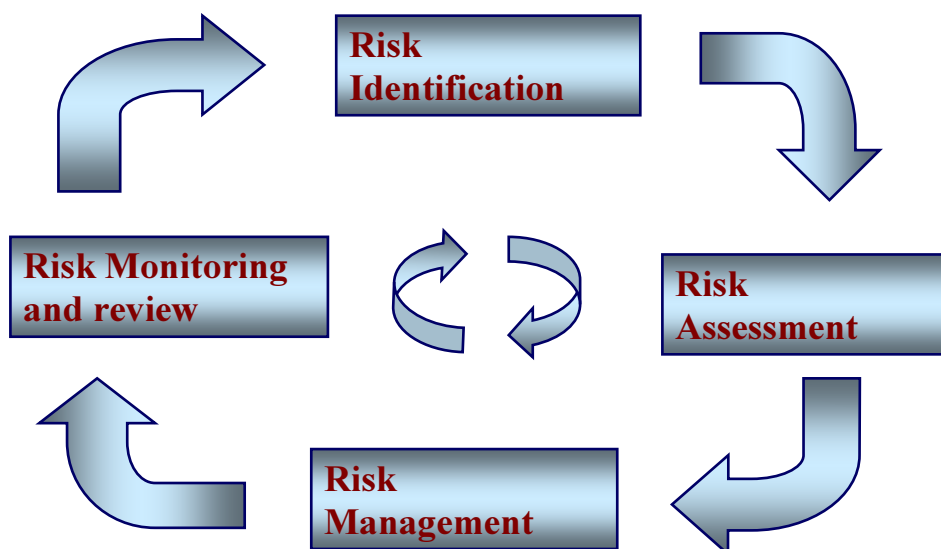
Strategic Objectives

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

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

To deliver these objectives in 2010/11

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



- Processes, procedures, roles and responsibilities to support this strategy will be documented in the Risk Management Manual.

- Risk management will be embedded in the Council's corporate business processes, including:
 - strategic and service planning;
 - financial planning ;
 - policy making and review;
 - performance management;
 - project management;
 - decision making;
 - procurement;
 - bids for external funding;
 - managing partnerships.
- Named owners will be assigned to each risk, and will be accountable for ensuring that adequate mitigation of that risk is in place
- A Member Risk Champion will act as risk management sponsor among elected Members.
- An Officer Risk Champion will act as risk management sponsor among Council officers.
- The Corporate Risk Management Group will oversee the direction and progress of business risk management across the Council.
- Corporate and Service strategic risk registers will be compiled with each risk linked to the relevant strategic objective and analysed in terms of likelihood and impact, with a prioritised action plan to direct its risk management activity.
- Risks identified during our strategic and service planning will be documented in the Service Improvement Plans and the Council Plan. Where these risks are assessed as significant enough to be managed by Corporate Management Team or Service Management Teams, they will be recorded in the Corporate and Service strategic risk registers.
- ~~Corporate and Service~~ Strategic risks will be recorded on Magique, the Council's Risk Management Software.
- Corporate Management Team and Cabinet will review the ~~corporate~~ strategic risks of the Council at least quarterly annually.
- Service Management Teams will review their service risks on a quarterly basis.
- Based on the appetite for risk, management will either tolerate, treat or transfer the risk, or where appropriate, terminate the activity which causes the risk to occur.
- Arrangements will be in place for identifying and managing new and emerging risks.
- Reports supporting a Key Decision will disclose details of the significant risks associated with that Decision.
- The Council will work closely with lead partners to mitigate joint risks.
- For significant partnerships, Services will identify, assess and manage the risk to the Council, using guidance set out in the Partnership Governance Framework. Key areas of concern will be reported to Service Management Teams and where applicable to the Corporate Management Team.
- Reports outlining the status of ~~corporate and service~~ strategic risks will be produced quarterly to the Cabinet, Corporate Management Team and the Audit Committee.

- The Audit Committee will take appropriate action to ensure that corporate and service strategic risks are being actively managed.
- Internal Audit will ensure that the Audit Plan includes a review of control systems for operational and strategic risk.
- The Council will measure the performance of risk management against measurable outcomes, including finance, service performance, reputation, good governance and lessons learnt, and will benchmark risk management performance against other organisations.
- Risk management training will be undertaken to ensure that all staff and Members:
 - involved in the council's risk management arrangements receive relevant training and guidance;
 - whether new or promoted, receive risk management awareness training in their induction;
 - effectively undertake their roles and responsibilities for risk management.
- Risk management will contribute to the overall corporate governance framework of the Council, including the Annual Governance Statement and the Code of Corporate Governance.
- Resources will be allocated to embed risk management across the Authority.
- The Risk Management Policy and Strategy will be reviewed at least annually.

Audit Committee

16 February 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 updated 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 is being used by management for monitoring purposes and is reported to the Committee as part of the regular reporting agreed at its meeting on 5 January 2012.
- 3 The report is presented in accordance with paragraph 4.1.26 of the Committee's Operational Terms of Reference, "to monitor progress made by management in response to both internal and external audit findings and recommendations".

The Action Plan

- 4 An updated action plan incorporating progress made to date is included at Appendix 2. The summary of the action plan gives a red, amber or green rating to both the completion dates and the progress towards achieving the recommendation:
 - **Date achieved:**
 - RED** – date in original action plan not achieved
 - AMBER** – date not yet reached
 - GREEN** – date met for completion of the task
 - **Progress**
 - RED** – completion of action not likely to be achieved and likely to impact on the year end closing of accounts
 - AMBER** – progressing towards completion and unlikely to impact on year end closing of accounts
 - GREEN** – recommendation completed.

- 5 The Action plan is divided into two sections, the summary and the detail for each category of recommendation. The recommendations may be in more than one section of the detailed report.

Recommendation and reasons

- 6 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: Hilary Appleton Tel: 0191 383 3544

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

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INTERIM AND FINAL GOVERNANCE REPORT RECOMMENDATIONS

System Reconciliations	Date achieved - RAG	Progress - RAG	Implications
Interim Recommendation			
Recommendation 6: Migration of former district Information Systems	AMBER	GREEN	
Recommendation 10: General Ledger	RED	AMBER	No implication on year end process
Recommendation 11: General Ledger	GREEN	AMBER	No implication on year end process
Recommendation 12: General Ledger	GREEN	GREEN	
Recommendation 37: Material Information System Reconciliations	RED	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
Recommendation 38: Material Information System Reconciliations	RED	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
Recommendation 39: Material Information System Reconciliations	RED	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
Recommendation 40: Material Information System Reconciliations	GREEN	GREEN	
Recommendation 41: Material Information System Reconciliations	RED	AMBER	No implication on year end process
Final Recommendation			
Recommendation 1	RED	AMBER	Impact if single asset register not completed. Actions now in place to ensure completion is achieved.
Recommendation 6	GREEN	GREEN	

Bank Reconciliations	Date achieved - RAG	Progress - RAG	Implications
Interim Recommendation			
Recommendation 10: General Ledger	RED	AMBER	No implication on year end process
Recommendation 11: General Ledger	GREEN	AMBER	No implication on year end process
Recommendation 28: Housing Benefits	GREEN	GREEN	
Recommendation 29: Bank Reconciliations	GREEN	GREEN	
Recommendation 30: Bank Reconciliations	GREEN	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
Recommendation 31: Bank Reconciliations	RED	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
Recommendation 32: Bank Reconciliations	GREEN	GREEN	
Recommendation 33: Bank Reconciliations	GREEN	GREEN	

Balance Sheet	Date achieved - RAG	Progress - RAG	Implications
Interim Recommendation			
Recommendation 6: Migration of former district Information Systems	AMBER	GREEN	
Recommendation 10: General Ledger	RED	AMBER	No implication on year end process
Recommendation 11: General Ledger	GREEN	AMBER	No implication on year end process
Recommendation 38: Material Information System Reconciliations	RED	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
Recommendation 39: Material Information System Reconciliations	RED	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
Recommendation 40: Material Information System Reconciliations	GREEN	GREEN	
Recommendation 41: Material Information System Reconciliations	RED	AMBER	No implication on year end process

Final Recommendation			
Recommendation 1	RED	AMBER	Impact if single asset register not completed. Actions now in place to ensure completion is achieved.
Recommendation 6	GREEN	GREEN	

Policies	Date achieved - RAG	Progress - RAG	Implications
Interim Recommendation			
Recommendation 1: Control Environment	GREEN	GREEN	
Recommendation 2: Control Environment	RED	AMBER	No implication on year end process
Recommendation 3: Control Environment	RED	AMBER	No implication on year end process
Recommendation 4: Control Environment	GREEN	AMBER	No implication on year end process
Recommendation 5: Control Environment	GREEN	GREEN	
Recommendation 6: Migration of former district Information Systems	AMBER	GREEN	
Recommendation 7: General Ledger	RED	AMBER	No implication on year end process
Recommendation 8: General Ledger	GREEN	GREEN	
Recommendation 9: General Ledger	GREEN	GREEN	
Recommendation 13: General Ledger	RED	AMBER	No implication on year end process
Recommendation 14: Payroll	RED	AMBER	No implication on year end process - but affects good governance
Recommendation 15: Accounts Payable	GREEN	GREEN	
Recommendation 16: Accounts Payable	AMBER	GREEN	
Recommendation 17: School Information Management System (SIMS)	GREEN	GREEN	
Recommendation 18: Oracle Projects	GREEN	GREEN	
Recommendation 19: Oracle Projects	GREEN	GREEN	
Recommendation 20: Oracle Projects	GREEN	GREEN	
Recommendation 21: Business Rates (NDR)	AMBER	AMBER	Impact if recommendation not implemented. Actions now in place to fulfil recommendation.
Recommendation 22: Business Rates (NDR)	AMBER	AMBER	Impact if recommendation not implemented. Actions now in place to fulfil recommendation.
Recommendation 23: Council Tax	AMBER	AMBER	Impact if recommendation not implemented. Actions now in place to fulfil recommendation.
Recommendation 24: Council Tax	AMBER	AMBER	Impact if recommendation not implemented. Actions now in place to fulfil recommendation.
Recommendation 25: Housing Benefits	GREEN	GREEN	
Recommendation 26: Housing Benefits	GREEN	GREEN	
Recommendation 27: Housing Benefits	AMBER	AMBER	Impact if recommendation not implemented. Actions now in place to fulfil recommendation.
Recommendation 28: Housing Benefits	GREEN	GREEN	
Recommendation 32: Bank Reconciliations	GREEN	GREEN	
Recommendation 33: Bank Reconciliations	GREEN	GREEN	
Recommendation 34: Housing Rents	RED	GREEN	
Recommendation 35: Material Information System Reconciliations	RED	AMBER	No implication on year end process - but affects good governance
Recommendation 36: Material Information System Reconciliations	RED	AMBER	No implication on year end process - but affects good governance
Recommendation 37: Material Information System Reconciliations	RED	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
Recommendation 38: Material Information System Reconciliations	RED	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
Recommendation 42: Early Substantive Testing	GREEN	GREEN	
Recommendation 43: IFRS Restatement	GREEN	GREEN	

Final Recommendation			
Recommendation 1	RED	AMBER	Impact if single asset register not completed. Actions now in place to ensure completion is achieved.
Recommendation 2	RED	AMBER	No implication on year end process if recommendation implemented.
Recommendation 3	AMBER	AMBER	No implication on year end process if recommendation implemented.
Recommendation 4	RED	AMBER	No implication on year end process if recommendation implemented.
Recommendation 5	AMBER	AMBER	No implication on year end process if recommendation implemented.
Recommendation 6	GREEN	GREEN	
Recommendation 7	AMBER	AMBER	No implication on year end process if recommendation implemented.

INTERIM AND FINAL GOVERNANCE REPORT RECOMMENDATIONS

System Reconciliations

Interim Recommendation	Recommendation	Responsibility	To be completed by	Priority	Date for completion	Comments	Progress - RAG	Implications
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.	Financial Systems Manager/ICT	High	High	31-Mar-12	<p>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 16th 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.</p> <p>•Housing Benefit cheque payments (Chester-le-Street and City of Durham). •Council Tax/NNDR 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 debits 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.</p>	GREEN	
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.	Hilary Appleton	Strategic Finance	Medium	31-Dec-11	<p>Agreed. This is a process that will be documented by Ledger Management and Systems Support teams. The journal entries needed to correct the general ledger following the conclusion of the External Audit have been input. The documented process will need to include the arrangements to process the agreed auditor adjustments. Journal completed 6 February 2012</p>	AMBER	No implication on year end process
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.	Hilary Appleton	Strategic Finance - Ledger Management	High	Completed - 30-Apr-11	<p>Agreed. Being undertaken weekly, daily during the final accounts period. In addition, 11 trial balances are provided by Systems Support as part of the Balance Sheet Control exercise. Need to ensure that the process continues throughout the year.</p>	AMBER	No implication on year end process
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.	Hilary Appleton	Strategic Finance - Ledger Management	Medium	Completed - 30-Jun-11	<p>Completed - Completed to 31 March 2011. ResourceLink dataset being reconciled to Oracle at the point of processing.</p>	GREEN	
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	<p>Agreed. The importance of this is recognised and formal processes have been established to ensure that Material System reconciliations are produced regularly. For the 11 systems which do not relate to Revenues/Benefits/Housing Rents the responsible officers and reviewers of the reconciliations have been agreed. It has also been established that the reconciliations are already taking place and the process only needs formalising and being centrally recorded. For the 6 systems which relate to Revenues/Benefits/Housing Rents a draft list of responsible officers and reviewers has been prepared which needs approving by senior officers. A Project Team has been formed and the project to bring existing reconciliations up to date commences on 7 February 2012. In addition to the above for all the Material System reconciliations the agreed processes need embedding into our operations</p>	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
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	<p>Agreed. The importance of this is recognised and formal processes have been established for control accounts and balance sheet items. As part of the process agreed, completion of the reconciliations will be reviewed and followed up on an on going basis</p>	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
Recommendation 39: Material Information System Reconciliations	The Council should provide supporting documentation for all reconciliation balances.	Hilary Appleton	Various - see list of reconciliations	High	31-Dec-11	<p>The process agreed included the provision of supporting evidence for all reconciliation balances.</p>	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.

Interim Recommendation	Recommendation	Responsibility	To be completed by	Priority	Date for completion	Comments	Progress - RAG	Implications
Recommendation 40: Material Information System Reconciliations	The Council should ensure that both the accounts payable and accounts receivable control account balances for the Derwentside site are split in the Oracle general ledger.	Hilary Appleton	Various - see list of reconciliations	High	Complete	This has already been addressed for 2011/12.	GREEN	
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. Audit adjustment journals input 6 February 2012.	AMBER	No implication on year end process
Final Recommendation								
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. 5 Districts completed. Verbal update on progress of remaining 2 Districts to Audit Committee.	AMBER	Impact if single asset register not completed. Actions now in place to ensure completion is achieved.
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.	GREEN	

INTERIM AND FINAL GOVERNANCE REPORT RECOMMENDATIONS

Bank Reconciliations

Interim Recommendation	Recommendation	Responsibility	To be completed by	Priority	Date for completion	Comments	Progress - RAG	Implications
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.	Hilary Appleton	Strategic Finance	Medium	31-Dec-11	Agreed. This is a process that will be documented by Ledger Management and Systems Support teams. The journal entries needed to correct the general ledger following the conclusion of the External Audit have been input. The documented process will need to include the arrangements to process the agreed auditor adjustments. Journal completed 6 February 2012	AMBER	No implication on year end process
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.	Hilary Appleton	Strategic Finance - Ledger Management	High	Completed 30-Apr-11	Agreed. 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. Need to ensure that the process continues throughout the year.	AMBER	No implication on year end process
Recommendation 28: Housing Benefits	The Council should review the weaknesses identified and satisfy themselves there is no risk of subsidy implications arising because of the weaknesses.	Tracey Robinson	Tracey Robinson	High	01-Apr-12	Agreed and complete.	GREEN	
Recommendation 29: Bank Reconciliations	The Council should produce all bank reconciliations punctually to ensure effective control in this area.	David Watchman	David Watchman	Medium	01-Jan-12	Agreed	GREEN	
Recommendation 30: Bank Reconciliations	The Council should produce bank reconciliations for all bank district accounts.	David Watchman	David Watchman	Medium	01-Jan-12	Agreed. Bank Reconciliations are to be completed as at 31 January for the remaining 10 former district bank accounts. By the year end there will be 7 former district bank accounts remaining, for which reconciliations will be completed.	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
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	David Watchman	High	30-Sep-11	Agreed. Bank Reconciliations are to be completed as at 31 January for the remaining 10 former district bank accounts. By the year end there will be 7 former district bank accounts remaining, for which reconciliations will be completed. All differences will be resolved. Small balances remaining will be written off.	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
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	David Watchman	High	30-Sep-11	Agreed and process in place.	GREEN	
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.	GREEN	

INTERIM AND FINAL GOVERNANCE REPORT RECOMMENDATIONS

Balance Sheet

Interim Recommendation	Recommendation	Responsibility	To be completed by	Priority	Date for completion	Comments	Progress - RAG	Implications
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.	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 16th 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. <ul style="list-style-type: none"> Housing Benefit cheque payments (Chester-le-Street and City of Durham). -Council Tax/NDR 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 debits 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. 	GREEN	No implication on year end process	
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.	Hilary Appleton	Strategic Finance	Medium	31-Dec-11	Agreed. This is a process that will be documented by Ledger Management and Systems Support teams. The journal entries needed to correct the general ledger following the conclusion of the External Audit have been input. The documented process will need to include the arrangements to process the agreed auditor adjustments. Journal completed 6 February 2012	AMBER	No implication on year end process
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.	Hilary Appleton	Strategic Finance - Ledger Management	High	Completed - 30 -Apr-11	Agreed. Being undertaken weekly, daily during the final accounts period. In addition, trial balances are provided by Systems Support as part of the Balance Sheet Control exercise. Need to ensure that the process continues throughout the year.	AMBER	No implication on year end process
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. As part of the process agreed, completion of the reconciliations will be reviewed and followed up on an on going basis	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
Recommendation 39: Material Information System Reconciliations	The Council should provide supporting documentation for all reconciliation balances.	Hilary Appleton	Various - see list of reconciliations	High	31-Dec-11	The process agreed included the provision of supporting evidence for all reconciliation balances.	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
Recommendation 40: Material Information System Reconciliations	The Council should ensure that both the accounts payable and accounts receivable control account balances for the Derwentside site are split in the Oracle general ledger.	Hilary Appleton	Various - see list of reconciliations	High	Complete	This has already been addressed for 2011/12.	GREEN	
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. Audit adjustment journals input 6 February 2012.	AMBER	No implication on year end process

Interim Recommendation	Recommendation	Responsibility	To be completed by	Priority	Date for completion	Comments	Progress - RAG	Implications
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. 5 Districts completed. Verbal update on progress of remaining 2 Districts to Audit Committee.	AMBER	Impact if single asset register not completed. Actions now in place to ensure completion is achieved.
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.	GREEN	

INTERIM AND FINAL GOVERNANCE REPORT RECOMMENDATIONS

Policies

Interim Recommendation	Recommendation	Responsibility	To be completed by	Priority	Date for completion	Comments	Progress - RAG	Implications
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 - Keith Hollins	Medium	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. This is now in operation.	GREEN	No implication on year end process
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.	ICT - Paul Sanderson	High	High	31-Oct-11	A new procedure has been developed and will be approved by the ICT Liaison Group, prior to roll out. The revised process is in place but a project has started to ensure that Resourceink data is considered the master and replaces all other sources of people data. This project will be completed by the end of April	AMBER	No implication on year end process
Recommendation 3: Control Environment	The Council should complete exception reports to ensure they have disabled all dormant network accounts.	ICT - Keith Hollins	High	High	31-Oct-11	This will be addressed in the same way as recommendation 2. As recommendation 2	AMBER	No implication on year end process
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.	ICT - Steve Hodgson	High	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. A new Storage Area Network has been implemented and we are now in a position to start test restores. All data is backed up and test restores are planned across the year.	AMBER	No implication on year end process
Recommendation 5: Control Environment	The Council should develop a formal change control policy.	ICT - Bob Gibson	Medium	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. A Policy has been introduced.	GREEN	No implication on year end process
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.	Financial Systems Manager/ICT	High	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 16th 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. <ul style="list-style-type: none"> •Housing Benefit cheque payments (Chester-le-Street and City of Durham) - Council Tax/NDR 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. 	GREEN	No implication on year end process
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.	Hilary Appleton	Medium	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. Subject of an internal audit review to establish best practice.	AMBER	No implication on year end process
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.	Hilary Appleton	Medium	Medium	31-Dec-11	In Oracle, only users with superuser, 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.	GREEN	No implication on year end process
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.	Michael Ross	High	High	Complete	From March 2011 a monthly list of payroll leavers is being received from the Payroll 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. Being checked as systems are closed and access removed.	GREEN	No implication on year end process
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.	Hilary Appleton	Medium	Medium	30-Sep-11	Agreed. This will be investigated to investigate whether this is possible. Subject to internal audit review .	AMBER	No implication on year end process

Interim Recommendation	Recommendation	Responsibility	To be completed by	Priority	Date for completion	Comments	Progress - RAG	Implications
Recommendation 14: Payroll	The Council should introduce an approved signatories list, either the payroll department or individual service departments could complete the signatories list. Officers should then use the signatories list to verify that approved signatories are approving both hard copy time sheets and expense claims. This would reduce the risk of fraudulent time sheets and expense claims being paid.	Nick Orton	Nick Orton	Medium	asap	Given the number of forms that are processed, combined with the large number of authorised signatories, it would be very difficult to implement and to maintain such a list and it is not clear how effective it would be in any case. Electronic spreadsheet submission option is an area that is under consideration that would answer the authorised approval issue, provided the auditors were satisfied that information coming from a known e-mail address was effectively 'signed'. Electronic submission is a route Payroll wants to encourage, however it is not something that can be implemented very quickly. As an interim resolution, line managers will route the claim forms through the next tier of management to be countersigned. It would add an extra step into the process and probably would be unpopular as it would delay claim processing but it would reduce the number of authorised signatories and payroll would have increased confidence that the forms had been processed through the correct managerial route.	AMBER	No implication on year end process - but affects good governance
Recommendation 15: Accounts Payable	Different officers should verify and certify for payment non-purchase order invoices. The accounts payable section should refuse to pay invoices where this segregation of duties has not taken place.	Accounts Payable Manager	Accounts Payable Manager	High	Complete - immediate effect	Non-order invoices which are not verified and certified by different officers are being returned to Services by Accounts Payable staff in order to be appropriately completed prior to processing.	GREEN	
Recommendation 16: Accounts Payable	The Council should introduce a formal procedure for approving the pay run. This should involve an independent senior officer reviewing the payment file to ensure that all amounts within the pay run appear reasonable.	Accounts Payable Manager	Accounts Payable Manager	High	31-Mar-12	Only 5 senior officers are set up to process pay runs independently of data input processing. However for operational reasons and only in exceptional circumstances, the same staff have been required to input payments into the Accounts Payable system - this is kept to a minimum. Generally payment files are not reviewed due to the high volume of transactions.	GREEN	
Recommendation 17: School Information Management System (SIMS)	The Council should ensure that only an appointed member of staff or appointed team can order goods or services within Schools. This would then ensure that employees cannot bypass the procurement controls in place within the SIMS system.	Paul Turgoose	Paul Turgoose	Medium	Completed - 31-Mar-11	Schools are advised of the need to have appropriate 'division of responsibilities' within their ordering/invoicing procedures and this is reiterated at regular Internal Audit visit stage. A senior staff member has to authorise invoice batches processed by office staff. In addition, orders are to be placed in all cases unless a valid reason for not doing so e.g. telephone/utility bills. Schools are also told that any emergency verbal orders must be followed up as soon as possible with a printed SIMS order confirmation. Very occasionally, a teacher may have ordered goods unbeknown to office staff until the goods/invoice suddenly appear but this is not recommended. Within schools in County Durham, ranging from 15 pupils to 1,400 pupils, logistics sometimes prevent a full division of responsibilities but this is not condoned and schools are informed accordingly if we find out about it.	GREEN	
Recommendation 18: Oracle Projects	The Council should introduce an approved signatories list for use at Service Direct. Officers should then use the signatories list to verify that only approved signatories are approving hard copy extraction forms.	Paul Burr	Paul Burr	Medium	30-Sep-11	Agreed. Implemented and completed	GREEN	
Recommendation 19: Oracle Projects	The Council should document Surveyors inspection and approval of completed jobs either in Oracle Projects or in a hard copy report format.	Paul Burr	Paul Burr	Medium	30-Sep-11	Agreed. Implemented and completed	GREEN	
Recommendation 20: Oracle Projects	The use of the former Highways system is mainly a technical Philip Curran issue that Systems support should address.	Philip Curran	Philip Curran	Medium	30-Sep-11	Former Highways system is still used by Estimating teams within Highways Operations for technical/design issues rather than Financial Management, but Philip Curran to discuss this issue with Neil Harrison (Financial Support Manager - Neighbourhoods) and to determine what assistance is required by Systems Support. This recommendation is not to be implemented, Systems Support have no involvement with this system, and Financial Support within Neighbourhoods rarely get involved with using the Highways System. This is mainly used by Operational and Estimating staff and not an issue.	GREEN	

Interim Recommendation	Recommendation	Responsibility	To be completed by	Priority	Date for completion	Comments	Progress - RAG	Implications
Recommendation 21: Business Rates (NDR)	The Council should introduce monitoring schedules at all Council sites to ensure regular visits to all unoccupied properties. This will help ensure that all properties that should be paying NDR are.	Angela Searle	Angela Searle	Medium	01-Apr-12	Staff notified of relevant structure changes 5 January 2012. Resource and inspection programme to be in place wef 1 April 2012.	AMBER	Impact if recommendation not implemented. Actions now in place to fulfil recommendation.
Recommendation 22: Business Rates (NDR)	The Council should keep a confirmation of the review and approval of the NDR system parameters upload on file.	Alan Weddle / Angela Searle	Alan Weddle / Angela Searle	Medium	01-Apr-12	First Annual Billing meeting took place 5 January 2012, action Included in project timetable	AMBER	Impact if recommendation not implemented. Actions now in place to fulfil recommendation.
Recommendation 23: Council Tax	The Council should introduce monitoring schedules at all Council sites to ensure regular visits to all unoccupied properties. This will help ensure that all properties that should be paying Council Tax are.	Angela Searle	Angela Searle	Medium	01-Apr-12	Staff notified of relevant structure changes 5 January 2012. Resource and inspection programme to be in place wef 1 April 2012.	AMBER	Impact if recommendation not implemented. Actions now in place to fulfil recommendation.
Recommendation 24: Council Tax	The Council should keep a confirmation of the review and approval of the Council Tax system parameters upload on file.	Alan Weddle / Angela Searle	Alan Weddle / Angela Searle	Medium	01-Apr-12	First Annual Billing meeting took place 5 January 2012, action Included in project timetable	AMBER	Impact if recommendation not implemented. Actions now in place to fulfil recommendation.
Recommendation 25: Housing Benefits	Processors should use and keep on file the Councils pro forma to document how they have identified claimants were receiving either Income Support or Job Seekers Allowance.	Cate Blackburn	Cate Blackburn	High	01-Aug-11	Staff have been trained to fully complete and save the CIS pro-forma. As part of the checking procedure particular attention is paid to this area.	GREEN	
Recommendation 26: Housing Benefits	The Council should introduce a formal procedure for approving the pay run. This should involve a senior officer reviewing the payment file to ensure that all amounts within the pay run appear reasonable.	Michelle Waters	Michelle Waters	High	01-Jan-12	Staff notified of relevant structure changes 5 January 2012. A process has been agreed and implemented	GREEN	
Recommendation 27: Housing Benefits	The Council should keep confirmation of the review and approval of the Housing Benefit system parameters upload on file.	Alan Weddle / Lisa Salkeld	Alan Weddle / Lisa Salkeld	Medium	01-Apr-12	First Annual Billing meeting took place 5 January 2012, action Included in project timetable	AMBER	Impact if recommendation not implemented. Actions now in place to fulfil recommendation.
Recommendation 28: Housing Benefits	The Council should review the weaknesses identified and satisfy themselves there is no risk of subsidy implications arising because of the weaknesses.	Tracey Robinson	Tracey Robinson	High	01-Apr-12	Agreed and complete.	GREEN	
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	David Watchman	High	30-Sep-11	Agreed and process in place.	GREEN	
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.	GREEN	
Recommendation 34: Housing Rents	The Council should keep confirmation of the review and approval of the new housing rents calculation and system parameters upload on file.	Azhar Ratiq	Azhar Ratiq	Medium	30-Sep-11	Completed. Rent calculation completed and checked and verified. Each of the three rent accounts have been matched to the master spreadsheet.	GREEN	
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. Subject of an internal audit review to establish best practice.	AMBER	No implication on year end process - but affects good governance
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. Subject of an internal audit review to establish best practice.	AMBER	No implication on year end process - but affects good governance

Interim	Recommendation	Recommendation	Responsibility	To be completed by	Priority	Date for completion	Comments	Progress - RAG	Implications
	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	The importance of this is recognised and formal processes have been established to ensure that Material System reconciliations are produced regularly. For the 11 systems which do not relate to Revenues/Benefits/Housing Rents the responsible officers and reviewers of the reconciliations have been agreed. It has also been established that the reconciliations are already taking place and the process only needs formalising and being centrally recorded. For the 6 systems which relate to Revenues/Benefits/Housing Rents a draft list of responsible officers and reviewers has been prepared which needs approving by senior officers. A Project Team has been formed and the project to bring existing reconciliations up to date commences on 7 February 2012. In addition to the above for all the Material System reconciliations the agreed processes need embedding into our operations	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
	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	The importance of this is recognised and formal processes have been established for control accounts, and balance sheet items. As part of the process agreed, completion of the reconciliations will be reviewed and followed up on an on going basis	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.
	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.	GREEN	
	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.	GREEN	
	Final 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. 5 Districts completed. Verbal update on progress of remaining 2 Districts to Audit Committee.	AMBER	Impact if single asset register not completed. Actions now in place to ensure completion is achieved.
	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. Work on-going to produce close down plan.	AMBER	No implication on year end process if recommendation implemented.
	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.	AMBER	No implication on year end process if recommendation implemented.
	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. Work on-going to produce close down plan.	AMBER	No implication on year end process if recommendation implemented.
	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. Work on-going to produce close down plan.	AMBER	No implication on year end process if recommendation implemented.
	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.	GREEN	
	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. Work on-going to produce close down plan.	AMBER	No implication on year end process if recommendation implemented.

Audit Committee update

Durham County Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

- 1** The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2** This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3** If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4** Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Cameron Waddell

District Auditor

6 February 2012

Progress report

Financial statements

5 We agreed the Audit Fee with the Chief Executive in April 2011. There have been several changes to the audit requirements and environment within which the Audit Commission and the Council operate and the continued downturn in the economic climate continues to impact on the work we are required to undertake.

6 As in previous years, part of the risk assessments involves asking those charged with governance and management about arrangements in place for:

- preventing and detecting fraud;
- ensuring the legality of transactions and identifying potential litigation;
- adopting the going concern principal for the accounts; and
- related party relationships and transactions.

7 The letters to the Corporate Director Resources and the briefing note to the Audit Committee are attached in appendices 1 and 2 of this document.

8 We are carrying out our walkthrough testing of the Council's significant financial systems (including those relating to the Pension Fund) and hope to have completed most of these by the end of March 2012. We will test the key controls within these systems where appropriate and will evaluate the Council's overall control environment. This understanding enables us to focus our audit on relevant matters. It also enables us to highlight to you any significant weaknesses in how these systems produce materially accurate figures for the financial statements.

9 We will also carry out early substantive testing on material balances and transaction that you expect to include in the financial statements. This reduces pressure on officers at the post-statements stage of the audit in July.

10 Key finance staff will be attending our final accounts workshops in February 2012 which provide a unique opportunity to focus on the changes for future financial statements, well in advance of the accounts submission date.

11 We will continue to liaise with the Corporate Director Resources, Principal Finance Officer (Strategic Finance) and Manager of Internal Audit and Risk to discuss audit issues and ongoing developments at the Council.

VFM conclusion

12 The Commission introduced a new approach to auditors' local value for money work (VFM) from 2010/11. In particular, this approach is intended to recognise the increased pressure on public spending and the scale of funding cuts to address the state of the UK's public finances.

Our initial risk assessment has identified the following VFM risks.

- Financial Resilience.
- Securing economy, efficiency and effectiveness.

13 Work will focus on updating our understanding on an ongoing basis until the point at which the VFM conclusion is issued, and will largely comprise:

- outcomes from our review of agendas, minutes and other reports; and
- outcomes from our programme of established liaison meetings with officers.

14 Our view continues to be that Durham County Council has sound arrangements to address financial resilience and arrangements to secure economy, efficiency and effectiveness. Our audit work will challenge whether this continues to be the case.

Other matters of interest

Government response to consultation on the future of local public audit

15 In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011, the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

16 The Audit Commission is currently in the process of the award of contracts for the work currently undertaken by the Audit Practice for the period 2012/13 to either 2014/15 or 2016/17 (see 'update on the externalisation of the Audit Practice' below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

17 Thereafter, the government proposes that a new local public audit regime will apply. The key features of that regime are as follows.

- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- Mirroring the Companies Act provisions, auditors will be subject to the overall regulation of the Financial Reporting Council (the FRC). The FRC will authorise one or more Recognised Supervisory Bodies (in practice, the professional institutes) to register and supervise audit firms and engagement leads.
- Directly-elected local government bodies will appoint their own auditor on the advice of an independent audit appointment panel with a majority of independent members. Such panels may be shared between audited bodies
- Audited bodies must run a procurement exercise for their external audit appointment at least every five years, although there would be no bar on the reappointment of the incumbent audit firm (for a maximum of one further five-year term);
- Audited bodies will be able to remove their auditor, but only after due process, involving the independent audit appointment panel and culminating in a public statement of the reasons for the decision.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.

- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The right to object would be retained, but the auditor will be given the power to reject vexatious, repeated or frivolous objections.
- Grant certification will be subject to separate arrangements between grant paying bodies, audited bodies and reporting accountants (who could be the external auditors).
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

18 The government is holding further discussions with audited bodies and audit firms to develop its proposals. The Regional Improvement and Efficiency Partnerships are organising events in January and February 2012 to which audited bodies have been invited. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

Update on the externalisation of the Audit Practice

19 The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice. An update on progress was provided in Eugene's subsequent letter of 10 November 2011.

20 The key points are as follows.

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (ie four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private sector providers the opportunity to compete for the contracts.
- Thirteen potential providers were invited to tender following the initial pre-qualification stage. The deadline for return of the tenders was 16 December 2011. Tenders received are currently being evaluated. The Commission plans to announce the successful tenderers in March 2012.
- The Commission is planning to set out, early in 2012, the consultation process to be followed for individual audit appointments. For bodies currently audited by the Audit Practice, there will be an opportunity to attend an introductory event in each contract area with the Commission and the firm awarded the contract. The events will take place in May 2012.

- Appointments will start on 1 September 2012. As such, the Commission is extending the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The Commission's Director of Audit Policy and Regulation wrote to clients on 19 December 2011 setting out more details on this 'interim' appointment.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

21 Further details are available on the Commission's website. We will continue to keep you updated on developments.

22 Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities – completing our work for 2010/11 and delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

2010/11 Accounts

23 In December 2011 the Audit Commission published a report - Auditing the Accounts 2010/11 - which summarises its findings of the accounts audits in 2010/11.

24 The report covers the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and other local public bodies. In addition to auditors' work on the 2010/11 financial statements, the report also covers:

- the results of the first year of International Financial Reporting Standards (IFRS) implementation;
- auditors' work on the Whole of Government Accounts returns;
- auditors' local value for money work;
- public interest reports and statutory recommendations issued by auditors since December 2010; and
- the key challenges facing bodies for 2011/12.

25 Auditors were able to give opinions on the accounts by the target date of 30 September 2011 at most organisations and this performance compares well with the previous year.

26 However, the challenges presented by the transition to IFRS are demonstrated by an increase in the number of bodies, from seven last year to eighteen this year, where the auditor's opinion was still outstanding after 31 October. There was also a significant increase in the number of bodies needing to make material adjustments to their accounts following the audit.

27 On 18 January 2012, the Audit Commission published 'Let's be clear: Making local authority IFRS accounts more accessible and understandable'.

28 This briefing supplements the report on the 2010/11 accounts referred to above and focuses on a long-running debate of how to make local government accounts easier to understand.

29 While the statutory accounts give comprehensive information on each local authority's financial position and performance, reflecting the range of activities which they cover, they are a poor way of communicating the key information to lay readers.

30 The briefing notes that:

- elected members and local people would benefit from having access to well-presented extracts from the accounts, which would provide the key information on each authority's financial position and performance;
- the accounting profession and the Audit Commission could do more to encourage auditors and preparers of accounts to reduce clutter in statutory accounts; and
- each authority could do more to ensure their accounts are shorter and more accessible. Those preparing accounts need to look critically at the previous year's accounts. They should identify how these accounts could be sharper and more focused before starting work on the next set.

31 The briefing concludes by identifying possible steps to make local authority accounts more accessible and easier to understand, and the implications of doing so.

32 The Audit Commission is seeking views on the issues raised within the briefing and has invited comments by 16 March 2012 - further information on this is available on the Audit Commission's website.

Managing Workforce Costs

33 The Audit Commission and Local Government Association have jointly launched 'Work in progress: Meeting local needs with lower workforce costs'.

34 The joint report - which can be found on the Audit Commission's website - is aimed at councils as employers and shows how local authorities across England are reducing their workforce costs, with some finding creative solutions.

35 As government funding for councils shrinks by over a quarter between 2011/12 and 2014/15, councils need to reduce their workforce costs substantially while still providing much needed services. Not all councils face the same financial challenges, but the message is that all must reassess what they do, how they do it, and what their priorities are. Those opting for major restructuring will take more time to realise savings.

36 Councils are finding ways to cut their pay bills without losing jobs, but the report says that redundancies are inevitable. Local government was already reducing posts before the cuts in government funding. In the past year an estimated 145,000 jobs have gone and this figure will increase in the future. So far many redundancies have been voluntary, but the report warns that compulsory ones are set to rise.

- 37** The report is supported by a number of resources including:
- an agency workers expenditure tool which shows councils how much they spend on agency workers, compared with groups of similar councils;
 - a workforce expenditure tool which shows councils how much they spend on staff as a proportion of their net current expenditure, and how this has changed over time;
 - five case studies which provide examples of the different approaches councils are taking to reduce the costs of employing people while protecting valuable services. The case studies show what the councils did and why - and the benefits achieved; and
 - a practical guide on how to undertake effective pay benchmarking, providing a series of steps to follow when starting a pay benchmarking process and highlighting the main issues that should be considered.

38 The report is supplemented with a briefing for elected members that includes a number of questions designed to help members assess how well their council decides the size, shape and cost of its workforce and how these decisions will affect services and communities.

39 The questions are in two parts.

- The information that should be available to members about the workforce.
- The savings strategies councils could follow in the light of that information.

Joining up health and social care

40 On 1 December 2011 the Audit Commission published the second in a series of briefings looking at adult social care.

41 'Joining Up Health and Social Care - Improving Value for Money Across the Interface' shows significant variations in indicators such as the levels of emergency admissions to hospital. This raises questions about how well services are being integrated to meet the preferences of older people. Despite the focus for many years on improving joint working across the NHS and social care, progress remains patchy.

42 At a time when the whole of the public sector must find significant savings, the report says that integrated working offers opportunities for efficiencies and improvements to services. Without it, there is a risk of duplication and 'cost-shunting' - where savings made by one organisation or sector simply create costs for others.

43 The briefing offers guidance to local partnerships, setting out a list of questions to consider and suggestions for interventions that might help. The briefing also includes a number of case studies which show how some areas have embraced partnership working and used local data and benchmarking to establish how and where to make improvements.

44 The Audit Commission has developed a tool to accompany the briefing that allows NHS and social care partnerships to benchmark their performance against others.

CIPFA's Prudential Code for Capital Finance

45 CIPFA has recently updated its Prudential Code for Capital Finance in Local Authorities. This new version reflects the introduction of IFRS which required:

- PFI schemes to be included on organisations' balance sheets; and
- the accounting treatment of leases to be reviewed – with many more likely to be considered as finance leases and thus also included on the relevant balance sheets.

46 The code also includes guidance on the treasury management implications of the housing self-financing reforms.

47 Although local authorities determine their own capital programmes, they are required to have regard to CIPFA's Prudential Code (the Code) in order to ensure that these capital investment plans are affordable, prudent and sustainable.

48 To demonstrate that these objectives have been met, the Code sets out the indicators that must be used and the factors that must be taken into account.

49 The Code does not include suggested indicative limits or ratios and these are for the local authority to set itself, subject to some overriding controls.

50 The prudential indicators required by the Code should be considered alongside its Treasury Management performance indicators. These indicators are both are designed to support and record local decision making and are not designed to be comparative performance indicators.

2011/12 Accounts: CIPFA Guidance Notes for Practitioners

51 CIPFA has recently published a set of guidance notes to provide support in preparing the 2011/12 year-end accounts. These offer constructive advice on all aspects of the requirements for 2011/12 and provide detailed guidance on the key changes, including accounting for:

- heritage assets;
- business rate supplements;
- community infrastructure levies;
- related party disclosures;
- exit packages;
- trust funds;
- financial instruments; and
- interests in joint ventures.

52 The key changes to your financial statements in 2011/12 will also be covered by our final accounts workshops.

For information: Board Governance Essentials

53 The Public Chairs' Forum and CIPFA have recently published a joint 'how to' guide for Chairs and Boards of public bodies.

54 'Board Governance Essentials: A Guide for Chairs and Boards of Public Bodies' offers advice across four key areas.

- Good corporate governance.
- Roles, responsibilities and relationships.
- Standards of behaviour in public life.
- Effective financial management and transparency.

55 This guide may provide interesting reading for all members.

Local Government Finance Bill

56 In December 2011 the government introduced proposals to devolve greater financial powers and freedoms to councils. The Local Government Finance Bill sets out the legislative foundations to implement the changes from April 2013. The most significant proposals relate to non-domestic rates, which are currently pooled and redistributed nationally.

57 The Bill provides for councils to:

- retain a portion of their business rate growth;
- borrow against future income from business rates to pay for roads and transport projects alongside other local priorities;
- ensure a stable starting point for all authorities. No authority will be worse off as a result of their business rates base at the start of the scheme;
- establish a national baseline alongside a system of top ups and tariffs. Councils with business rates in excess of a set baseline would pay a tariff to government whilst those below would get an individually assessed top up from government; and
- create a levy to take back a share of growth from those councils that gain disproportionately from the changes. This money would be used to fund a safety net providing financial help to those authorities which experience significant drops in business rates, for example caused by the closure or relocation of a major business.

58 The Bill provides for much of the detail of the arrangements, including the sharing of business rate growth between billing and precepting authorities, to be left to secondary legislation.

Guide to HRA Self Financing

59 The introduction of self-financing to the housing revenue account (HRA) in April 2012 will fundamentally change the way that local authority housing is funded.

60 CIPFA has therefore recently produced a publication which brings together the latest guidance to assist those working in the sector to understand the changes and help with their implementation.

Code of Practice on Public Sector Pensions

61 In October 2011 CIPFA published a Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

62 Pension schemes are growing in complexity and their financial management in the public sector demands appropriate skills, including a knowledge of:

- financial markets and products;
- financial services procurement;
- pensions accounting and auditing;
- actuarial practices;
- investment performance and risk management; and
- the implications of legal and regulatory requirements.

63 It is CIPFA's view that every public sector organisation should secure appropriate training, having assessed the professional competence of both those involved in pension scheme financial management and those with a policy, management and/or oversight role.

64 Its view is that public sector organisations should also ensure that those charged with pension scheme governance, including audit committees and relevant scrutiny groups, have access to the skills and knowledge they require to carry out this role effectively.

65 CIPFA's Code of Practice has been produced to put these requirements into a formal structure for public sector pension schemes.

Financial Management in Schools

66 On 19 October 2011 the National Audit Office (NAO) published a report covering financial management in local authority maintained schools.

67 Up to 2007/08, schools collectively spent less money each year than they were given, and the sum of unspent primary and secondary school balances peaked at £1.76 billion. As a result, many schools did not need to prioritise efficiency to remain within their budgets.

68 However, more schools are now facing reductions in their budgets in real terms, at the same time as significant changes to qualifications and curricula are being introduced - alongside continuing pressure for improved performance.

69 The NAO found that weak financial management and weak academic performance often go hand in hand. A comparison of Ofsted's judgements of the overall effectiveness of schools with school surpluses and deficits showed that schools in deficit generally performed worse than schools in surplus.

70 The NAO's report continues a number of recommendations for the Department of Education, but nevertheless should prove of interest to local authorities themselves.

Key considerations

71 The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Council reviewed the Audit Commission's report on the 2010/11 accounts and, in particular, considered the key challenges facing bodies for 2011/12?
- Has the Council reviewed its 2010/11 accounts and identified ways in which these could be streamlined or clarified?
- Has the Council reviewed the Audit Commission / Local Government Association joint report on managing workforce costs and is the Audit Committee satisfied that appropriate use has been made of the supporting materials?
- Has the Council circulated the briefing for elected members on the Audit Commission's workforce report to Members? Is the Audit Committee satisfied that the questions within the briefing have been properly considered by the Council?
- Has the Council reviewed the questions included in the Audit Commission's briefing paper on joining up health and social care?
- Has the Council used the Audit Commission's tool to benchmark the performance of its NHS and social care partnership?
- Has the Council reviewed its prudential indicators in the light of CIPFA's revised prudential code?
- Has the Council reviewed CIPFA's guidance notes for the 2011/12 financial statements and made satisfactory arrangements for their implementation?
- Has the Council reviewed CIPFA's guidance on HRA self-financing and made satisfactory progress for its implementation?
- Has the Council reviewed CIPFA's Code of Practice on Public Sector Pensions and satisfied itself that the arrangements in place are adequate?

Contact details

72 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

73 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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Appendix 1 Briefing note to those charged with governance

Durham County Council (including the Pension Fund) 2011/12

Audit Committee briefing note - ISA+240 (Fraud), ISA+250 (laws and regulations), ISA+501 (litigation and claims) & ISA+570 (going concern)

Introduction

This briefing note aims to summarise for the Audit Committee the requirements under International Auditing Standards (UK and Ireland), also referred to as ISA+, in respect of preventing fraud in the annual accounts, and compliance with laws and regulations. It sets out the information we will require from the Audit Committee before we give our opinion on the Durham County Council's 2011/12 accounts including the Pension Fund accounts.

International Standard for Auditing (UK and Ireland) 240 - The auditor's responsibility to consider fraud in an audit of financial statements

Background

Under the ISA, the primary responsibility for preventing and detecting fraud rests with both management and 'those charged with governance', which for the Council is the Audit Committee. This includes fraud that could impact on the accuracy of the annual accounts.

The ISA requires us, as external auditors, to obtain an understanding of how the Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

What is 'fraud' in the context of the ISA?

The ISA views fraud as either:

- the intentional misappropriation of the Council's assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA+240. We are therefore making requests from the Audit Committee and management on the following, or similar, issues.

How does the Audit Committee, in its role as those charged with governance, exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
- identifying and responding to risks of fraud in the organisation, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- communicating to employees of views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the organisation's code of conduct); and
- communicating to those charged with governance the processes for identifying and responding to fraud or error

How does the Audit Committee oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control?

- Is the Audit Committee aware of any breaches of internal control during 2011/12?

Has the Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?

Has the Audit Committee any suspicion that fraud may be occurring within the organisation?

- Has the Audit Committee identified any specific fraud risks within the organisation?
- Does the Audit Committee have any concerns that there are areas within the organisation that are at risk of fraud?
- Are there particular locations within the organisation where fraud is more likely to occur?

Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively?

- If not, where are the risk areas?
- What other controls are in place to help prevent, deter or detect fraud?

Is the Audit Committee satisfied that staff are encouraged to report their concerns about fraud, and the types of concerns they are expected to report?

From a fraud and corruption perspective, what are considered by the Audit Committee to be high risk posts within the organisation?

- How are the risks relating to these posts identified, assessed and managed?

Is the Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud?

- How are the risks associated with fraud related to such relationships and transactions mitigated?

Is the Audit Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?

- Are there particular balances where fraud is more likely to occur?
- Is the Audit Committee aware of any assets, liabilities or transactions that it believes were improperly included or omitted from the accounts of the organisation?
- Could a false accounting entry escape detection? If so, how?
- Are there any external fraud risk factors which are high risk of fraud?

Is the Audit Committee aware of any organisational, or management pressure to meet financial or operating targets?

- Is the Audit Committee aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?

International Standard for Auditing (UK and Ireland) 250 – Consideration of laws and regulations in an audit of financial statements

Background

Under the ISA, in the UK and Ireland, the primary responsibility for ensuring that the entity's operations are conducted in accordance with laws and regulations and the responsibility for the prevention and detection of non compliance rests with management and 'those charged with governance', which for the Council is the Audit Committee.

The ISA requires us, as external auditors, to obtain an understanding of how the Committee gains assurance that all relevant laws and regulations have been complied with.

What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA+250. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management.

How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with. For example:

- Is the Committee aware of the process management has in place for identifying and responding to changes in laws and regulations?
- What arrangements are in place for the Committee to oversee this process?
- Is the Committee aware of the arrangements management have in place, for communicating with employees, non-executive directors, partners and stakeholders regarding the relevant laws and regulations that need to be followed?

- Does the Committee have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with, and if so is it aware of what actions management is taking to address it?

International Standard for Auditing (UK and Ireland) 501 – Specific consideration of the potential for, and actual, litigation and claims affecting the financial statements

Background

This ISA deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence, in this instance with respect to the completeness of litigation and claims involving the entity.

The ISA requires us, as external auditors, to design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement.

What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA+501. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:

- Is the Audit Committee aware of any actual or potential litigation of claims that would affect the financial statements?

International Standard for Auditing (UK and Ireland) 570 – Consideration of the going concern assumption in an audit of financial statements

Background

Financial statements are generally prepared on the basis of the going concern assumption. Under the going concern assumption, an audited body is ordinarily viewed as continuing in operation for the foreseeable future. Accordingly, assets and liabilities are recorded in financial statements on the basis that the audited body will be able to realise its assets and discharge its liabilities in the normal course of its operations.

What are we required to do?

If used, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements if we are to properly discharge our responsibilities under ISA+570. We are therefore making the following request from the Audit Committee:

- How has the Audit Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

- Has the Audit Committee identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?

The way forward

The information you provide will inform our understanding of the Council and its business processes, and to enable an opinion to be given on your 2011/12 financial statements.

I would be grateful for your responses, which should be formally considered and communicated to us on the Committee's behalf, by 30 April 2012. In the meantime, if you have any queries, please do not hesitate to contact me.

Catherine Banks,
Audit Manager

February 2012

Appendix 2 Letter to management

Our
reference DU08812A

13 February 2012

Don McLure
Corporate Director Resources
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Dear Mr McLure

Audit of Durham County Council's Financial Statements 2011/12 including the Pension Fund Accounts - Compliance with International Auditing Standards

In order to comply with a number of International Standards on Auditing (ISA (UK&I) 240, 250, 501 and 550) we are required to obtain an understanding of the management processes with regard to fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements. This covers the opinion on the Council's 2011/12 accounts including the pension fund accounts.

ISA+ 240 focuses on management processes in place in relation to fraud:

1) We seek an understanding of management's assessment of the risk that the financial statements may be misstated due to fraud, including:

a) How does management undertake its assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments)?

b) What is management's process for identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist?

c) What arrangements does management have in place to communicate to employees regarding its views on business practices and ethical behaviour (for example by updating, communicating and monitoring against the Council's code of conduct)?

d) How does management communicate the processes for identifying and responding to fraud or error to the Audit Committee (i.e. those charged with governance)?

2) Does management have knowledge of any actual, suspected or alleged fraud, either within the Council as a whole or within your department during the period 1 April 2011 to 31 March 2012? If so, what actions is management taking to address it?

3) Does management have any suspicion that fraud may be occurring within the organisation?

- Have you identified any specific fraud risks within the Council?
- Do you have any concerns that there are areas within your department or the Council that are at risk of fraud?
- Are there particular locations within the Council where fraud is more likely to occur?

4) Is management satisfied that internal controls, including segregation of duties, exist and work effectively?

- If not, where are the risk areas?
- What other controls are in place to help prevent, deter or detect fraud?

5) Is management satisfied that staff are encouraged to report their concerns about fraud, and the types of concerns they are expected to report?

6) Is management aware of the posts which are considered to be high risk from a fraud and corruption perspective, and what action has been taken to manage the risk?

7) Is management aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to such relationships and transactions?

8) Is management aware of any entries made in the accounting records of the Council that it believes or suspects are false or intentionally misleading?

- Are there particular balances where fraud is more likely to occur?
- Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Council?
- Could a false accounting entry escape detection? If so, how?
- Are there any external fraud risk factors which are high risk of fraud?

9) Are you aware of any organisational, or management pressure to meet financial or operating targets?

- Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?

ISA+ 250 requires that auditors understand how management gains assurance that all relevant laws and regulations have been complied with:

10) How does management gain assurance that all relevant laws and regulations have been complied with?

11) Is management aware of any instances where the Council has not complied with any laws or regulations during 2011/12?

ISA+ 501 requires that auditors obtain confirmation from management around the potential for litigation and claims that would affect the financial statements

12) Is management aware of any actual or potential litigation or claims involving the Council which may result in a material misstatement of the financial statements?

ISA+ 550 requires that auditors identify and assess the risks of material misstatement associated with related party relationships and transactions

13) What controls does the Council have in place to identify, authorise, approve, account for and disclose related party transactions and relationships? For any new related parties (i.e. any not already disclosed in your 2010/11 audited financial statements) please provide a list of them, explain the nature of these, and whether you have entered into any transactions with these related parties during the year to 31 March 2012.

A brief response, on behalf of management, before 30 April 2012 to the above issues would be much appreciated. If in the meantime you have any queries, please let me know.

Yours sincerely

Catherine Banks
Audit Manager

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