



Audit Committee

Date **Thursday 22 March 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 16 February 2012 (Pages 1 - 6)
2. Declarations of interest
3. Budget and Medium Term Financial Plan Setting Process -
Presentation by Head of Corporate Finance
4. Action Plan for Corporate Governance Improvements - Report of
Corporate Director Resources (Pages 7 - 12)
5. Consolidated Action Plan 2010/11 Audit of Accounts - Report of
Corporate Director Resources (Pages 13 - 24)
6. Certification of Claims and Returns Annual Report - Report of External
Auditor (Pages 25 - 44)
7. Audit Plan for 2011/12 Accounts - Report of External Auditor (Pages
45 - 64)
8. Changes to the Code of Practice for Local Authority Accounting in the
UK for 2011/12 - Report of Corporate Director Resources (Pages 65 -
72)
9. Single Asset Register - Update by Corporate Director Resources
10. Deferred Internal Audit Work - Update by Manager of Internal Audit and
Risk
11. Such other business as, in the opinion of the Chairman of the meeting,
is of sufficient urgency to warrant consideration.
12. Any resolution relating to the exclusion of the public during the
discussion of items containing exempt information.

Part B

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

13. Minutes of the meeting held on 16 February 2012 (Pages 73 - 74)
14. 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
14 March 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 16 February 2012 at 10.00 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:

Councillors M Hodgson, B Myers, R Ord, D J Southwell and O Temple

Co-opted Members:

Mr T Hoban and Ms K Larkin-Bramley

Attendance by External Auditor- C Waddell, and C Banks

Apologies for absence were received from Councillors C Carr, and L Marshall

1 Minutes

The minutes of the meeting held on 5 January 2012 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 Management- Progress Report for the Quarter period October to December 2011

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

Additional briefing papers were circulated to the Committee which provided further information on two of the significant risks highlighted in the report (for copies see

file of Minutes). The Committee suggested that the briefing note from the Head of Adult Care relating to the increased cost to the Authority on revision to ordinary residence guidance, be referred to Overview and Scrutiny for its consideration of a review being undertaken to challenge inter-Local Authority placement arrangements.

In response to the suggestion of members it was agreed that future reports would include the detail of removed risks from the register, and that a paper be circulated after this meeting on those removed from this quarter.

Resolved

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

4 Internal Audit Progress Report- Quarter Ended 31st December 2011

The Committee considered a report of the Manager of Internal Audit and Risk which informed members of the work carried out by Internal Audit during the period October to December 2011 (for copy see file of Minutes).

Resolved

That 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 be noted.

5 Risk Management Strategy and Policy

The Committee considered a report of the Corporate Director, Resources which sought approval of the draft Risk Management Strategy and Policy (for copy see file of Minutes).

Resolved

That the Risk Management Strategy and Policy be approved.

6 Update on AGS Action Plan- Financial Management Standards and Business Continuity

The Committee received an update for the Corporate Director, Resources on the AGS action plan. It was noted that the Business Continuity Plan was a priority of CMT, and a report would be presented to the Committee in due course.

Clarification was provided to the Committee on the approval process for the financial management standards, which lay with the Section 151 Officer. Once complete, further details would be provided to the Committee for information.

7 Consolidated Action Plan- 2010/11 Audit of Accounts

The Committee noted a report of the Corporate Director, Resources which presented an updated action plan, consolidating all agreed recommendations for improving control weaknesses incorporated in the External Auditor's 2010/11 Interim and Final Governance Reports (for copy see file of Minutes).

In order to provide clarification it was agreed duplicates and key action priorities for final accounts closure, in future reports be highlighted. Members requested further information in the next report to Committee to provide clarification on the comment relating to the review of payment files. (Recommendation 16 page 50)

Resolved

That the action plan, to gain assurance that control weaknesses identified through the final account audit process are being appropriately addressed, be noted.

8 Update on Single Asset Register

The Committee received an update on the work around the single asset register, and noted the reasons for phase 1 being slightly behind schedule. Assurance was provided that the work should be complete by the end of the following week, and that no key issues had arisen. Members noted the additional resources that had been input into this and that colleagues from assets and finance had been working on this together.

Councillor R Ord questioned the completeness of the register for the Derwentside area, as it appeared that although it was not yet complete, it did not include some grazing land which had been owned by the former Derwentside District Council. The matter would be looked into and reported back to Councillor Ord directly.

It was noted that assurance on the reliability and completeness of the asset register would be provided by both Internal and External Audit, through their periodic testing on capital accounting.

Resolved

That the position be noted.

9 External Audit Progress Report

The Committee considered a report of the External Auditor (for copy see file of Minutes) that provided an update on progress in delivering its' responsibilities as the Council's external auditor.

In response to members requesting further detail on changes to future financial statements, as referred to in the report, the Committee noted that a report would be presented to the next meeting on changes in reporting standards.

There were questions listed in the report for the Committee to consider at some point, and following discussion it was agreed that the Chair and Vice Chair of the Committee consider the issues with the Manager of Internal Audit and Risk on the best way to brief the Committee on the issues listed.

Resolved

That the report be noted.

The Chairman agreed that in order to keep members informed and to make a decision as early as possible the next item could be considered.

10 Annual Governance Statement

The Manager of Internal Audit and Risk explained to the Committee that the draft AGS that is to be considered by Committee on 28 June, had various stages to go through prior to the committee's consideration, and that the statement would not be complete in time to be dispatched along with the agenda for the meeting. The Committee accepted the reasons for this and agreed to the statement being forwarded to them as soon as possible.

Action Plan - Work of Audit Committee - Part A - 22 March 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 16.2.12	4	Single Asset Register	Update on achievement of revised phase 1	Gerald Darby/ Jeff Garfoot	22.3.12
3.	29.9.11	7	Duplicate Payments	Up date report once next stage of review of potential duplicates complete	Bev White	31.5.12
4.	29.9.11 31.10.11	10	Icelandic banks	Update - as and when necessary	Corporate Director, Resources	TBA
5.	5.1.12 16.2.12	6	Corporate Governance Improvements	Remaining issues on the implementation plan be brought to the next meeting	Risk and Governance Manager	22.3.12 Item 4
6.	5.1.12 16.2.12	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. Next report to provide clarification on comment on review of payment files	Jeff Garfoot	22.3.12 Item 5
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
8.	16.2.12	6	F M Standards	Once Section 151 Officer has completed the process, further details be brought back to Committee	Corporate Director, Resources	TBA
9.	16.2.12	9	External Audit progress Report	Changes in future financial reporting standards, be presented to the next meeting	Hilary Appleton	22.3.12 Item 8

This page is intentionally left blank

Audit Committee

22 March 2012



Action Plan for Corporate Governance Improvements

Report of Don McLure, Corporate Director Resources

Purpose of the Report

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

Background

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

Recommendations and reasons

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

Contact: David Marshall Tel: 0191 3834311

Appendix 1: Implications

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

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

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

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

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

Crime and Disorder – None.

Human Rights - None.

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

Procurement – None.

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

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

Appendix 2: Annual Governance Statement – Action Plan

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

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

No.	Significant governance issue	Further Action Required	Lead Officer	Target Implementation Date	Status as at December 2011
5	Changing Government Policy on the Ethical Framework.	Review the ethical framework and implement a new compliant, fit for purpose and workable ethical structure for the Council.	Colette Longbottom	March 2012	<p>The Localism Act received royal assent on the 15th November, and the provisions relating to the ethical framework were changed significantly.</p> <p>The government has extended the implementation of this until the beginning of July following representations from Acces and other bodies that the timescale of April was unrealistic.</p> <p>The Monitoring Officer presented a draft report to CWG in February authorising arrangements to be developed, taking into account the regulations when they appear. This report will be presented to Council in March 2012.</p> <p>As above</p>
6	Implement an Information Management and Governance Strategy	Provide advice and guidance to Members and Officers on the new ethical structure. Implement an Information Management and Governance strategy. This action has been carried forward from the 2010/11 Annual Governance Statement.	Colette Longbottom Jenny Haworth	March 2012 June 2012	<p>A staged approach is being taken to developing the Council's information management and governance arrangements focusing on 3 main areas: records management, data protection, and access to information. A Records Management Policy was agreed in Summer 2010. During 2011 progress has been made in developing Records Retention schedules for all service areas. A new Data Protection Policy was also agreed by Cabinet in May 2011 and awareness raising has taken place with all Heads of Service and Tier 4 managers, and is being rolled out to all staff. Key elements still to be developed are a formal procedure for dealing with access to information requests, including freedom of information and environmental information, and a long term records management strategy for the Council, both of which will be progressed in 2012.</p>

No.	Significant governance issue	Further Action Required	Lead Officer	Target Implementation Date	Status as at December 2011
7	Improve accessibility to key policies.	<p>Improve accessibility to key policies and documents via the website/ search engines. This action has been carried forward from the 2010/ 11 Annual Governance Statement.</p> <p>Scope and develop a database of policies and procedures as part of the Council's Intranet.</p>	Roger Goodes	Aug 2012	On target
8	Performance Management of Integrated Teams.	Implement a Performance Management Framework for Integrated Services	Carole Payne	Sep 2011	Implemented.
9	Succession Planning.	Plans will be developed by April 2012 outlining the implementation of the policies required to ensure effective succession planning in the future.	Kim Jobson	April 2012	Given the current climate of savings efficiencies imposed on the Council, this remains a long term goal of our workforce planning arrangements, and therefore a realistic revised target date cannot be set at present. The Redeployment Policy is the key policy in place to match the "at risk" employee skills with the changing demands of the Council during this period of significant change.

This page is intentionally left blank

Audit Committee

22 March 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 of the recommendations and the detailed comments for each recommendation.
- 6 Where new narrative has been added to the 'Comments' column, the text has been added '**in bold**' to aid identification of changes made since the last update report.
- 7 Internal Audit is reviewing the progress on the implementation of the recommendations. This is intended to give assurance that the recommendations are being addressed.

Recommendation and reasons

- 8 Members are asked to note the action plan attached at Appendix 2 and 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

This page is intentionally left blank

INTERIM AND FINAL GOVERNANCE REPORT RECOMMENDATIONS

	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 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 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 (NNDR)	AMBER	AMBER	Impact if recommendation not implemented. Actions now in place to fulfil recommendation.
Recommendation 22: Business Rates (NNDR)	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 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	
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 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
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

Detail

Progress -
RAG

Implications

Recommendation	Recommendation	Responsibility	To be completed by	Priority	Date for completion	Comments	Progress - RAG	Implications
Interim 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	ICT - Keith Hollins	Medium	31-Mar-12	The Council has too many ICT policies following LGR and we are in the process of reviewing and replacing these via the Information Security Forum. This is now in operation.	GREEN	
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	ICT - Paul Sanderson	High	31-Oct-11	A new procedure has been developed and will be approved by the ICT Liaison Group prior to roll out. The revised process is in place but a project has started to ensure that ResourceLink 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	ICT - Keith Hollins	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	ICT - Steve Hodgson	High	31-Dec-11	In line with our ICT Strategy, the Council is focussed on business continuity rather than disaster recovery. Full resiliency testing has been performed successfully at Tanfield but this remains a single point of failure. All key systems are backed up with tapes and data removed off site but we will introduce test restores on an annual basis. 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	ICT - Bob Gibson	Medium	31-Oct-11	The Council has developed a formal change control policy which is in the process of being rolled out to all parts of the ICT Services. A Policy has been introduced.	GREEN	
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	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 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	
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	Hilary Appleton	Medium	31-Mar-11	The volume of journals processed will require consideration of this process to ensure that the review and approval of journals is done efficiently. As appropriate, Strategic Finance will issue instruction to all service accounting teams to review and approve journals prior to entering into the General Ledger. 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	Financial Systems	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. A list of authorised users of the legacy systems is maintained by Financial Systems Support. However, there are almost no transactions at present.	GREEN	
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	Financial Systems	High	Complete	From March 2011 a monthly list of payroll leavers is being received from the Payroll process in section and compared with current Oracle users and any who have left are having their access terminated. A monthly check is also done on users who have not accessed Oracle in the last 12 months and they also have their access terminated. A review of access to Agresso was performed earlier in the year and it is expected that by 30 September 2011 all update access to Agresso will be removed for all users. Being checked as systems are closed and access removed.	GREEN	

Recommendation	To be completed by	Responsibility	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.	Strategic Finance	Hilary Appleton	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. Due to unforeseen problems with the journals, these will now be input into the Ledger by 16 March. The journals have over 4,000 lines of detail and required further review to be consistent with the manual adjustments made to the Statement of Accounts for 2010/11.	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.	Strategic Finance - Ledger Management	Hilary Appleton	High	30-Apr-11	Completed - 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. The latest trial balance was run on 9 March 2012, and is in balance.	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.	Strategic Finance - Ledger Management	Hilary Appleton	Medium	30-Jun-11	Completed - Completed to 31 March 2011. Resourcelink dataset being reconciled to Oracle at the point of processing. This reconciliation is on-going and completed for 2010/11 and up to the end of January 2012.	GREEN	
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.	Financial Systems	Hilary Appleton	Medium	30-Sep-11	Agreed. This will be investigated to investigate whether this is possible. Subject to internal audit review. Implementing this recommendation would delay the processing of the information into the general ledger. Currently, errors on inputting the file can be corrected by the Ledger Manager. If the files were locked, they would need to be returned to the provider of the file and the data re-provided after correction of the errors. It is not felt that this is a practical process that could be implemented.	AMBER	No implication on year end process
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. Payroll get the majority of timesheets in large batches so we will explore the practicality of introducing a cover sheet to be enclosed that effectively authorises everything within the batch. Payroll will choose the wording on the cover sheet and the designated Manager/Clerk will sign that. This would not cover everything as there are lots of claims that arrive in small batches, we would also have to make sure the batches weren't split up before we got them. Checking signatures will be a time-consuming option and we could still end up with a very long signatory list so the process will be kept under review. When MyView (Resourcelink's self-service web based facility) is introduced in the schools (by 31-03-12 for the secondary schools) they will all be inputting directly into Resourcelink. School business managers could potentially input claims direct onto MyView. This could be rolled out to Home Care clerks etc as well. This would result in a paperless authorisation process with the security resting on system access.	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	Non-order invoices which are not verified and certified by different officers are being with returned to Services by Accounts Payable staff in order to be appropriately completed immediately prior to processing. effect	GREEN	

Recommendation	To be completed by	Priority	Date for completion	Comments	Progress - RAG	Implications
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	Although there is no 'formal' procedure for approving the pay run, only five senior officers are authorised to process pay runs and so have the ability to approve them. Four of the five senior staff process specific and independent files and one officer is retained as cover, in the event of sickness or annual leave. There are two different processes for pay runs.	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	Medium	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	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	Medium	30-Sep-11	Agreed. Implemented and completed	GREEN	
Recommendation 20: Oracle Projects The use of the former Highways system is mainly a technical issue that Systems support should address.	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	
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	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	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	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	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	Responsibility	To be completed by	Priority	Date for completion	Comments	Progress - RAG	Implications
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 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 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. Districts were asked to return the cheque books, although it is not possible to establish that all have been returned. The bank signatories for the cheque books used at the former District Councils are no longer signatories to the bank accounts, so the cheque books cannot be used.	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 Rafiq	Azhar Rafiq	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. The reconciliations now include a line for the signature of the preparer and the reviewer. A list of the names of the reviewers of all non-Revenues and Benefits reconciliations is now completed. The names of the reviewers of the Revenues and Benefits reconciliations are currently being compiled.	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. The reconciliations now include a line for the signature of the preparer and the reviewer.	AMBER	No implication on year end process - but affects good governance
Recommendation 37: Material Information System Reconciliations The Council should produce all reconciliations punctually. This will ensure the quick identification and correction of reconciliations errors.	Hilary Appleton	Various - see list of reconciliations	High	31-Dec-11	Agreed. The importance of this is recognised and formal processes have been established 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. The production and review of the reconciliations are to be completed by the final day of the month after the reconciliation date.	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	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. A Project Team has been formed and the project to bring existing reconciliations up to date commences on 7 February 2012. It is expected that by 23 March 2012 all material information system reconciliations will be complete to the end of January 2012. The completion of the reconciliations is being reviewed monthly.	AMBER	Impact if reconciliations not completed. Actions now in place to ensure reconciliations are performed.

Recommendation	Responsibility	To be completed by	Priority	Date for completion	Comments	Progress - RAG	Implications
Recommendation 39: Material Information System Reconciliations	The Council should provide supporting documentation for all Hilary Appleton reconciliations for all Hilary Appleton reconciliations.	Various - see list of reconciliations	High	31-Dec-11	The process agreed includes 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	High	Complete	This has already been addressed for 2011/12. This action is complete.	GREEN	No implication on year end process
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	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. Due to unforeseen problems with the journals, these will now be input into the Ledger by 16 March. The journals have over 4,000 lines of detail and required further review to be consistent with the manual adjustments made to the Statement of Accounts for 2010/11.	AMBER	
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	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. A list has recently been circulated to Service Accountants for amendment. When the opening balances have been input into the Ledger, this report will be run on a weekly basis to check for errors or duplications.	GREEN	
Recommendation 43: IFRS Restatement	Officers should provide the IFRS restated opening balances as soon as possible.	Hilary Appleton	High	30-Jun-11	Provided as part of the Statement of Accounts and working papers for 2010/11.	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 / High Assets Team	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 on 16 February. Both remaining Districts have been completed and passed to CIPFA for processing. One is completed, and one remains to be loaded into the system.	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	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. The close-down plan and guidance notes for services is due to be completed by 16 March.	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	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	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. The close-down plan and guidance notes for services is due to be completed by 16 March.	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	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. The close-down plan and guidance notes for services is due to be completed by 16 March.	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	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 checklists as part of future years' quality assurance processes.	Don McLure	Strategic Finance	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. The close-down plan and guidance notes for services is due to be completed by 16 March.	AMBER	No implication on year end process if recommendation implemented.

This page is intentionally left blank

Certification of claims and returns - annual report

Durham County Council

Audit 2010/11



Contents

Introduction.....	3
Summary of my 2010/11 certification work.....	4
Results of 2010/11 certification work.....	5
Summary of progress on previous recommendations	15
Summary of recommendations	17
Summary of certification fees	18

Introduction

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies. They are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000, I planned and performed my work in accordance with the certification instruction. I assess the control environment for the preparation of the claim or return to decide whether to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

Summary of my 2010/11 certification work

I have summarised the results of my certification work on the claims and returns for the year ended 31 March 2011 below. My overall conclusion is that arrangements in place for preparation and certification of grants are reasonable. Housing and council tax benefit claims are complex in nature and the work required each year depends on the claims selected for testing (the Department decides testing requirements).

Table 1: **Summary of certification work**

	2010/11	2009/10
Number of claims and returns certified		
Total value of claims and returns certified	£383,774,702	£364,902,117
Total number of claims and returns certified	11	14
Number of claims and returns amended because of errors	6	7
Number of claims and returns where qualification letter issued	7	8
Total cost of certification work	£103,541	£178,468

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights the significant issues arising from that work.

- 1 In 2010/11, I certified 11 grant claims for Durham County Council. Of these I carried out:
 - a limited review, relying on the control environment, of two claims; and
 - a full review of nine claims.
- 2 I amended five claims requiring full certification and one claim subject to limited review for errors identified. In addition, I issued a qualification letter to the grant-paying bodies for six claims requiring full certification and one claim subject to partial certification.
- 3 I include brief details of all qualification letters below. The most significant qualification letter relates to my work on the housing and council tax benefit claim.

Table 2: Claims and returns above £500,000 and full review

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Housing and council tax benefit scheme	£220,617,910	No. Our approach to this claim does not allow reliance on the control environment.	£3,022 plus extrapolated errors of £257,681.	Yes. The housing and council tax benefit claim was amended and a qualification letter was issued. I test 20 cases for each of the four benefit types (non-HRA, rent rebates, rent allowances and council tax benefit), with additional testing of local scheme cases. In addition, council officers carried out testing of 40 cases in areas where errors were found in 2009/10. I found fewer discrepancies this year, most were not significant values themselves but have been extrapolated across the whole population. The total possible impact of each error is calculated by applying the error rate to the total value of the affected entry in the claim using subpopulations where possible. This gave a total extrapolated subsidy overpayment of £257,681. Table 3 shows more details.
Pooling of housing capital receipts	£1,957,609	No. Satisfactory arrangements but changes this year in administration cost calculations.	0	No The Council amended the claim but there was no impact on the value of the return.

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
HRA subsidy	-£2,757,000	No. Because of the technical nature of this claim and complex transactions and calculations.	0	No
Housing finance base data return	Not applicable.	No. Changes to the subsidy regime for 2012/13 meant that more testing was necessary and we could not place reliance on the control environment.	0	Yes. Authorities must provide an audit trail to support the analysis of usable floor areas of pre -1945 and 1945 to 1964 terrace houses between 'large' and 'small' categories. The stock records for the predecessor authority Wear Valley District Council do not contain floor area data but merely identify properties as large or small. Authorities should include only dwellings in the HRA. During 2010/11, 18 leased properties were removed from the Council's rent account, and therefore the base data return, as they are no longer part of the Council's managed housing stock. A former district council got approval to do so some years ago but the Council cannot find any evidence for this. The Council is no longer receiving rental income from these properties.

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
National non-domestic rates return	£91,843,134	No. A complex claim, with a large volume of transactions so a high possibility of human error.	0	<p>Yes.</p> <p>The Council amended the claim but there was no impact on the value of the claim.</p> <p>In a test of 20 items included in line 3 (i) I found an error of £11,476.34 in transitional relief. The Council has amended this case in 2011/12 in accordance with the VOA Schedule and issued a demand showing the correct transitional relief.</p> <p>In a test of a sample of 20 items included in line 5(i) I found the Council could not evidence for one ratepayer that they had made an application for SBRR. There were two relief forms linked to this account but because of technical problems in the transfer of information to the new 'merged' system, the documents were not able to be read and no more evidence provided.</p> <p>In a test of a sample of 20 items included in line 6(i) I identified three schools receiving charitable relief but the liable party was shown as Durham County Council. The rules state that for schools where the local authority is itself in rateable occupation the schools do not qualify for relief. Durham's view is that as two of the schools are voluntary-aided church state schools and the third is a foundation school they qualify for mandatory relief. One school</p>

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
				<p>is part of a local diocese that is a Registered Charity, so it was correct to receive charitable relief. The rateable occupation was noted as Durham County Council.</p> <p>Officers have confirmed that for 2011/12 they will:</p> <ul style="list-style-type: none"> ■ seek confirmation of charitable status from the remaining two schools; ■ update the system to show all three as the rateable body rather than the Council; and ■ review all state aided schools to ensure the system correctly reflects the ratepayer status for any mandatory relief being given. <p>For 11 of the sample of 20 items, officers could not provide evidence the property was empty for periods for which empty property rate relief had been given. This was because the Council could not find the files. In addition, the Council is not undertaking void inspections although is considering starting these again in future.</p>

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Teachers' pensions return	£33,010,936	No. A high value claim with a large volume of transactions. QL issued in previous year.	0	Yes. From a sample of 5 part-time employees who started employment after the 1 January 2007, the Council could not find one file. For five employees sampled, the Council could not find opt in or opt out forms (as applicable). Eleven full-time youth workers were paying contributions on both a full-time and a part-time post. Contributions should not be paid for 'extra duties carried out under a separate contract of employment'. The error was corrected in 2011/12. There were some inconsistencies between the Council's records and Teachers pension records for additional contributions.
Sure start, early years and childcare grant and aiming high for disabled children grant	£24,591,395	No. Expenditure comes from several sources. Some of this is ring-fenced so there is a risk of manipulation.	0	Yes. The Council is required to have satisfactory records of assets funded by Sure Start grant. However, it had not yet added all of its 2010/11 capital spending on Sure Start assets to its asset register.

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Disabled facilities	£1,847,000	No. Prime documents do not agree either to the financial ledger or the claim. There was no formal reconciliation.	0	No. The Council amended the claim but there was no impact on the value of the return.
Single programme	£11,564,347	No. There is a history of missing evidence for spending and insufficient evidence to provide assurance that all contracts were awarded in accordance with standing orders.	£133,000	Yes. I selected a sample of three projects for testing. For one project there was not enough evidence to provide assurance that: <ul style="list-style-type: none"> ■ contracts were awarded in accordance with standing orders; ■ all spending was eligible; and ■ that VAT had been correctly accounted for and excluded from the return. One North East asked for more testing on this project following receipt of the qualification letter. The results of this extra testing mirror the original testing and have been reported to ONE North East.

Note: The assessment of the control environment is specific to the claim being certified. This assessment takes account of the complexity of the scheme, the value of the claim and the quality of the working papers provided with the claim. A control environment assessed as inadequate for a grant claim does not indicate that there are failings in the financial systems used to prepare the claim.

Table 3: Issues arising from the housing and council tax benefit claim audit

Error type	Sample size	Number of errors	Error value £	Error %	Total possible impact £
Rent rebates: tenants HRA properties - incorrect start date applied to claim	41	1	119.66	0.3	-1,510
Rent rebates: tenants HRA properties - pension credit uprating applied from incorrect date and for incorrect amount	40	4	674	0.7	-4,546
Rent allowances: rent officer's referral not actioned and incorrect subsidy cell used	38	1	23	0.01	-303
Rent rebates: HRA – error in recording rent increase	39	1	88.48	0.07	-779
Rent rebates HRA: error in recording income and retention of documentation	39	9	659	0.1	-4,626
Rent rebates HRA: error in recording mineworkers pensions	40	1	81.51	0.1	-358
Rent allowances HRA: error in recording dates IS and JSA	38	1	80.55	0.08	-639
Rent allowances HRA: relevant information not on file	38	3	295.24	0.3	-12,828
Rent allowances HRA: incorrect calculation and evidencing of claimants income	38	11	1,345.69	0.8	-58,045
Rent allowances HRA: incorrect actioning of change in circumstances	38	2	471.03	0.2	-42,777
Rent allowances HRA: incorrect recording tax credits	38	4	116.39	0.09	-3,620
Rent allowances HRA: incorrect LHA rate paid	39	1	11.51	0.007	-93

Error type	Sample size	Number of errors	Error value £	Error %	Total possible impact £
Rent allowances HIRA: not enough proof on self employed income	38	4	10,294.99	4.6	-24,927
Council tax benefit: incorrect actioning of change in circumstances	37	1	14.61	0.04	-1,071
Council tax benefit: incorrect up rating pension credits	39	3	20.57	0.08	-419
Council tax benefit: incorrect classification of overpayments	42	6	298.99	0.8	-7,844
Council tax benefit: incorrect recording of date of stopping JSA/IS	38	1	115.99	0.3	-3,095
Council tax benefit: incorrect recording of council tax liability and incorrect end date for liability	42	3	55.01	0.1	-25,251
Council tax benefit: incorrect recording working tax credits	40	2	11.64	0.04	-108
Council tax benefit: incorrect recording and evidencing wages	34	5	281.36	0.9	-28,107
Council tax benefit: incorrect start date applied to new claim	36	1	182.6	0.7	-13,284
Council tax benefit: error in non-dependents charge applied and proof of income not kept	36	1	119.94	0.4	-3,633
Council tax benefit: error in calculation of income and expenditure for self-employed claimant	36	5	3600.68	9.9	-19,803
Total extrapolated error subsidy overpayment					-257,681

Table 4: Claims between £125,000 and £500,000 or Limited review

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment	Value of any amendments made	Qualification letter
School centred initial teacher training (LearnEd)	£285,040	Yes	0	Yes. The Council was unable to provide student registration records to support the number of registrations on the claim form.
School centred initial teacher training (Durham Secondary applied)	£680,873	Yes	0	No.

Summary of progress on previous recommendations

This section considers the progress made in completing recommendations I have previously made arising from certification work.

- 4 I made two recommendations in 2009/10. No progress has been made on either of these recommendations and they will be carried forward as 2010/11 recommendations.

Table 5: Summary of progress on recommendations arising from certification work undertaken in earlier years

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
The Council should ensure there are more rigorous checks of claims before submission to the Central Grants Coordinator	None noted	None noted but would have anticipated implementation for submission of 2010/11 claims and returns.	Doug Wilson 2009/10 Annette Geragusian	Not implemented	Recommendation to be carried forward.

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
<p>All claim and return compilers should ensure that claims are compiled in line with the grants protocol that was updated in 2009. In particular:</p> <ul style="list-style-type: none"> ■ cross-referencing claims to the relevant Certification Instructions; and ■ providing evidence that managers have checked the claim before submission to the Central Grants Coordinator. 	None noted	None noted but would have anticipated implementation for submission of 2010/11 claims and returns.	Doug Wilson 2009/10 Annette Geragusian	Not implemented	Recommendation to be carried forward.

Summary of recommendations

This section highlights the recommendations arising from my certification work and the actions agreed for implementation.

Table 6: Summary of recommendations arising from 2010/11 certification work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
The Council should ensure there are more rigorous checks of claims before submission to the Central Grants Coordinator	High			Annette Geragusan
All claim and return compilers should ensure that claims are compiled in line with the grants protocol that was updated in 2009. In particular: <ul style="list-style-type: none"> cross-referencing claims to the relevant Certification Instructions; and providing evidence that managers have checked the claim before submission to the Central Grants Coordinator 	Medium			Annette Geragusan
A note should be included on all files of the discussion which takes place at the meeting at which the grant is signed by the authorised signatory.	High			Annette Geragusan

Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 7: Summary of certification fees including grant planning

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	£60,712	£126,455	Council staff involved in this year's CAKE testing were more experienced. Therefore, less time was needed to provide training by audit staff and less time was spent on certification work. In addition, Council staff were required to input less CAKE documentation in workbooks this year so certification work was quicker. This year's testing identified fewer fails so less time was spent on follow up work. Last years fee includes time spent responding to DWP on issues identified in previous years.
Pooling of housing capital receipts	£3,368	£2,376	The fee increased due to an increase in the properties sold in 2010/11, leading to more work. In addition, more testing of the new administration costs calculation following unification across the three districts.
HRA subsidy	£2,095	£2,778	Last year the Council prepared, and I certified, two returns. This year there was a combined return, saving some work.

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing finance base data return.	£8,030	£14,098	This is the second year that a combined return was prepared as a unitary authority and although there was no change or improvement to systems, officers were able to produce reports more quickly and accurately in support of certification work. Additional testing was however required this year in preparation for the new housing subsidy regime in 2012/13.
National non-domestic rates return.	£14,232	£8,951	Testing involved increased sample sizes this year in accordance with guidance. More cells were tested in detail in 2010/11. In addition, the seven different district systems, now merged, caused a few problems in producing reports on a timely basis to support the figures in the claim. This should not be a problem in future years.
Teachers' pensions return.	£2,796	£5,670	The Council amended last year's claim as a result of reports being produced with incorrect parameters. This led to significant extra work. The problem did not recur this year.
Sure start, early years and childcare grant and aiming high for disabled children grant	£2,750	£5,145	The system of internal control has improved between the 2 years. This was evident by the reduced time taken to certify the grant and fewer issues highlighted in the grant qualification letter issued this year.
School centred initial teacher training – Durham Secondary applied and Learn Ed (2 returns)	£3,798	£4,190	Not applicable.
Disabled facilities	£1,712	£2,171	Updated guidance on sample sizes resulted in less work in 2010/11.
Single programme	£4,048	£5,566	Two Single Programme claims were certified in 2009/10. Only one claim was certified in 2010/11. The claim was submitted by the deadline but additional testing was requested by ONE North East.
Local transport plan: major projects	£0	£1,068	There was no claim to certify in 2010/11.
Total	£103,541	£178,468	

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



www.audit-commission.gov.uk

February 2012

Audit plan

Durham County Council Pension Fund

Audit 2011/12



Contents

Introduction.....	3
Accounting statements and Pension Fund Annual Report.....	4
Key milestones and deadlines	8
The audit team	9
Independence and quality	10
Fees	11
Appendix 1 – Independence and objectivity	13
Appendix 2 – Basis for fee.....	15
Appendix 3 – Glossary.....	16

Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

My audit of the accounting statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Accounting statements and Pension Fund Annual Report

I will carry out the audit of the accounting statements included within the Council’s Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I also report on the accounting statements included in the Pension Fund Annual Report. I am required to issue audit reports giving my opinion on whether the accounting statements give a true and fair.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Pension Fund to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Fund;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Fund’s information systems.

Identification of additional risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Significant risks**

Risk	Audit response
<p>Value of Unquoted Investments</p> <p>The value of unquoted investments with Alliance Bernstein may be incorrect.</p> <p>The value of unquoted funds in the accounts will be the value calculated by the Fund Manager as in previous years. Last year, officers did not get any assurance before the audit to support the valuation applied by Alliance Bernstein.</p>	<p>I will work with officers to ensure that they obtain accounts and other appropriate supporting documents to verify the valuation by the Fund Manager of unquoted investments before submission of the accounts for audit.</p>

Table 2: **Specific risks**

Risk	Audit response
<p>Completeness of Related Party Transactions.</p> <p>Disclosure of related party transactions may be incomplete.</p> <p>There have been problems in previous years in obtaining written declarations promptly, particularly from members of the Pension Fund Committee who are not Durham County Council members.</p>	<p>We will review the management controls in place for the identification and disclosure of related party transactions.</p> <p>We will undertake substantive testing once the draft accounts are received.</p>

Risk **Audit response**

Compliance with CODE of Practice on Local Authority Accounting

The Pension Fund accounts may not fully comply with the CODE.
 The Pension fund accounts may not include all information required by the CODE.
 We will review management controls in place to ensure that the Pension Fund accounts are CODE compliant.
 We will undertake substantive testing once the accounts are received.

Testing strategy

My audit involves:

- Review of the work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

The nature and timing of my proposed work is as follows.

Table 3: **Testing**

	Review of internal audit	Reliance on work of experts	Controls testing	Substantive testing
Interim visit	Governance and Funding Investments Contributions Benefits and other expenditure		Journal controls	TVs Out Bank reconciliation

	Review of internal audit	Reliance on work of experts	Controls testing	Substantive testing
Final visit		Actuarial information in accounts notes	TVs In reconciliation Contributions receivable reconciliation Benefits payable reconciliation Investment income reconciliation	All material accounts balances and disclosures

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Pension Fund Annual Report

I will also review and report on the accounting statements included in the Pension Fund's Annual Report prepared under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Key milestones and deadlines

The Pension Fund is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinions on the accounting statements included in the Statement of Accounts and the Pension Fund Annual Report by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	January to April 2012	Interim Governance report
Opinion: receipt of accounts and supporting working papers	by 30 June 2012	
Opinion: substantive testing	July to September 2012	Final accounts report
Progress meetings	As and when required	
Present Annual Governance Report at the Audit Committee	By 30 September] 2012	Annual Governance Report
Issue opinion on accounting statements included in the Statement of Accounts	By 30 September 2012	Durham County Council (DCC) Auditor's report
Issue opinion on accounting statements included in the Pension Fund Annual Report	By 30 September 2012	DCC Auditor's report
Summarise overall messages from the audit	October 2012	DCC Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Cameron Waddell District Auditor	c-waddell@audit-commission.gov.uk 0844 798 1632	Responsible for the overall delivery of the audit including quality of reports, signing the opinion and liaison with the Chief Executive.
Catherine Banks Audit Manager	c-banks@audit-commission.gov.uk 0844 798 1601	Manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director Resources and Heads of Finance.
Sharon Liddle Team Leader	s-liddle@audit-commission.gov.uk 0191 383 6410	Leads the on-site team in delivering the audit.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £42,551, as set out in my letter of 6 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £42,551 which represents a small increase of £51 on the audit fee for 2010/11. The scale fee reflects the Audit Commission's decision not to increase fees in line with inflation.

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Corporate Director Resources and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have not identified any specific actions that you could take at this stage.

Total fees payable

In addition to the fee for the audit, the Audit Commission will make charges for the agreed provision of non-audit services under the Audit Commission’s advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	42551	42500	51
Non-audit work	0	0	0
Total	42551	42500	51

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement. The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission’s Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.
<i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i>		

Appendix 2 – Basis for fee

Assumptions

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting statements on which I can rely.
- The Council provides:
 - good quality working papers and records to support the accounting statements and the text of other information to be published within the statements by 30 June 2012;
 - the full text of the Pension Fund Annual Report by 31 August 2012;
 - other information as requested within agreed timescales; and
 - prompt responses to draft reports.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The Pension Fund accounts are included within the annual statement of accounts that the Council is required to prepare. These report the financial performance and financial position of the Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Governance Statement

The annual report on the Fund's systems of internal control that supports the achievement of the Fund's policies aims and objectives.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to the [Pension Panel] before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprise all work carried out an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Internal control

The whole system of controls, financial and otherwise, the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report. Also a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Pension Fund Annual Report

The annual report, including accounting statements, the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2012.
Design and production by the Audit Commission Publishing Team.
Image copyright © Audit Commission.

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

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



This page is intentionally left blank

Audit Committee

22 March 2012



**Changes to the Code of Practice for
Local Authority Accounting in the UK
for 2011/12**

Don McLure, Corporate Director Resources

Purpose of the Report

- 1 The purpose of the report is to provide the Audit Committee with a summary of the key accounting changes in the latest edition of the **Code of Practice for Local Authority Accounting in the UK** (the Code). These changes apply to 2011/12 accounts.
- 2 The report is presented in accordance with paragraph 4.2.3 of the Committee's operational terms of reference which requires it **'to maintain an understanding of internal and external reporting requirements'**.
- 3 Appendix 2 provides a summary of all changes and their relevance to the Council.

Background

- 4 The Code is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/LASAAC Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.
- 5 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2011. It supersedes the 2010/11 Code.
- 6 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003
- 7 The CIPFA/LASAAC Code Board overseen by the Financial Reporting Advisory Board is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances. It is anticipated that an

update will be issued to provide accounting guidance on any regulations issued in respect of the Carbon Reduction Commitment Scheme. Guidance on other legislative developments may also need to be covered in an update in 2011/12.

Recommendations and reasons

8 Members are asked to note the changes detailed in Appendix 2.

Contact: Hilary Appleton Tel: 0191 383 3544

Appendix 1: Implications

Finance –

There are no direct financial implications arising for the Council as a result of this report, although by implementing the changes in the Code in our financial reporting we are demonstrating efficient arrangements for the proper administration of the County Council's 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

Appendix 2: Changes to the Code of Practice for Local Authority Accounting in the UK for 2011/12

The table below provides a summary of the changes in the 2011/12 CIPFA Code and their applicability to Durham County Council.

	Change	Relevant to Durham County Council
1	The 2011/12 Code provides guidance on accounting for income from the Community Infrastructure Levy and Business Rate Supplements (see section 2.2).	Yes
2	Following the announcements in the Spending Review, the 2011/12 Code does not include any requirements in respect of the Carbon Reduction Commitment scheme. An update to the 2011/12 Code will be issued that will incorporate the required changes to the Code.	Yes, if an update to the Code is issued for 2011/12.
3	The 2011/12 Code requires additional disclosures in respect of remuneration and exit packages. <ul style="list-style-type: none"> • Disclosure of remuneration and pension contributions in respect of senior employees is required in England and Wales. • The Code has introduced a requirement to disclose the number and cost of exit packages agreed. 	Yes
4	The 2011/12 Code introduces a requirement that, within the annual governance statement or the statement on the system of internal financial control, an authority includes a specific statement on whether the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (see section 3.7).	Yes
5	The 2011/12 Code incorporates the changes made to the Accounts and Audit Regulations in Wales regarding the dates at which the financial statements are required to be approved by members (see section 3.8).	Yes

	Change	Relevant to Durham County Council
6	The 2011/12 Code amends the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities. Additional guidance on the definition of a related party is also included (see section 3.9).	Yes
7	The 2011/12 Code incorporates the effect of regulations and statutory guidance introduced to mitigate the impact of the transition to IFRS on the General Fund (see sections 4.2.3, 4.3.3, 6.2.5 and 8.2.3).	Yes
8	The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets (see section 4.10). Heritage assets are carried at valuation where possible, and additional disclosures are required. The Code also permits, but does not require, authorities to adopt the measurement and disclosure requirements within FRS 30 for community assets (see paragraphs 4.1.2.28 and 4.1.4.5). These changes amount to changes in accounting policy that may require additional disclosures in both the 2011/12 and 2010/11 financial statements. The disclosure requirements are set out in Appendix C to the Code. ¹	Yes, subject to decisions on materiality by the Council.
9	The 2011/12 Code clarifies that financial instrument disclosures are required in respect of leases and PFI, PPP and similar schemes (see section 7.1).	Yes
10	The 2011/12 Code incorporates minor changes to the disclosures of the nature and extent of risks arising from financial instruments. Additional disclosures are also required where the level of soft loans granted by an authority is material (see section 7.4).	Yes

¹ Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of heritage. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, historic motor vehicles, civic regalia, orders and decorations (medals), museum and gallery collections and works of art. Community assets (including parks (excluding archaeological sites); cemeteries and crematoria (land only); and allotments where there are restrictions on alternative uses) are not heritage assets, but are accounted for as property, plant and equipment.

	Change	Relevant to Durham County Council
11	<p>The 2011/12 Code includes clarification that where an authority is a party to a joint venture, does not have joint control of that joint venture but does have significant influence, the interest in the joint venture should be accounted for as if it were an associate in line with IAS 31.</p>	Yes, subject to decisions on materiality by the Council.
12	<p>The 2011/12 Code clarifies the requirements in a number of areas where uncertainty was identified in the 2010/11 Code:</p> <ul style="list-style-type: none"> • The fair value of surplus assets should be based on the existing use value of the asset in its last operational use (see paragraph 2.1.2.26). • The adaptations of IAS 20 Government Grants apply equally to capital and revenue grants (see paragraph 2.3.1.2). • The 2011/12 Code replaces the term 'Machinery of Government changes' with 'combinations of public sector bodies' and clarifies the requirements for combinations involving authorities and other public sector bodies, and for transfers of functions from authorities to non-public-sector bodies (e.g. social enterprises) (see section 2.5 and chapter nine). • The 2011/12 Code confirms that the difference between the net cash received from the Collection Fund and the major preceptor's share of cash collected from council tax debtors by the billing authority (England only) is a non-cash item that is not reported in the Cash Flow Statement (see paragraph 2.8.2.6). • The 2011/12 Code confirms that irrecoverable VAT can be included in the cost of an asset where appropriate (see paragraph 2.9.2.7). • The presentation of the financial statements (section 3.4) and HRA statements (section 3.5) have been clarified. 	<p>Yes</p> <p>Yes</p> <p>Unlikely at this stage.</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>

	Change	Relevant to Durham County Council
	<ul style="list-style-type: none"> • The statutory accounting requirements in respect of the HRA and Major Repairs Reserve have been clarified (see paragraph 4.1.3.7). • The 2011/12 Code clarifies the criteria to be used in classifying leases (see paragraphs 4.2.2.7 and 4.2.2.9). Additional or amended guidance has been incorporated in respect of changes to lease terms (paragraph 4.2.2.8) and the allocation of minimum lease payments between land and buildings (paragraph 4.2.2.10). • The 2011/12 Code clarifies that the disclosures in respect of non-current assets held for sale apply to investment properties that meet the criteria under section 4.9 of the Code (see section 4.4). • The 2011/12 Code clarifies that this section of the Code applies to leased intangible assets after initial recognition (see paragraph 4.5.1.3), and that an intangible asset is only recognised if the cost of the asset can be measured reliably (see paragraph 4.5.2.3). • The 2011/12 Code requires authorities to present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups) (see paragraph 4.9.4.2). 	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank