



Audit Committee

Date **Thursday 27 June 2013**
Time **9.30 am**
Venue **Committee Room 1B, County Hall, Durham**

Business

Part A

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

1. Apologies for Absence
2. Minutes of the meeting held on 31 May 2013 (Pages 1 - 8)
3. Declarations of interest, if any
4. Disposal of Asset Procedures - Report of Head of Planning and Assets (Pages 9 - 40)
5. Draft Annual Governance Statement for the year April 2012 - March 2013 - Report of Corporate Director, Resources (Pages 41 - 58)
6. Annual Internal Audit Report 2012-13 - Report of Manager of Internal Audit and Risk (Pages 59 - 84)
7. Annual Review of the Effectiveness of Internal Audit - 2012/13 - Report of Corporate Director, Resources (Pages 85 - 200)
8. Internal Audit Plan 2013-14 (July 2013 to June 2014) - Report of Manager of Internal Audit and Risk (Pages 201 - 216)
9. Forward Plan of Audit Committee Business - Report of Manager of Internal Audit and Risk (Pages 217 - 228)
10. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
11. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

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

12. Direct Payment Internal Audit Report - Report of Manager of Internal Audit and Risk (Pages 229 - 248)
13. Social Care and Direct Payments - Report of Head of Commissioning (Pages 249 - 252)
14. Annual Fraud Report 2012/13 - Report of Manager of Internal Audit and Risk (Pages 253 - 282)
15. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration

Colette Longbottom
Head of Legal and Democratic Services

County Hall
Durham
19 June 2013

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

Councillor E Bell (Chairman)
Councillor J Rowlandson (Vice-Chairman)

Councillors L Armstrong, C Carr, S Forster, J Hillary, O Temple,
T Smith and W Stelling

Co-opted Members:

K Larkin-Bramley and T Hoban

Contact: Jackie Graham

Tel: 03000269704

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Friday 31 May 2013 at 9.30 am**

Present:

Councillor E Bell (Chair)

Members of the Committee:

Councillors C Carr, S Forster, J Rowlandson (Vice-Chair), T Smith, W Stelling and O Temple

Co-opted Members:

Mr T Hoban

1 Apologies for Absence

Apologies for absence were received from Councillors L Armstrong and J Hillary and K Larkin-Bramley

2 Minutes of the meeting held on 4 April 2013

The Minutes of the Meeting held on 4 April 2013 were confirmed as a correct record and signed by the Chairman.

3 Declarations of interest, if any

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 and Fire Authority.

4 Bi-Annual Report to Council - Work of the Audit Committee (November 2012 - April 2013) - Report of the Chair of Audit Committee

The Committee considered the Bi-Annual Report of the Audit Committee which covered the period November 2012 – April 2013 and would be presented to the County Council at its next meeting in accordance with best practice guidelines (for copy see file of Minutes).

Resolved:

That the draft report be agreed and reported to the meeting of the County Council being held on 19 June 2013.

5 Compliance with International Auditing Standards - Report of the Chair of Audit Committee

The Committee considered a report of the Chair that provided a response to a letter from the external auditors, Mazars, regarding compliance with International Auditing Standards (for copy see file of Minutes). A response from the Corporate Director, Resources was appended to the report for Members information that related to a similar request from Mazars.

Resolved:

That the response from the Chair to the external auditor on behalf of the Audit Committee be noted..

6 Action Plan 2011/12 Audit of Accounts - Update - Report of Corporate Director, Resources

The Committee received an update from the Corporate Director of Resources on the progress on implementation of the Action Plan from the agreed recommendations for improving control weaknesses incorporated in the External Auditor's 2011/12 Interim and Final Governance Reports (for copy see file of Minutes).

The Corporate Director, Resources informed Members that there was 1 outstanding action from 2010/11 relating to authorised signatories for payroll that would be completed in September following a software upgrade, and 1 outstanding action from 2011/12 relating to authorised signatories of invoices.

Resolved:

That the report be noted.

7 Update on the Final Accounts Timetable 2012/13 - verbal report of Assistant Finance Manager, Strategic Finance

The Corporate Director, Resources gave an assurance to Members that deadlines would be met for the draft accounts to be submitted to Mazars by the end of June and for final approval in September 2013.

8 External Audit Progress Report - Report of Mazars

The Committee considered a report of the External Auditor, Mazars that set out progress on the 2012/13 audit (for copy see file of Minutes).

Catherine Banks, Senior Audit Manager advised that there were two issues highlighted relating to significant deficiencies in internal control; bank reconciliations and journals.

The Corporate Director, Resources advised that there had been significant improvements made with regards to bank reconciliations. Robust systems were now in place and reconciliations had now been carried out up to the end of March.

Members asked how the reported agreed limit of £1m for journal authorisation had been determined. The external auditor explained that it was understood that this was primarily a resourcing issue and that this limit had been determined by management as appropriate at this time given that the journal authorisation process is currently manual. It was further stated that it was understood that the County Council were looking at ways to automate the process in future. The Corporate Director, Resources agreed that he would seek further information regarding any plans to reduce this limit in future and report back to Members at a future meeting.

Resolved:

That the progress report be noted.

9 Strategic Risk Management - Progress Report for the Quarter period January to March 2013- Report of Corporate Director, Resources

The Committee considered a report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and that gave an insight into the work carried out by the Corporate Risk Management Group during January to March 2013 (for copy see file of Minutes).

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

Resolved:

That the report be noted to provide assurance that strategic risks were being effectively managed within the risk management framework across the Council.

10 Partnership Governance - Report of Corporate Director, Resources

The Committee considered a report of the Manager of Internal Audit and Risk that advised Members of known arrangements in place that could provide assurance on the adequacy and effectiveness of the Council's partnership governance arrangements (for copy see file of Minutes).

The report also advised the Committee of the current guidance available to elected members when serving on outside bodies or partnership.

Whilst it was noted that the Guidance was currently being reviewed, Councillor Temple was still concerned that the guidance did not address what role the council was expecting members to perform when they are appointed to outside bodies as the Council's representative and to whom they should report etc. It was agreed that this issue needs further consideration.

Resolved:

1. That the identified sources of assurance on the Council's partnerships governance arrangements and plans to develop assurance maps to help identify all key sources of assurance, improve understanding of what assurance is provided and identify any gaps where further assurance is required is noted.
2. That the current guidance available to elected members on their involvement with partnerships and outside bodies is noted but that further consideration is given to elected members roles on such bodies.

11 External Funding - Grant Claw back - Report of Corporate Director, Resources

The Committee noted a report of the Corporate Director, Resources that provided information on occasions when grant paid to the Council has had to be repaid as grant conditions had not been complied with (for copy see file of Minutes).

The Corporate Director, Resources assured Members that related risks, including the risk of claw back, are being effectively managed.

Resolved:

That details of grant claw back as set out in Appendix 2, and work being undertaken by Internal Audit to help improve the management of grant related risks be noted.

12 Internal Audit Progress Report - Quarter Ended 31 March 2013 - Report of Manager of Internal Audit and Risk

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 July to March 2013 (for copy see file of Minutes).

Members noted that an audit relating to school surplus/deficit balances had been deferred to 2013/14. The Manager of Internal Audit and Risk advised that work was currently being undertaken by the schools funding team and officers within CAS to help schools manage deficit budgets. The Corporate Director, Resources added that a schools deficit budget was a significant risk for the County Council especially if the school was forced to become an Academy as the deficit would stay with the Council. He advised Members that there would be a more robust monitoring of schools budgets going forward.

Resolved:

1. The amendments made to the 2012/13 Annual Audit Plan were noted.
2. Work undertaken by Internal Audit during the quarter ended March 2013 was noted.
3. Progress made by service managers in responding to the work of Internal Audit was noted.

13 Exclusion of the Public

Resolved:

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

14 Internal Audit Progress Report - Quarter Ended 31 March 2013 - Report of Manager of Internal Audit and Risk

The Committee considered Appendix 7 of the report of the Manager of Internal Audit and Risk which informed Members of internal audit recommendations which were overdue (for copy see file of Minutes).

Whilst it was reported that good progress had been made by management on the implementation of audit recommendations, it was noted that some actions previously reported to Committee as overdue were still overdue.

The Corporate Director, Resources said the Corporate Management team were aware of the overdue actions and these would continue to be monitored. He reminded Members that they could call officers in to explain overdue actions at future Committee meetings.

Resolved:

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

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Action Plan - Work of Audit Committee - Part A – 27 June 2013

Ref No.	Date of Meeting	Item No.	Title of Report	Action Required	By Whom	Report to Committee (date)/ implemented
	22.11.12	14	Fraud & Irregularity	Further assurance on work carried out with partners. To be incorporated into the Annual Fraud & Irregularity Report	Manager of Internal Audit & Risk	27/6/13 Agenda Item 14
9.	21.2.13	11	Windlestone Hall	Update to Committee on actions taken to improve systems and processes relating to disposals. Process map of example to illustrate the process Internal Audit to review effectiveness of controls as part of next year's audit plan (approximately 6 months' time) and outcomes to be reported back to Committee when complete	Head of Planning and Assets Manager of Internal Audit and Risk	27/6/13 Agenda Item 4 28/11/13
10	21.2.13	10	Direct Payments	Directs payment audit with limited assurance - Full Audit report to be brought back and service managers to attend meeting to provide further information	Manager of Internal Audit and Risk/ Personalisation Development Manager	27/6/13 Agenda Item 12 & 13
12	31.5.13	10	Assurance on Partnership Working	Clarity sought about role of Members whilst serving on outside body or partnership and what the Council expects from the Member	To be considered outside of Audit Committee by Head of Legal and Democratic Services	N/A
13	4.4.13	15	Grants and Loans Paid to Third Parties	The outcomes of planned internal audit work in this area to be reported to committee on completion	Manager of Internal Audit and Risk	TBA
14	31.5.13	8	External Audit Progress Report	Clarification on why £1m had been selected as threshold for Journals requiring authorisation and any plans to reduce the limit in future.	Strategic Finance Manager – Corporate Finance	TBA

Audit Committee

27th June 2013



Disposal of Asset Procedures

Report of Stuart Timmiss Head of Planning and Assets

Purpose of the Report

1. At a meeting of this committee held on 21st February 2013 to consider a report on the disposal of Windlestone Hall, the Committee requested that an update be brought back on actions taken and planned to improve systems and processes for disposals and that a process map illustrating a disposal be provided.
2. The Committee also requested that Internal Audit review the effectiveness of controls in approximately 6 month's time, as part of next year's audit plan, and report the outcomes to a future meeting of the Committee.

Background

3. For members information the Action Plan for Implementation is attached as Appendix A. To accord with the lessons learned from the investigation the service has implemented all of the recommendations of the Action Plan.
4. A guidance note for disposals has been implemented as part of the Disposal and Acquisition Strategy which has been incorporated into the Councils Property Strategy. This is going to Cabinet for formal adoption in July as one of a number of Strategies relating to the Councils Asset Management Planning policies.
5. The Disposal and Acquisition element of the strategy is attached as Appendix B and Appendix C sets out specific procedural guidance for officers on disposals. A process map illustrating the Disposal process is attached as Appendix D.

Recommendations and Reasons

6. The events subject to the investigation happened prior to the restructure of Assets in December 2012 and the establishment of a dedicated Disposals and Acquisitions team and a Valuation team. This has provided capacity, clarity and focus within the Property Management Team. Whilst many of the

report's recommendations were already being addressed, further work has been done to enhance the process.

7. Whilst the committee was assured officers were taking appropriate action to improve the management of risks associated with land and building disposals in response to control weaknesses identified through the review, it is hoped that the revised and updated Disposal Strategy and process map gives further assurance to this view.
8. Nevertheless the Committee also requested that Internal Audit review the effectiveness of controls in approximately 6 month's time, as part of next year's Audit Plan, and their findings will be brought back to a future meeting of the Committee.

Contact: Gerard Darby Tel: 03000 267024

APPENDIX A - ACTION PLAN FOR IMPLEMENTATION

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

APPENDIX A - ACTION PLAN FOR IMPLEMENTATION

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

APPENDIX A - ACTION PLAN FOR IMPLEMENTATION

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

APPENDIX A - ACTION PLAN FOR IMPLEMENTATION

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

APPENDIX A - ACTION PLAN FOR IMPLEMENTATION

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

APPENDIX A - ACTION PLAN FOR IMPLEMENTATION

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

APPENDIX A - ACTION PLAN FOR IMPLEMENTATION

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

APPENDIX A - ACTION PLAN FOR IMPLEMENTATION

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

APPENDIX A - ACTION PLAN FOR IMPLEMENTATION

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

Appendix B *extract from Property Strategy*

Disposal Strategy

1.1 Purpose of a Disposal Strategy

- 1.1.1 The County Council owns a range of land and property (assets), which presently (April 2012) has a Balance Sheet value in the region of £1.9billion. These assets need to be actively managed in order to ensure that Councils aims and objectives are realised and that value for money is achieved from their use.
- 1.1.2 As the requirements of the Council evolve there will be significant opportunities to rationalise its land and property as improvements in service design and delivery are realised. To accord with Government advice and best practice the Council has developed and implemented a formal Disposal Strategy to form part of its overall Asset Management Planning process.
- 1.1.3 The objectives of the strategy are to assist the Council in making best use of its resources by rationalising or disposing of surplus or under-performing assets in line with the Councils vision, aims and objectives.
- 1.1.4 The strategy therefore involves three separate and distinct elements
- The process for identifying and declaring assets as surplus,
 - The procedures for managing the asset prior to its disposal and
 - The formal disposal of the asset.
- 1.1.5 By encapsulating these in one document it ensures that the Council's policies, guidance and procedures are clear and transparent. It is intended for use by Council officers and to inform developers and members of the public.
- 1.1.6 It is important that each land disposal is treated on its own merits and nothing in this strategy will bind the Council to a particular course of action in respect of an asset disposal. Alternative methods of disposal, not specifically mentioned in this policy, may be used where appropriate, subject to obtaining proper authority.

1.2 Definition of a Disposal

- 1.2.1 The transfer of a freehold or a leasehold interest to a third party, surrenders of leases to landlords or assignments of leases to third parties for the payment of a premium or a reverse premium.

1.3 Statutory Powers for Disposal

- 1.3.1 The disposal of assets are subject to statutory provisions, in particular the overriding duty on the Council under section 123 of the Local Government Act 1972 to obtain the best consideration that can be reasonably obtained for the disposal of land which includes the granting of leases in excess of 7 years.
- 1.3.2 This applies to assets held for most Local Authority functions, except for the notable exceptions of disposals of assets held for housing purposes within the Housing Revenue Account or otherwise let on secure tenancies (governed by the Housing Acts) and for planning purposes (governed by planning legislation).
- 1.3.3 The General Disposal Consent (England) 2003 gives a Local Authority the ability to dispose of assets, or grant a lease in excess of 7 years for less than the best consideration reasonably obtainable, where:-
- The Authority considers that the purpose for which the land and property is to be disposed is likely to contribute to the promotion or improvement of the economic, social or environmental well-being of the whole or any part of its area or any persons resident or present in its area; and
 - The difference between the full market value and the actual consideration payable does not exceed £2m
- 1.3.4 If the Council wishes to dispose of assets for less than best consideration, and it is not covered by the General Disposal Consent, the Council can resolve to do so, but will require the formal consent of the Secretary of State for Communities and Local Government (CLG).
- 1.3.5 Such disposals can be subject to a challenge that the Council is needlessly foregoing receipts and it is therefore essential that such disposals only take place in clear furtherance of Council priorities.
- 1.3.6 If it is considered that an asset is used for social, community and public purposes and the benefits of that service are deemed to outweigh the value of continuing ownership by the County Council on behalf of all Council Tax payers, then the Council may consider the transfer of the asset to a community group. This may or may not be at less than market value and determined by considerations such as:
- The furtherance of core Council policies.
 - That it is a more effective method of delivering that service.
- 1.3.7 Any such transfer must be conducted in accordance with a consistent policy of transferring these assets to ensure that the Council retains the ability to intervene and seek possession of its asset if it is identified that the transferee is no longer

able to provide the community service that led to the transfer at less than market value. To retain such control it is therefore recommended that transfer be through the grant of a leasehold transfer with highly restrictive user clauses to strictly specify use as a community asset linked to its stated objectives of the group.

2 THE PROCESS FOR IDENTIFYING AND DECLARING ASSETS AS SURPLUS

2.1 Definition of Surplus Property

2.1.1 Property should be regarded as being surplus if:

- It makes no contribution to delivery of the authority's services, corporate aims or objectives, either directly or indirectly, nor generates income and has no potential for future service delivery or community regeneration purposes.
- An alternative site has been identified which would achieve a more cost effective delivery of service and the existing site has no potential for future alternative service delivery or regeneration purposes.
- Its disposal is important for the delivery of the Councils aims and objectives

2.2 Definition of Under-Performing Property

2.2.1 Property should be deemed to be under-performing and with potential for being declared surplus to requirements if:

- Part of the property is vacant and likely to remain vacant for some time.
- The beneficial use or financial return (in terms of both revenue and capital growth) generated from the property is below that which could be achieved from an alternative use, or from a disposal and an alternative investment opportunity.

2.3 Identification Process

2.3.1 The process for identifying surplus or underperforming property will arise in a number of ways as follows:-

- Service Asset Management Plan processes
- Service reviews declaring property no longer meeting operational needs.

- Property review processes
- Accommodation/Service Strategies
- Condition Surveys
- Local Plan designation and development of a Local Development Framework.
- Master-Planning exercises
- Regeneration schemes
- Property has potential for development or redevelopment and service can be relocated.
- Capital Accounting valuation processes which considers development/ alternative uses.
- Approaches from third parties e.g. developers, adjoining owners.
- Entering into development partnerships such as asset backed vehicles or local housing companies.
- Requests from community groups or public bodies to transfer assets.
- Where a statutory duty to transfer arises.

2.3.2 For the avoidance of doubt where a Service Grouping no longer require a property but do not want it placed on the open market for sale although would like it demolished and the cleared site retained by the Council, a property is not classified as surplus. A property should only be classified as being surplus if both building and site are no longer required and are available for disposal.

2.3.3 Until such time as a property is formerly declared “surplus” to the County Council’s requirements the service grouping is responsible for its repair, maintenance and demolition costs.

2.4 Disposal of non surplus or under-performing assets for community regeneration

2.4.1 It is acknowledged that there are occasions where the Authority may wish to dispose of property that is not formally classified as surplus or considered to be under-performing. Examples include disposals to developers for community regeneration schemes by way of asset backed vehicles or nominated registered housing associations for the development of affordable housing and extra care schemes.

2.4.2 The Council has approved a Policy for the “Disposals of Land at an Undervalue” which was approved by Cabinet on 11th November 2009.

2.5 External consents and formal notification of a disposal

- 2.5.1 External consents are required to declare certain types of properties surplus i.e. schools where DfE and Sports Council consent is required and public open space that has to be advertised. This process should be commenced at the earliest opportunity as it can take some considerable time to obtain these consents.
- 2.5.2 Once a property has been identified as being potentially surplus, Asset Management will establish whether there are any constraints on the site such as legal, planning, statutory authorities and government policy. It will also establish whether there are any financial constraints such as the property having been the subject of funding in the past that necessitates the repayment of grant monies.

2.6 Notice Procedure

- 2.6.1 Service Departments must give the Assets Team within the Regeneration and Economic Development Directorate at least three months written notice of their intention to vacate County Council property. In instances where properties are leased in by the Authority, Assets will send a trigger notice to the occupying service and a joint decision will be taken as to whether to renew the lease and preferably heads of terms for a new agreement.
- 2.6.2 At the expiry of the three months period of notice, the Service Department must leave the property in a clean and tidy condition to the satisfaction of the of Asset Management. It is important that the following actions are properly considered and responsibility for carrying out agreed between Asset Management and the Service department:
- meter readings
 - servicing contracts
 - intruder and fire alarms
 - draining down of pipes
 - handover of keys
 - removal of furniture and equipment
 - security
 - risk assessment
 - responsibility for ensuring payments for outgoings such as NNDR are stopped

2.7 Formal Decision Making Process

- 2.7.1 Once a property falls within the category of surplus, Assets will then instigate a process of consultation before seeking a formal approval, as set out in the Councils

constitution, to declare a property as being surplus to requirements. Properties should only be sold after rigorous option appraisal testing for retained future authority needs and those of related bodies. Consultees will include other Council Services including the Community Development Team to notify of any potential Third Sector interest, Ward Members, Public Sector partners, local Parish and Town Councils and tenants of the property if appropriate.

2.7.2 The Authority has developed a separate strategy for the transfer of assets to the community, but the overarching strategy should be that a transfer should only take place if it is:-

- supported by a robust business case,
- the transferee has sound long term management and governance arrangements
- the proposed use for the property meets the authority's aims and objectives and community strategy,
- there is as agreed time scale within which a disposal is expected to be completed, and,
- certainty of funding.

3 THE PROCEDURES FOR MANAGING THE ASSET PRIOR TO ITS DISPOSAL

3.1 Management Responsibilities

- 3.1.1 Assets are responsible for the management of the surplus property from the agreed date at the end of the three month formal notice period. If any temporary use is to be made of a surplus property for storage, temporary occupation, etc, this must be first agreed with the Assets. No demolition work is to be carried out to any surplus property without the prior inspection of the property by the Asset Management and their approval in writing. Assets, in consultation with the Service department, will be responsible for formally advising all interested parties that with effect from a specified date ,Assets are responsible for a property with details of the and the lead contact officer during the disposal stage.

3.2 Budget Responsibilities

- 3.2.1. It is acknowledged that the costs of holding the property between declaration as surplus and disposal can be significant and the Service Grouping will retain responsibility for all outgoings required to manage the property prior to its disposal. The Service Grouping will benefit from full saving upon disposal.
- 3.2.2. Once the property is sold the budget transferred to Assets is transferred back to Service Grouping who then benefit from full saving. This will ensure Service Groupings are incentivised to rationalise property.
- 3.2.3. If a property has to be demolished prior to its disposal, then the costs for doing so will be met by the Capitalised Maintenance Budget, subject to budget availability and Assets determining whether it is in the best interests of the Council to do so, in terms of maximising the return to the Council.
- 3.2.4. Expenditure in relation to school buildings such as heating, lighting, rates, water, caretaking and cleaning are part of a delegated school budgets and the resources, on closure, stay within the Dedicated Schools Grant. There is no scope to direct these funds to Assets unless in relation to Aided schools, Foundation schools or Academies. In these circumstances, any costs associated with empty properties will be addressed by Assets through its Surplus Property Budget, with any exceptional costs to be treated as outside the Planning and Assets cash limit.

3.3 Data collection

- 3.3.1 A schedule of all surplus and potentially surplus property will be held within Assets .The schedule should be kept up to date at all times by the Assets Strategy team and available on a view only basis to key service representatives.

4 THE FORMAL DISPOSAL OF THE ASSET

4.1 Timescale

4.1.1 Surplus assets should be disposed of as expeditiously as possible. It is acknowledged however that in the interests of proper budgetary planning, the timing of a disposal needs to be considered against the background of the authority's budget and capital programme requirements, current state of the market, local and regional planning framework and potential for property value to increase in the future. Once these factors have been assessed the disposal will be included in the Councils formal Disposal Programme.

- i. Consideration should be given to obtaining planning consent or investment in the property prior to disposal to enhance its value and make it more attractive to the market.
- ii. In times when the market is not conducive to a disposal, a temporary use should be found for a property if possible, to circumvent the payment of Empty Property rates and security costs. In cases where there is an external letting then this should be by way of a contracted out lease under the Landlord and Tenant Act 1954 so that vacant possession can be easily obtained.

4.2 Disposal Process

4.2.1 All disposals should be arranged and managed by Assets. The Council should obtain the best consideration by the most appropriate method of disposal although consideration does not necessarily need to be financial.

4.2.2. Where appropriate, a planning brief will be prepared and included in sales particulars. It is acknowledged that purchasers will have their own development preferences and it is important not to be too prescriptive in stifling innovation to ensure best consideration is achieved and potential bidders are not deterred. On sensitive or large sites it is accepted that a brief will be required but given the resources and potential delays that this would cause. Assets will have the discretion as to whether a brief is required.

Consideration needs to be given at all times to the confidentiality of all property transactions particularly until legal formalities are completed.

4.3 Valuations

4.3.1 A valuation of the property for disposal should be undertaken at the earliest opportunity in the process by a suitably qualified member of the Royal Institution of Chartered Surveyors, and continually reviewed through the disposal process. All valuation should be counter-signed and approved by the Valuer's line manager.

Where it is decided to negotiate a disposal to a single party, rather than offer on the open market, all negotiations for disposals should be conducted or advised by a suitably qualified property professional, preferably a member of the Royal Institution of Chartered Surveyors.

4.3.2 Ombudsman guidance recommends that all negotiations should be conducted at the offices of the Council and with two people negotiating. Clearly both are unrealistic for every case but there may well be certain circumstances when one or both are appropriate to ensure and demonstrate that best practice is being adhered to.

4.4 Disposal at less than best consideration

4.4.1 The policy to be followed in disposals of land at an undervalue is referred to above. In addition where a disposal is undertaken at less than best price, then to protect the authority’s interest in the event of subsequent sales, it should include, where appropriate an asset lock, claw back or uplift clause, restrictive covenants, ransom strip retention, user rights or right of preemption.

4.4.2 Also a valuation should be undertaken to identify the undervalue (unrestricted less restricted value) and an attempt should be made to financially value the economic, social or environmental benefits to the authority and community which justify a disposal at less than best price.

4.4.3 The overriding factor to be considered when disposing at below the best price is to ensure that it is within the authority’s power to so, and the reasons are well documented, transparent and justifiable.

4.5 Method of disposal

The most appropriate method of disposal should be adopted from the following and Appendix C sets out an operational guidance note for each method of sale:-

METHOD:	WHEN USED:
<p>OPEN MARKET DISPOSALS</p> <ul style="list-style-type: none"> <li data-bbox="336 1464 635 1500">• Private Sale/Treaty <li data-bbox="336 1794 480 1830">• Auction 	<p>Limited interest with one or a small number of purchasers with a narrow valuation band . The land may or may not have been marketed as available for sale. A binding legal agreement is created on 'exchange of contracts' between the Council and the purchaser.</p> <p>Wide interest and easy to allocate a reserve. The sale will be advertised in advance and available to any interested party. A binding legal agreement is created upon the acceptance of a bid by the auctioneer</p> <p>Appropriate for sales where there are uncertainties such as planning, and, large or</p>

- 4.6.1 The Guidance from the Local Government Ombudsman recognises the problem caused to local authorities by 'late bids'. The Guidance says that difficulties are less likely if Councils ensure that exchange of contracts take place as quickly as possible after the decision to sell (or lease) is made. It suggests that local authorities should be allowed to sell at an agreed price within a reasonable period of reaching a 'subject to contract' agreement. Guidance for dealing with late bids is set out in Appendix C

4.7 Tenure

- 4.7.1 In cases where the Council does not wish to exercise any control over the future use of the property, other than through the planning process, then the disposal of the freehold will obtain the best price. In certain instances however, the Council may want to exercise some control of the future use of the land. In such cases restrictive covenants and/or claw back clauses may be appropriate or a leasehold disposal for a term necessary to ensure the satisfactory completion of the scheme. For example, a leasehold transfer to the community will usually need to be for at least 25 years to obtain the necessary grant funding.
- 4.7.2 A leasehold disposal to a developer for a major town centre mixed use regeneration scheme may need at least 150 years to secure institutional funding. Due to the complexity and time frames involved a Development Agreement will also usually be entered into before a formal disposal is concluded, plus in many instances a section 106 agreement setting out conditions and contributions to the community through the planning system. It is recommended that the property disposal and section 106 agreements be negotiated in parallel in order to maximise the benefits to the authority.
- 4.7.3 It is now becoming the norm for major regeneration disposals to be negotiated by dedicated teams of assets, finance, and legal professionals representing the authority, developer and funding bodies. Unless the Council has the necessary skills in-house it is recommended that the use of appropriate private sector specialists for these types of disposals is considered.

4.8 Disposal Costs

- 4.8.1 Surveyors Fees should be recovered from purchasers in accordance with the existing fees and Charges policy. At present these are:-
- Responsive Sales – 2% of disposal price with an initial £200 processing fee
 - Open market disposals – 2.5% of disposal price with a minimum fee of £1,000

Purchasers would also be responsible for the payment of the Councils actual legal costs

4.9 Marketing Strategy

4.9.1 An appropriate marketing strategy should be developed, either in house or for external disposal, with all costs being charged to the appropriate property cost centre.

4.10 Performance Management

4.10.1 Capital Receipts targets will be assessed annually and progress will be monitored by the Asset Management Plan Working Group and reported bi- annually to the Capital Member /Officer Working Group.

GUIDANCE FOR DISPOSAL METHODS

DISPOSAL BY PRIVATE SALE/TREATY

A disposal by private sale may take place after a period during which the land is put on the open market including advertising and generally marketing including signage that it is available for sale. In this case, the Council will be able to consider the highest bid as representing the best consideration that can be reasonably obtained. A disposal by private treaty can have a closing date and be by way of inviting sealed bids by that date if considerable interest is anticipated.

If land is to be sold by private sale without being marketed, then the reasons justifying a private sale must be recorded in writing. In some circumstances the Council may seek an independent valuation to verify that 'best consideration' is being obtained.

A private sale without the land being marketed may be justified where:

- the land to be disposed of is relatively small in size and an adjoining or closely located landowner(s) is (are) the only potential or likely purchaser(s);
- the nature of the Council's land ownership and that of the surrounding land ownership is such that the land must be sold to adjoining or surrounding landowners if best consideration is to be obtained;
- the Council's corporate objectives and best consideration can best be achieved by a sale to a particular purchaser;
- the sale is to a non-profit making organisation and the role of that organisation is conducive to the improvement of public services and facilities available within the County Council
- the purchaser has a particular interest in purchasing the premises or a particular association with the premises and where open marketing of the premises may lead that particular purchaser to reduce the value of their offer for the premises or withdraw their interest in the premises altogether;
- the purchaser has a particular interest in purchasing the site or a particular association with the site and where in the opinion of the Portfolio Members for Resources and Economic Regeneration and Development, open marketing of the site may cause undue hardship or unrest for that particular purchaser or where the sale of the premises to a party other than that particular individual would substantially and detrimentally affect the normal operation of the business associated with the premises;
- the disposal is as a result of the Right to Buy scheme.
- the Crichel Down Rules apply and the Council has decided to sell the land to the person from whom it acquired the land.

A legally binding agreement will not be reached until either contracts for the lease or sale of land are exchanged or a development agreement is signed.

DISPOSAL BY AUCTION

Sale by auction may be appropriate where there is no obvious potential purchaser and where speed and best price can be publicly demonstrated.

The authority of the Corporate Directors of Regeneration and Economic Development and Resources will be required, providing the reasons for a sale by public auction. A Council officer shall attend the auction to act on behalf of the Council.

The contract for sale or lease must be ready for exchange at the auction.

The binding contract will be made on the acceptance of the highest bid providing it has reached the reserve price. Contracts for the sale or lease will immediately be signed and exchanged.

DISPOSAL BY INFORMAL TENDER

A disposal by informal/negotiated tender differs from a formal tender in that neither the Council nor the successful bidder is legally obliged to enter into a contract for the disposal of the land. The informal tender process allows the Council to identify one preferred bidder with whom it may then negotiate further detailed terms or proposals for the development of the land concerned.

The Council may, as a part of the disposal process, request best and final offers for a sale, or informal development proposals for land that either meet a given specification, or a request for proposals. This process is particularly useful for large or complex development or regeneration sites requiring development and where the proposals may need to be developed in co-operation with the preferred bidder to meet the Council's corporate objectives and to achieve the best consideration that can be reasonably obtained.

Although not a formal tender, after the closing date these are formally recorded by the Head of Legal Services as a record of the offers received.

A binding legal agreement is not created until the exchange of contracts for sale or lease or the signing of a development agreement.

This method is suited to sales where there are uncertainties, particularly planning, and allows for use of conditional contracts, including clauses which can allow for further sums to become payable upon grant of planning permission at different points in the future.

DISPOSAL BY FORMAL TENDER

A sale of land by formal tender may be appropriate where:

- the land ownership is not complex;

- legal documentation for contracts/transfer are in place together with statutory searches and replies to standard enquiries;
- there are no uncertainties as to grant of a planning consent; and
- the Council is seeking obligations to be placed on the successful tenderer which are clear and capable of specification in advance.

Alternatively, this method can be considered where all matters to enable a tenderer to come to a firm price and raise funding for the purchase are in place and available as part of the tender package. For example, the disposal of land to a developer with an obligation to build industrial units for lease.

Other situations which may benefit from this type of sale are land or property sales which have attracted intense local interest from several local parties with a particular interest, or where late bids have, or are considered likely to be made.

This method can provide a well organised, transparent way of achieving completion when a timeframe is essential, but is often more costly and a longer lead in period is required.

Formal tenders will not be appropriate where the land ownership position is complex or the development proposals for the land are insufficiently identified or otherwise incapable of detailed specification at the pre-tender stage. This is particularly so where a detailed planning permission is required, such as a listed property or property in a Conservation Area.

Authority to use this method will be required from the Corporate Directors of Regeneration and Economic Development and Resources. The formal Tender Procedure to be adopted in such cases will be agreed with the Head of Legal Services.

With a formal tender process a legally binding relationship is formed when the Council accepts a tender in writing. It is essential therefore, that every aspect of the disposal is specified in the tender documents. The tender documents should include a contract for sale or lease which should be completed with the tenderer's details, the tender price, include a deposit cheque to preclude withdrawal of the tender prior to acceptance and be signed by the tenderer. It will be released unconditionally to the Council on submission of the tender.

Sale of land by formal tender will require a detailed specification to be drawn up. This needs to specify the land to be sold, any requirements to be met by the tenderer and any obligations that must be met.

The Council will place a public advertisement stipulating the property for sale. Those who have expressed their interest will then be invited to submit their

tender bids, in accordance with the tender procedure outlined.

DISPOSAL BY EXCHANGE OF LAND

Disposal by exchange of land will be appropriate when it will achieve best consideration for the Authority and is advantageous to the Council and other parties to exchange land in their ownerships.

Authority for a disposal of land by exchange with another land owner for alternative land will be obtained from the Cabinet Member for Regeneration and Economic Development, with the reasons for justifying this manner of disposal being recorded in writing. A binding legal agreement will be created when a contract is exchanged for the exchange.

The exchange will usually be equal in value, however, an inequality in land value may be compensated for by an equality payment or by other means where appropriate..

LATE BIDS AND OTHER CONSIDERATIONS

In the context of the methods of land disposal dealt with in this document, a late bid may occur:-

- in the case of a private sale, after a sale or lease has been agreed, but before exchange of contracts.
- in the case of a public auction, after the auction has been closed, but the reserved price not having been met.
- in the case of a formal tender, after the closing date for tenders, but before acceptance by the Council of the successful tender.
- in the case of an informal or negotiated tender, after receipt of bids, but before exchange of contracts or signing of a development agreement
- in the case of disposal by exchange, after a sale or lease has been agreed, but before exchange of contracts.

Each 'late bid' must be considered in the context of the individual circumstances at the time. The Council's approach to 'late bids' will vary depending upon the method of land disposal used. In each case, its overriding duty will be to obtain the best consideration that it can reasonably obtain (subject to any exceptions in the General Disposal Consent). The Council's approach to late bids is as follows:

- The Council discourages the submission of late bids in all cases when it is disposing of land. It will attempt to minimise problems by aiming for early exchange of contracts.
- Where land is being disposed of by way of formal tender, bids received after the deadline for tenders, will be recorded as late, together with the time and date of receipt. The Cabinet Member for Resources should decide whether to consider late bids after taking advice from the Director of Corporate Resources.

- Except as provided above, until the Council has entered a legally binding contract or agreement with another person it will consider late bids unless there are good commercial reasons for not doing so. This should be explained to any purchaser when a disposal of land by private sale or negotiated/informal tender is agreed.
- Consideration of a late bid does not mean that it will necessarily be accepted even if it is the 'highest' bid. The Council will take into account the likelihood of the late bid proceeding to completion in a timely manner and the possibility of late bids being used as a spoiling or delaying tactic.
- Subject to the above, the Council may, in appropriate circumstances, ask both the late bidder and other interested parties, to submit their best and final bids in a sealed envelope by a set deadline.
- A decision on whether to accept a late bid for a private sale, informal tender or by exchange are to be made either by the Cabinet Member for Regeneration and Economic Development or the Director of Regeneration and Economic Development.

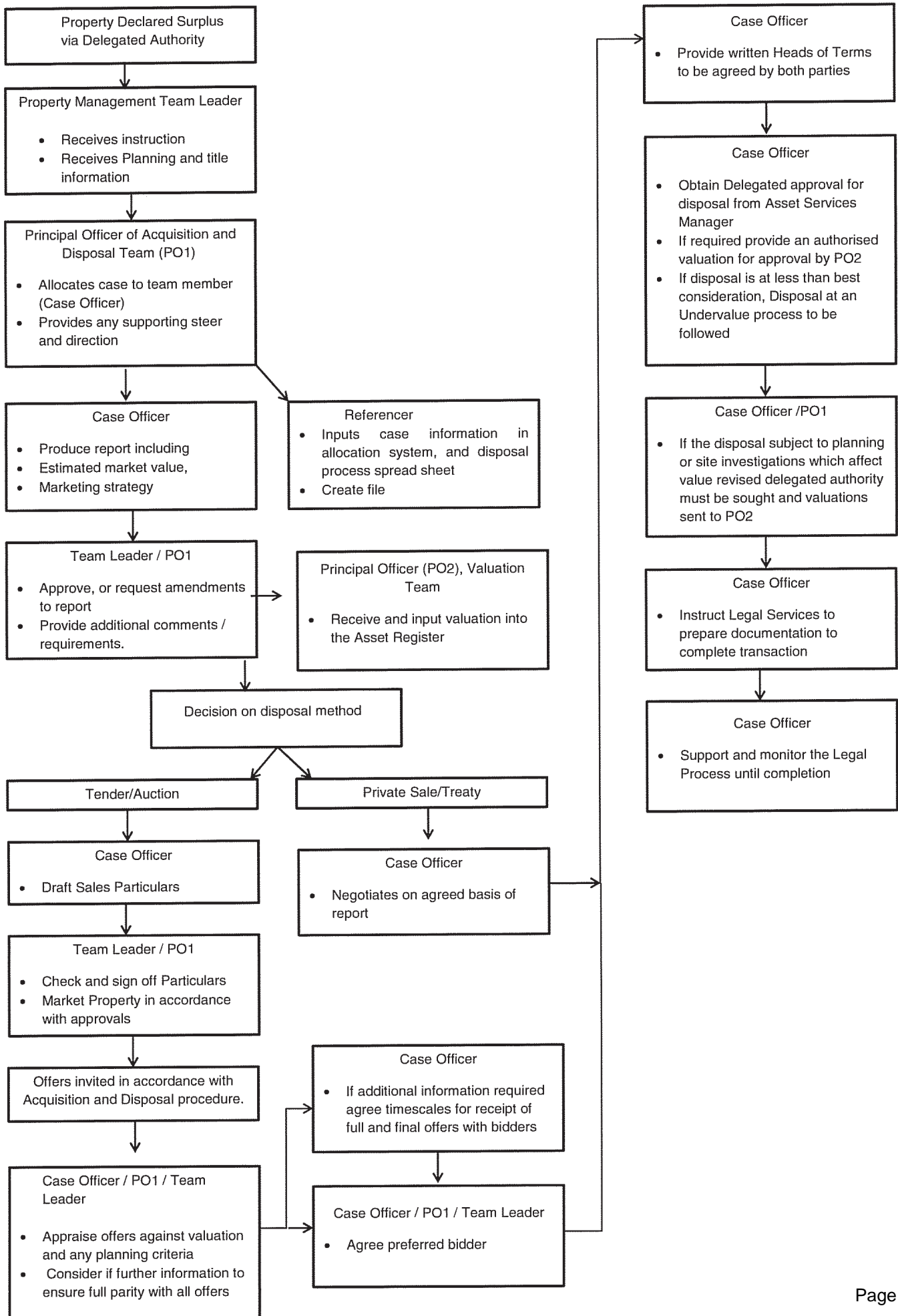
A last minute bid may be rejected for sound commercial reasons. For example, if there is no real certainty of it leading speedily to a contract or is suspected as a spoiling bid.

The Council will at all times bear in mind that the overriding duty, unless a specific decision has been made to take advantage of certain exceptions as mentioned in the General Disposal Consent in order to further corporate objectives is to obtain best consideration.

In considering what amounts to 'monetary value' in terms of best consideration to be obtained, the creation of jobs or desirable social outcomes, although desirable, cannot be quantified by the Council.

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Appendix D- Disposal Process Flowchart



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Audit Committee

27 June 2013

**Draft Annual Governance Statement for
the year April 2012 – March 2013**



Report of Don McLure, Corporate Director, Resources

Purpose of the Report

1. This report seeks approval of the draft Annual Governance Statement (AGS), attached in Appendix 2, and the list of significant governance improvements attached in Appendix 3.

Background

2. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way which functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
3. The Council has approved and adopted a code of corporate governance which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – ‘Delivering Good Governance in Local Government’. The 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.

Presentation of the AGS

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

6. In gathering the evidence to prepare the AGS, the following approach has been adopted:

6.1 Consideration of corporate sources of assurance

- Progress made on improvements identified as part of the previous years AGS;
- The identification of key documents, processes and procedures that support the governance framework, many of which may have been revised during the year. This information has been gathered from across the Council, and is recorded in detail;
- The work of those officers who have specific responsibility for the development and maintenance of the governance framework. Key officers confirmed any changes in the governance arrangements since the last review;
- External Audit Annual Report;
- The work of Internal Audit, including the annual opinion on the adequacy of internal control by the Manager of Internal Audit & Risk as set out in the Annual Internal Audit report;
- Current strategic risk registers;
- The review of the effectiveness of the system of Internal Audit;
- Partnership governance arrangements;
- Other work undertaken by the External Auditor and other review agencies.

6.2 Service assurance on the effectiveness of the governance framework

Corporate Directors and the Assistant Chief Executive were asked to complete an assurance statement, which noted any changes implemented during the 2012/ 13 year, and to identify any improvements required/ planned.

Recommendations and reasons

7. Audit Committee to:

- approve the first draft of the AGS for 2012/ 13 attached in Appendix 2;
- approve the list of significant governance improvements in Appendix 3;
- confirm that this report can proceed for information to full Council.

Contact: David Marshall Tel: 03000 269648

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 CIPFA/ 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

1. SCOPE OF RESPONSIBILITY

Durham County Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

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

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises of the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services for the people of County Durham.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2013 and up to the date of approval of the statement of accounts.

3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements are detailed in the Council's local Code of Corporate Governance, which is documented in the Council's [Constitution](#). This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the six core principles of the CIPFA/ SOLACE Framework. The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we have further improved our corporate governance arrangements during 2012/13.

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

The [Sustainable Community Strategy 2010-30](#) (SCS) which has been produced by the Council in conjunction with its partners on the County Durham Partnership (CDP), demonstrates its shared long-term vision for the future of County Durham. This vision for County Durham, namely 'Altogether Better Durham' outlines two areas of focus – **Altogether Better Place** and **Altogether Better for People** and five priority themes, which represent the major issues identified by residents:

- Altogether wealthier;
- Altogether better for children and young people;
- Altogether healthier;
- Altogether greener;
- Altogether safer.

The SCS is renewed every three years and the current review is due for completion in September 2013.

The CDP, which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners, and is underpinned by thematic partnerships set around the five priority themes. Operationally, it is supported by the Delivery and Improvement Group (DIG), whose role is to monitor performance towards implementing the SCS, and consider strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.

The [Council Plan](#) contains the Council's corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the Council's own improvement agenda. The Council Plan is supported by a series of Service Plans at a Service Grouping level which detail the planned actions to deliver the Council's vision. Plans developed in partnership are also in place to deliver the goals of the SCS, such as the Joint Strategic Needs Assessment and Joint Health and Wellbeing Strategy.

The Council Plan and the [Medium Term Financial Plan 2013 - 2017](#) (MTFP) enable the Council to make best use of resources, and enable the continued provision of value for money (VFM) services that meet the needs of residents, businesses and other stakeholders. Cabinet approved a report in July 2012 detailing the planning frameworks and timetable that enabled the Council to develop the 2013/14 Budget, the 2013/14 – 2016/17 MTFP, the Council Plan and Service Plans. A comprehensive schedule of savings targets have been programmed to achieve the necessary

savings to enable us to deliver a balanced budget and MTFP. Assurance over the delivery of this programme is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT) and Cabinet and the target savings of £26.6m for 2012/13 have been delivered. Moreover, a programme management approach to the changes introduced by the Welfare Reform Act has been put in place involving key actions such as the introduction of a local Welfare Assistance Scheme, a new policy for Discretionary Housing Payments and the development of systems and performance indicators to enable the Welfare Reform Steering Group to monitor and report on the impacts of the reforms.

A programme management approach for key corporate projects has been established and embedded including project management training across the Council. Assurance that the Council is effectively managing major change is demonstrated by the transfer of public health responsibilities, resulting from the Health and Social Care Act 2012, which was completed on 31 March 2013. A programme management approach was adopted, with monitoring by Corporate Management Team, the NHS Transition Project Board, Shadow Health and Wellbeing Board, Cabinet, Overview and Scrutiny Committees and the County Durham Partnership Board. This ensured that the transition was successfully completed.

Numerous reviews have been undertaken across the Council to provide assurance that VFM services are being provided and key examples include:

- Day Services;
- Adult Social Care Services, as part of the LGA efficiency programme;
- Twin Bins / Alternate Weekly Collections;
- Centralisation of HR and Finance functions;
- Stock options appraisal and agreed strategy for rationalisation of management and support across the providers.

Senior Management Teams have used benchmarking data from statutory returns, such as budget statements collected by the Department for Education and the Personal Social Services Expenditure Return, to inform programmes of VFM reviews and savings options in various service areas. Where necessary, this has been supplemented by data from commercial benchmarking clubs, such as CIPFA, to facilitate meaningful comparisons with other organisations. Independent assurance of our VFM was also gained from the Audit Commission, who issued an unqualified VFM conclusion in 2011/12.

To enable better use of resources, the Council has further strengthened its governance arrangements by:

- Centralising the Council's finance and human resources functions;
- Merging Children and Young Peoples Services and Adults Wellbeing and Health into one integrated service from August 2012;
- Developing a new model of service delivery for the Health and Safety function;
- Implementing a new approach to Community Buildings Grant Aid, including the allocation process, criteria and administration for 2013/14 applications;
- Developing Financial Management Standards, which underpin the high level arrangements set out in the Council's Financial Procedures Rules in the Constitution.

To measure the quality of services, the Council has a locally led performance management framework. Detailed [reports](#) on the Council's performance have been provided to Cabinet on a quarterly basis, and assurance is also gained through performance clinics between the Chief Executive and individual Directors during the year. Through good governance, the Council continues to improve the quality of services, and this has been confirmed by external independent sources of assurance. For example, during July 2012 the Council was the subject of a [Peer Review](#) by the Local Government Association, the purpose of which was to:

- measure our progress since reorganisation in April 2009;
- report on progress to local residents and the Government;
- provide a useful external challenge to our vision and direction of travel;
- access learning and ideas from other areas.

The key findings of the [Peer Review](#) were:

- The Council has strong political leadership, with a clear vision for the future and has provided a clear political steer on the future 'Altogether Better' vision and direction for the Council and its partners. The Council needs to work on an ongoing basis to ensure that the vision is consistently translated through to Officers, Members and communities;
- The Council has a clear MTFP and delivery of savings and associated risks are being well managed;
- The Council has undertaken an extensive programme to bring together services in a coherent way, whilst also taking opportunities to join up some services and make financial savings;
- The organisational culture of the Council is open, transparent and generally positive, even in light of the impact of national public sector funding reductions;
- The Council is well regarded by external partner agencies.

Further independent assurance of the Council's financial management was provided by the Audit Commission in both their Annual Governance Report and Certification of Claims and Returns Annual Report. Governance reviews are also led by Services, such as the quality assurance team in Children and Adults Services.

Members have robustly scrutinised the performance of the Council, demonstrated by a number of key scrutiny reviews of Council services during 2012/13, which are outlined in the [Overview and Scrutiny Annual Report](#).

The Council considers the governance implications of its actions, and revised its Code of Corporate Governance in January 2013 to ensure that it remains consistent with the principles of the CIPFA/SOLACE Framework – "Delivering Good Governance in Local Government".

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

The key document describing the roles and responsibilities of Member and Senior Officer posts and functions is the Council [Constitution](#).

Members and Officers work together on the workload of the Cabinet which is managed through a system of Cabinet pre-agenda meetings. To support this, Corporate Directors have held regular briefing sessions with Cabinet Portfolio Members and their support Members. For example, a number of informal sessions took place throughout the MTFP planning process to ensure CMT and Cabinet have a shared understanding of the complexities in the MTFP process, and all Opposition parties were briefed during the development of the MTFP. Other examples of Members and Officers working together include monthly meetings of the Capital Member/Officer Working Group and six-monthly updates on disposals of surplus property. Improvements during the year to strengthen our governance arrangements include a revised Code of Conduct for Members and a revised Code of Practice for Members and Officers dealing with Planning Matters.

Member remuneration is overseen by an independent panel, and their report was approved by Council on in February 2013.

The Council has appointed the Corporate Director, Resources as Chief Financial Officer and Section 151 Officer to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Chief Financial Officer, who is a member of the CMT and reports directly to the Chief Executive, has been involved in all CMT discussions, and has reviewed all reports to Cabinet which have financial implications. The Chief Financial Officer has also provided an opinion under section 25 of the Local Government Act 2003 on the reserves for the County Council, which Members considered when setting the budget.

The Council's self-assessment against the principles of the CIPFA Statement on the Role of Head of Internal Audit illustrates a high degree of compliance. Areas for improvement primarily relate to improving assurance on programme and project risks. New Public Sector Internal Audit Standards were introduced in April 2013 and an initial assessment of compliance, and a review of the Internal Audit strategy, will be undertaken in 2013/14 as part of the annual review of effectiveness.

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

The key elements of the Council's approach to communicating and embedding the expected standards of behaviour for Members and staff are detailed in the Council [Constitution](#). This includes the Code of Conduct for Members, which was revised in 2012/13. The Council's Codes of Conduct included in the Constitution also apply to its partnership working.

The Standards Committee has the key governance role of promoting and monitoring high standards of conduct by elected Members, independent Members and co-opted Members. The Localism Act 2011 abolished the standards board regime and introduced a new duty to promote and maintain high standards of conduct. A new ethical framework was adopted in July 2012, and consequently, an Annual Report was not produced in 2012, the last [Standards Committee Annual Report](#) being presented to the Full Council in October 2011.

We have also reviewed and updated other key governance documents to ensure our values are followed in practice, such as the Contract Procedure Rules.

In terms of disclosure of gifts, hospitality and interests, assurance is gained over Member declarations and registrations by the Monitoring Officer maintaining and monitoring the Register of Gifts, Interests and Hospitality for Members, which is available online. Staff declarations are maintained and monitored by their Head of Service. The Monitoring Officer issued a formal reminder during the year to Corporate Directors about their responsibilities in relation to gifts and hospitality.

A climate of openness has been encouraged by the Council Leader who holds regular Cabinet meetings at various locations throughout County Durham. The values of the Council are further promoted in the Single Equality Scheme which includes 'protected characteristics' covered by the Equality Act. Supporting this scheme is an impact assessments process, which ensures that the impact on equality is considered in the Council's decision making. For example, in 2012/13, the MTFP was fully equality impact assessed. Our commitment is further demonstrated by equality impact assessment training, which has been attended by nearly 200 people, and equality sessions provided for Area Action Partnership Co-ordinators during 2012/13. A schedule of impact assessments is monitored through the Equality, Diversity and Cohesion Working Group.

To improve fraud awareness across the Council, training was rolled out to all tier 5 managers and above. Fraud risks have been reassessed, to confirm that they are in line with the recommendations of both the 'Fighting Fraud Locally' and 'Protecting the Public Purpose' guidance.

Examples of further improvements that demonstrate the Council upholding high standards of conduct and behaviour include implementing a Policy and Code of Practice on the use of CCTV across the Council, and improving the quality of applications and authorisations made under the Regulation of Investigatory Powers Act through a programme of formal training and the provision of associated templates.

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

The Council's [Constitution](#) sets out how the Council operates, how decisions are made and the [procedures](#) followed to ensure that these are effective, transparent and accountable to local people. This includes the Officer Scheme of Delegation, which is reviewed annually in line with the review of the Constitution. A revised Constitution was approved by the full Council in March 2013, having been reviewed by an all-party group, namely the Constitution Working Group. Key changes to the Constitution in 2012/13 reflect:

- The restructure of CMT resulting from the merger of Children and Young Peoples Services and Adults Wellbeing and Health into one integrated service from August 2012;
- Revised roles and responsibilities for the Standards Committee following the changes introduced by the Localism Act 2011;
- A revised Code of Conduct for Members;
- Establishment of the Police and Crime Panel following the new arrangements for policing and police accountability introduced by the Police Reform and Social Responsibility Act 2011;
- Changes introduced by The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012. This included the Officer Delegation Scheme, Access to Information Procedure Rules, Executive Procedure Rules, and Overview and Scrutiny Procedure Rules;
- Amendments to the delegations to the Corporate Director, Resources to factor in changes under the Welfare Reform Act 2012 and Local Government Finance Act 2012, and to the delegations for the Director of Public Health;
- A revised Code of Practice for Members and Officers dealing with Planning Matters.

Overview and Scrutiny, which consists of an Overview and Scrutiny Management Board and six committees, has the key role to make decision-making processes transparent, accountable and inclusive and to improve services for people by being responsive to their needs. To maintain independent assurance, the Council refreshed co-opted members to the Council's Overview and Scrutiny Committees in 2012. Due to the timing of the 2013 local elections, the next refresh will be done in early 2014. Where appropriate, Members have scrutinised the decisions of the Council, demonstrated by a number of key reviews which are outlined in the [Overview and Scrutiny Annual Report](#). They also contributed to a number of consultations and policy development areas, such as the draft County Durham Climate Change Strategy and Community Infrastructure. Further assurance on the effectiveness of the Overview and Scrutiny function was provided by the Peer Review, which concluded that it is making a useful contribution through influencing policy development in areas related to the Council Plan.

A Police and Crime Panel was established under the Police and Social Responsibility Act 2011, and agreed its panel arrangements, terms of reference and joint working arrangements with Overview and Scrutiny functions at Durham County Council and Darlington Borough Council. All Council panel members have received induction training and personal development plans.

A [Health and Wellbeing Board](#) was established following the transfer of public health responsibilities to the Council in April 2013.

To maintain the accountability and integrity of the Council's decision-making, a number of further improvements to governance in this area have been implemented in 2012/13. For example,

- Non-executive members received training to enable them to input into performance setting MTFP and budget planning;
- A revised Powers of Delegated Authority Schedule, and a revised Policy and Procedural Frameworks were implemented following the Council assuming public health responsibilities, and the merger of Children and Young Peoples Services and Adults, Wellbeing and Health Service;
- Improving records management by updating records retention schedules, identifying Records Champions, and developing Secure Handling of Paper Records in Transit Policy;
- Improving handling of responses to requests for information under the Freedom of Information Act, Environmental Information Regulations and subject access requests made under the Data Protection Act;
- Implementing a revised Data Quality Policy, corporate data protection training and signing up to the Information Commissioner's Office's information promise. and
- Implementing a revised database of policies and procedures, accessible via the Intranet.

The Council's decision-making processes are also supported by,

- A risk management strategy and policy;
- An Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes;
- The Council ensuring that it complies with legal requirements in its decision making by ensuring that all reports requiring a decision include the legal implications, report authors confirming that they have obtained legal advice on proposals contained in reports, and the source of that legal advice.

The key mechanism provided for employees, and contractors and suppliers providing services for the Council, to raise concerns about potential breaches of conduct in decision-making is the Confidential Reporting Code (Whistle blowing policy), which is part of the Council's Constitution, and is monitored by the Audit Committee.

Principle 5: Developing the capacity and capability of Members and Officers to be effective

The Council is committed to continually reviewing the development needs of Members and Officers.

Our approach to Member development is outlined in the Member Learning and Development Strategy, which was reviewed in October 2012. This was developed through undertaking Personal Development reviews with Elected Members in order to identify individual and group learning interventions, and incorporated the planning and delivery of a large scale induction for the new Electorate in May 2013. All these activities were further informed during 2012/13 by the active Officer/Member Elected Member Development Group who promote the participation and development of all Elected Members in the Council. Assurance on the effectiveness of our approach to Member development is demonstrated by the Council being awarded the North East Charter on Member Development in May 2011, with the next re-assessment due in 2014.

Further interventions to develop the capacity of officers to enable them to deliver upon the Council's key objectives have included an Employee Support Programme and development programmes for managers being established to enable them to support employees and the Council through the major restructuring process associated with the MTFP outcomes. Key improvements in place to further develop officer capability and capacity include:

- A full review of the Appraisal process, and actions undertaken to improve appraisal completion rates;
- Implementation of the "The Durham Manager" development programme, aimed at the Extended Management Team of the Council, that commenced in December 2012 and will reach over 450 key managers;
- Implementation of an Attendance Management framework to support managers improve attendance at work;
- Improvements in workforce data management and production to further inform strategic workforce development planning.

Assurance on the effectiveness of our approach to developing the capability and capacity of officers is demonstrated by the Council maintaining the Investor in People Standard, with re-accreditation due in 2014. Additional assurance was also gained from the Peer Review, which concluded that staff generally perceive middle managers to be in touch with operational service issues.

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

As the strategic partnership for the County, the County Durham Partnership (CDP) is the lead umbrella partnership for most other partnerships in County Durham, and the Leader of the Council is the chair of the CDP. The Council's relationships with partners are managed through the Partnership Governance Framework.

The Council's approach to engaging stakeholders is outlined in the Consultation and Engagement Strategy. This is complemented by the County Durham Partnership Community Engagement and Empowerment framework, which has shaped and supported a common vision and approach for community engagement by partners in County Durham, and the County Durham Compact, which provides a framework for partnership and engagement with the voluntary and community sector. Key examples of, and improvements in, our engagement with stakeholders during the year include:

- An interim update to the Consultation and Engagement Strategy to comply with legislation, and training to equip staff with the necessary skills to undertake consultation exercises effectively;
- Stakeholders being involved in the development of the MTFP, demonstrated by undertaking a detailed consultation process which can be found in the [County Council's MTFP and Budget Report](#). One of the aims of the 2012 consultation was to gauge the public's view on how the Council has managed the austerity savings and which areas should be considered in future. A two-phase consultation exercise was an integral part of the MTFP development plan;
- Carried out a number of satisfaction surveys on frontline services, both on a quarterly and annual basis;
- Undertook significant consultation exercises for over 60 projects, including Household Waste Recycling Centres, Twin Bins, Library Strategy, Digital Durham, and the Local Council Tax Support Scheme, and surveys such as the Children and Young Peoples Survey;
- A high level approach to localities, covering delivery, engagement and statistical reporting has been agreed through County Durham Partnership.
- Established the Voluntary and Community Sector (VCS) Working Group, led by the Council with representatives from the VCS, to establish arrangements to support front line Third Sector organisations in County Durham;
- Established a Local Councils Working Group and held an event in October 2012 to build closer working relationships in relation to new and developing areas of work;
- Launched the 'Disabled Go' website, which provides information to the public on access to over 1,000 venues;
- Introduced the first corporate staff awards scheme in December 2012, and the re-launch of the New Era website, which provides a monthly policy and news round-up from the Chief Executive to all staff;
- The Community Building team enhancing support, including a buddy programme, to a range of partners and external organisations.

The Council has a strong commitment to working with partners to meet the needs of its communities. There are 14 Area Action Partnerships (AAP) in place across the County, who are each governed by a board comprising members of the public, partner organisations and elected Councillors. These are multi-agency partnerships who are fully engaged with the community in identifying and resolving local priorities,

and utilise locality budgets to drive improvements to service quality. A number of AAPs have encouraged greater stakeholder engagement by holding mass participation budget meetings where members of the public have been given a say in the allocation of over £680,000 funding with over 1,000 attendees taking part. A Countywide AAP meeting, namely the Big Tent Event, was led by the Council Leader and over 100 people attended.

Assurance that the Council is effectively engaging with various stakeholders was gained from the Peer Review, which highlighted:

- The Council is well regarded by external partner agencies;
- The Council uses a range of channels to communicate with local communities and staff;
- The internal communication channels are generally good and staff understand key issues within the Council;
- The Council has invested heavily in developing its approach to Customer Services, including a series of new Customer Access Points;
- A number of good examples of consultation across the county which the council and other agencies can learn from on an ongoing basis, such as the community buildings review and local budget consultations.

We are in a group relationship with East Durham Homes and Dale and Valley Homes and undertake significant activities through this group. The main features of their governance arrangements are documented each year through written assurance statements.

4 REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the annual report of the Head of Internal Audit and Risk, and also by comments made by the external auditors and other review agencies and inspectorates.

The process for maintaining and reviewing the effectiveness of the corporate governance framework involves the key Member and Officer roles outlined below, namely:

- The Executive;
- Chief Financial Officer;
- Monitoring Officer;
- Overview and Scrutiny Committee;
- Standards Committee;
- Audit Committee.

The Council's [Constitution](#) sets out the governance roles and responsibilities of these functions. In addition:

- The Corporate Director, Resources co-ordinates and oversees the Council's corporate assurance arrangements by:
 - Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the Council's governance arrangements;
 - Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
 - Preparing an Annual Governance Statement to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
- Internal and External Audit provide independent assurance on the effectiveness of the corporate governance framework.

The review was also informed by a statement provided by each Corporate Director and the Assistant Chief Executive commenting on the effectiveness of the Council's governance arrangements generally and how they impacted on their service areas. These included consideration of the effectiveness of internal controls.

Based on the work undertaken, Internal Audit is able to provide a Moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2012/13. This moderate opinion ranking is the same as the 2011/12 and provides assurance that there is basically a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls. Given the extent of change across the Council and the overall reduction in resources during the year, the sustenance of this assurance opinion should be regarded as a positive outcome.

5 SIGNIFICANT GOVERNANCE ISSUES

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. The Council is fully committed to the principles of corporate governance, and has made further progress during the past twelve months in developing its arrangements.

Following the production of the Annual Governance Statement for 2011/12, an action plan, containing the following recommendations was produced. Progress made in implementing each recommendation, as outlined below, was confirmed by the Corporate Director, Resources and formed the starting point of the work to produce the 2012/13 Annual Governance Statement.

1. Continue the positive direction of travel by implementing the planned control improvements to financial systems.

The positive direction continues, supported by comments from External Audit as part of the accounts closure process for 2011/12 and reported to the Audit Committee. Further actions to address the financial systems weaknesses have been incorporated into the Resources Service Improvement Plan, and as such, this is no longer considered a significant area for governance improvement.

2. Pay Harmonisation and Single Status.

Outstanding pay harmonisation and single status issues have been addressed with the three recognised Trade Unions, who have all signed the Local Collective Agreement with the Council. The agreement's effective date is 1 October 2012, and where employees have a reduction in basic pay as a result of this agreement, they will receive protection of basic contractual pay up to 30 September 2014. This is no longer considered a significant area for governance improvement.

3. Implement revised Financial Management Standards

The revised Financial Management Standards have been implemented, and are being rolled-out. This is no longer considered a significant area for governance improvement.

4. Business Continuity.

A significant amount of work has been undertaken to develop ICT architecture with minimal potential single points of failure. The Member Officer Working Group has approved the capital for a backup site, which will be in partnership with Sunderland City Council. Work has commenced, and should be live by September 2013. This is still considered a significant governance issue and has been carried forward as a governance improvement.

5. Changing Government Policy on the Ethical Framework.

Following the implementation of the Localism Act, the Council adopted a new code of conduct, delegations and assessment framework, which was supported by training to Members. This is no longer considered a significant area for governance improvement.

The Corporate Director, Resources also sought assurance on the effectiveness of the Council's governance arrangements from each of the Council's Corporate Directors and the Assistant Chief Executive. As a result of this exercise, and the work of both Internal and External Audit, a number of issues have been identified where improvement in the Council's governance arrangements are required. The most significant issues, agreed by the Corporate Management Team at its meeting on 12 June 2013, and as reported to the Audit Committee on 27 June 2013, together with a summary of action taken or being taken to address each issue, are detailed below.

1. Business Continuity

A backup ICT site will be developed in partnership with Sunderland City Council by September 2013. This is carried forward from the previous Annual Governance Statement.

2. Value for Money.

All services have actions in their Service Plans around securing Value for Money (VFM) and achieving MTFP savings targets. This will be strengthened by further developing systems to measure and demonstrate VFM. The Council will build on the good work in achieving financial savings by further strengthening our arrangements for securing value for money to meet the CIPFA guidance on a VFM strategy.

3. Localities

The County Durham Partnership (CDP) is aiming to develop a new approach to locality working, and has agreed the adoption of a CDP statistical geography for cross-thematic strategic planning. The objective is to create a framework to build a better understanding of our localities and thus develop a stronger understanding of the performance challenges in each area in order to improve local outcomes.

We propose over the coming year to take steps to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Simon Henig
Leader of Durham County Council

George Garlick
Chief Executive

Don McLure
Corporate Director, Resources

Appendix 3: Governance Action Plan – 2012-13 Annual Governance Statement

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
1	Business Continuity	A backup ICT site will be developed in partnership with Sunderland City Council by September 2013. This is carried forward from the previous Annual Governance Statement.	Head of ICT Services	30 September 2013
2	Value for Money.	All services have actions in their Service Plans around securing Value for Money (VFM) and achieving MTFP savings targets. This will be further strengthened by developing systems to measure and demonstrate VFM. The Council will build on the good work in achieving financial savings by further strengthening our arrangements for securing value for money to meet the CIPFA guidance on a VFM strategy.	Head of Planning and Performance	31 March 2014
3	Localities	The County Durham Partnership (CDP) is aiming to develop a new approach to locality working, and has agreed the adoption of a CDP statistical geography for cross-thematic strategic planning. The objective is to create a framework to build a better understanding of our localities and thus develop a stronger narrative for each area in order to improve local outcomes.	Head of Planning and Performance	31 March 2014

Audit Committee

27 June 2013

Annual Internal Audit Report 2012/13

Report of Manager of Internal Audit and Risk



Don McLure, Corporate Director Resources

Purpose of the Report

1. The purpose of this report is to present the Annual Internal Audit Report for 2012/13 (copy attached at Appendix 2).

Background

2. The Council has a responsibility for maintaining sound systems of internal control that support the achieving of its objectives and for reviewing their effectiveness.
3. This report fulfils the requirement of the CIPFA Code of Practice for the Head of Internal Audit to provide, "a written report to those charged with governance timed to support the Statement of Internal Control", which is now incorporated as part of the Annual Governance Statement.
4. The Annual Internal Audit Report should therefore be considered in the context of fulfilling the requirement to provide an annual opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework i.e the control environment during the year, and how this opinion has been derived.
5. The opinion on the control environment and any significant issues arising will be reflected in the Council's Annual Government Statement which will be published as part of the Council's Annual Governance Statement of Accounts for 2012/13.
6. Based on the work undertaken, Internal Audit is able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2012/13. This moderate opinion ranking is the same as the 2011/12 and provides assurance that there is basically a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls. Given the extent of change across the Council and the overall reduction in resources during the year, the sustainment of this assurance opinion should be regarded as a positive outcome.

Recommendation

7. Members note the content of the Annual Internal Audit Report and the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's control environment for 2012/13.

Contact: Avril Wallage Tel: 03000 269645

Appendix 1: Implications

Finance

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

Staffing

None

Risk

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

Equality and Diversity / Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability issues

None

Legal Implications

None

DURHAM COUNTY COUNCIL

Internal Audit

**Annual Report
2012-2013**

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Introduction

This report summarises work carried out by internal Audit during the financial year ended 31/3/2013 and provides assurance on the effectiveness of the Council's control environment, risk management and corporate governance arrangements in place during the year.

Background

The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires that Local Authorities "make arrangements for the proper administration of their financial affairs and ensure that one of its officers has responsibility for the administration of those affairs".

The Accounts and Audit (England) Regulations 2011 requires the Council to, "undertake an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control". The Council has delegated this responsibility to the Corporate Director Resources and the Internal Audit and Risk service carry out the Internal Audit Role.

Up until the 1 April 2013, the proper internal control practices for internal audit defined in guidance supporting the Regulations were those contained within CIPFA's Code of Internal Audit Practice in Local Government 2006 (The Code). From the 1 April 2013 this Code has been replaced by the Public Sector Internal Audit Standards (PSIAS).

This report fulfils the requirement of both the previous Code and the new PSIAS 2450 for the Head of Internal Audit (referred to as the Chief Audit Executive under PSIAS) to provide an annual report to the Audit Committee (defined as the Board under PSIAS) timed to support the Annual Governance Statement.

The report sets out:

- The annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e the control environment)
- A summary of the audit work carried out from which the opinion is derived
- Details of the quality assurance arrangements in place during 2012/13 which incorporates the outcomes of the last annual review of the effectiveness of internal audit carried out by the Audit Committee in June 2012. A further review of effectiveness is currently in progress. This will include an early assessment of the extent of compliance with the new PSIAS.

Service Provided and Audit Methodology

Internal Auditing is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.

The primary objective of Internal Audit is to provide an independent and objective opinion on the Council's control environment.

The Internal Audit Charter, agreed by the Audit Committee, establishes and defines the terms of reference and audit strategy for how the service is to be delivered. Audit services are also provided to a number of external clients including the Durham Police and Crime Commissioner and the Durham Police Constabulary, Durham and Darlington Fire & Rescue Authority and the Durham and Mountsett Crematoria Joint Committees.

The service is also responsible for the audit of the Durham County Pension Fund. The agreed audit strategy to provide independent assurance, as detailed in the Internal Audit Charter, is summarised as follows:

- To work in consultation with senior management teams and other providers of assurance to prepare strategic and annual audit plans
- To carry out planned assurance reviews of the effectiveness of the management of operational risks in all key service activities/systems over a rolling 5 year programme (Strategic Plan)
- To carry out assurance reviews of the management of strategic risks where the effective management of the risk is heavily dependent on identified controls,
- To carry out annual reviews of key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial systems
- To use a Control Risk Assessment (CRA) methodology to focus audit resources on providing assurance on key controls where there is little or no other assurance on their adequacy or effectiveness.

Types of Audit Work Carried Out in 2012/13

Assurance Reviews

Assurance reviews are those incorporated into annual audit plans from strategic plans where the CRA methodology is to be applied. They also include service requests to provide assurance on more specific risks within a particular service activity.

On completion of each assurance review an opinion on the adequacy and / or the effectiveness of the control framework in place is provided to inform the annual audit opinion.

The audit methodology for arriving at audit opinions on individual assurance reviews is attached at Appendix D.

Advice and Consultancy Work

In addition to planned assurance reviews, provision is also made in annual audit plans to support service managers by undertaking advice and consultancy type work. The outcomes from this work can also provide assurance on the control framework even though an assurance opinion is not provided on the completion of this work.

Counter Fraud Work

Provision is made in annual audit plans to support service managers at an operational level to mitigate the strategic risk of fraud and corruption. Control weaknesses identified when fraud is suspected or proven also impacts on the overall opinion on the adequacy and effectiveness of the Council's internal control system.

Grant Certification

Some provision is also made in internal audit plans for the certification of external grant claims where required. Again, the outcomes of this work can help inform the annual opinion on the control environment.

Audit Quality Assurance framework

The Internal Audit Charter sets out the performance and quality framework for the service. This reflects the requirements of the CIPFA Code of Practice for Internal Audit in Local Government 2006. This will be reviewed during 2013/14 to reflect the introduction of the PSIAS with effect from 1 April 2013.

Key elements of the quality assurance framework operating during 2012/13 include:

- Independent quality reviews undertaken by audit managers as a matter of routine and periodically by the head of internal audit to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained
- Internal Audit continues to be a member of the CIPFA Audit Benchmarking Club. The key outcomes from the most recent exercise carried out in May 2013 will be considered by the Audit Committee in June 2013 as part of annual review of the effectiveness of the service.
- Key contacts, determined by the appropriate head of service, agree the terms of reference for each audit review and are able to challenge the findings and content of draft reports prior to them being finalised.

A summary of our performance against agreed indicators is provided in Appendix A.

It should be noted that the audit planning year was revised during 2011 and approved annual plans for 2012/13 covered work to be carried in the period July 2012 to June 2013. The actual performance shown therefore does not relate to a whole year but to the period July 2012 to March 2013. Performance in relation to the whole year will however continue to be monitored and will be reported to the Audit Committee as part of the Internal Audit Progress as at 30 June 2013.

As at the 31 March 2013, the % of planned assurance work completed after 9 months indicated that the service is on schedule to deliver its target to complete 90% of planned assurance work. However, some slippage has occurred subsequently and the latest estimated outturn figure for the year ended June 2013 is estimated to be 85%. The main reasons for this are summarised below:

- Reduction in audit days available due to secondment and temporary vacancies
- High level of sickness absence
- Inadequate provisions for unplanned work, particularly that carried over as work in progress from the previous year
- Inadequate provision for fraud and irregularly investigations
- Planned work (including some advice and consultancy work) taking longer than estimated

Slippage on the approved plan is being addressed through the acquisition of additional resources through an Internal Audit Partnership with an external provider and the temporary engagement of an agency worker, funded from budget savings from temporary vacant posts.

The Accounts and Audit (England) Regulation 2011 requires the Council to carry out an annual review of the effectiveness of Internal Audit. The outcome is reported to Audit Committee.

The last review carried out by the Corporate Director Resources, and considered by the Audit Committee in June 2012, was informed by informed by consideration of a series of questions, designed to evaluate compliance with best practice, independently by

- The Chair of the Audit Committee
- The Corporate Director Resources
- The Head of Internal Audit
- External Audit

The Committee noted that good progress had been made with the implementation of a risk based approach to auditing but recognised that the skills mix of the in house team needed to be strengthened in some specialist areas. Overall the Committee concluded that the service was effective and reliance could be placed on the audit opinion provided by the service.

A further review of the effectiveness of the internal audit service is currently in progress and is to be informed by the outcomes of an evaluation survey issued to all Heads of Service and Corporate Directors. An initial assessment against the requirements of the PSIAS is also to be carried out to identify areas of non-compliance and improvements required during 2013/14 to become fully compliant. The outcomes of this latest review will be reported to Audit Committee.

Improvements made during the year to improve the quality and effectiveness of the service

The main areas where improvements were identified through the last annual review of the effectiveness of the service related to the recognition that the skills mix of the in house team needs improving in the specialist areas of IT audit and fraud investigation.

It was planned to strengthen the in house team during the year through the appointment of an additional IT Auditor. However, this is a specialist area and good

quality experienced IT auditors are in high demand and therefore command high salaries. Regretfully we were unable to recruit within our staffing structure and budget. This is not uncommon in Local Government. We have therefore gone out to tender to procure an IT Audit partner and Audit North, an NHS non for profit consortium, has recently been appointed to supplement the in house team. Our existing partnership agreement with PriceWaterhouseCooper has also been extended for a further 12 months to continue to supplement in the in house team in the specialist area of Pension Fund audit. Both contracts allow the opportunity for the sharing of best audit practice and skills transfer.

Plans to strengthen the in house team's fraud and investigative skills were put on hold during the year pending consideration of what impact the development of the Single Fraud Investigation Service, by the Department of Works and Pensions, will have on our Housing Benefit Fraud Unit. This will be progressed during 2013/14.

Work has continued during the year to embed a risk based approach to audit work and a training away day was held during the year with all audit staff to assess progress and to reinforce training previously delivered by the Institution of Internal Auditors. (IIA). Whilst the implementation of a risk based approach ensures consideration of other assurance sources each time an audit review is undertaken, more work is still required to capture and assess the level of assurance provided from other sources and to map this assurance to help inform annual planning processes and annual reporting. This work will continue in 2013/14.

In addition 3 staff commenced training to achieve the IIA Diploma in Internal Auditing qualification during the year and one member of staff has successfully completed the Association of Certified Chartered Accountants (ACCA) training, adding to the number of professionally qualified accountants within the service.

It should be noted that the new PSIAS 1300 requires the Chief Audit Executive to develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity. Improvements identified to date, plus any further arising from the 2012/13 annual review of effectiveness will be incorporated into an action plan and monitored during 2013/14.

Summary of audit work carried out

Assurance Work

Our work programme for the financial year 2012-13 was determined by work carried out in April to June 2012 from the approved 2011/12 audit plan and work carried out between July 2012 and March 2013 from the approved 2012/13 audit plan.

A summary of assurance work complete during the year is attached at **Appendix E**. Details of work carried out in the previous 3 financial years is also included to provide a more informed opinion on the control environment.

Advice and Consultancy Work

All planned reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks. This evaluation and challenge supports the effective and efficient use of resources and value for money (VFM).

Through our advice and consultancy work we are able to add value pro-actively and reactively.

Reactive work involves positively responding to ad-hoc requests for advice and reviews added to the plan to address new or emerging risks. It also includes responding to potential fraud or irregularities and we ensure that all such incidents are properly investigated and that appropriate action is taken by managers, whether or not fraud or malpractice is proven. This work is delivered from the contingency provision within the plan.

A summary of key advice and consultancy work under during the year is attached at **Appendix B**.

Key Areas for Opinion

The three main areas of the control environment considered when determining our overall assurance opinion are:

- Financial Management
- Risk Management
- Corporate Governance

Assurance has been provided on some aspects of all key financial systems during the year. It is acknowledged that good progress has been continued to be made during the year in improving the operational efficiency and performance of key financial systems. However, testing of the control environment in operation during the year still highlighted a number of weaknesses in key controls.

Independent assurance on the effectiveness of the Council's risk management arrangements has been provided by consideration of the adequacy and effectiveness of operational risk management through the risk based audit approach and the CRA methodology applied to individual audit assignments. This in turn provides some assurance on the management of related strategic risks.

A number of audits have been carried out during the year to provide independent assurance on the effectiveness of specific key corporate governance arrangements. In addition, compliance with relevant key council policies and procedures has also been considered as part of the risk based approach to the audit of service related planned assurance reviews.

Key issues arising from audit work where controls have improved or further improvements have been identified are summarised in Appendix C.

The implementation of audit recommendations made to improve the control environment helps to embed effective risk management and strengthen the effectiveness of the Council's corporate governance arrangements. Details of

progress made on the implementation of all High and Medium ranking recommendations are reported quarterly to Corporate Directors and the Audit Committee. A summary of progress on actions due by the 31 March 2013 is given below:

Service	Actions Due by 31/03/13	Overdue Actions by Original Target Dates		Overdue Actions where revised date agreed		Revised overdue actions	
		No	%	No	%	No	%
ACE	9	1	11	1	100	0	0
CAS	137	12	9	8	67	7	8
NS	414	42	10	21	50	25	6
RED	300	7	2	7	100	0	0
RES	353	14	4	14	100	0	0
TOTAL	1213	76	6	51	67	32	3

The % of audit recommendations implemented by service managers within agreed targets dates has substantially improved from previous years with 94 % of agreed actions being implemented with original targets. This increases to 97% if revised target dates are used as the measure of performance.

Audit Opinion Statement

The Council has responsibility for maintaining a sound system of internal control that supports the achieving of its objectives.

Internal Audit is required to provide an opinion on the Council's risk management, control and governance process.

In giving this opinion it should be noted that assurance can never be absolute and therefore only reasonable assurance can be provided that there are no major weaknesses in these processes.

In assessing the level of assurance to be given, we based our opinion on:

- All audit work undertaken during the year
- Follow up action on audit recommendations
- Any significant recommendations not accepted by management and the consequent risk
- The effects of any significant changes in the Council's systems
- Matters arising from previous reports to the Audit Committee
- Any limitations which may have been placed on the scope of the internal audit

- The extent to which resource constraints may impinge on internal audit's ability to meet the full audit needs of the Council
- The outcomes of the audit quality assurance process
- The reliability of other sources of assurance considering when determining the scope of internal audit reviews

Consideration of the direction of travel on the adequacy and effectiveness of the control environment since unitary status as illustrated in Appendix E. We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's system of internal control. Based on the work undertaken, we are able to provide a Moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2012/13. This moderate opinion ranking provides assurance that there is basically a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls.

This overall 'moderate' opinion reflects the same overall opinion as the last 3 years and reflects the widened scope of internal audit, with some new audit areas being undertaken each year as part of the agreed audit strategy to review key service activities over a 5 year rolling programme.

The adequacy and effectiveness of key financial controls is a major consideration in our opinion. Whilst good progress has been continued to be made during the year to improve a number of key financial systems that has provided a better operational platform for effective financial risk management some key controls were still absent or not operating effectively in 2012/13 hence the same "moderate" opinion on the financial control environment as the last 3 years. The expectation is that the financial control environment will continue to improve as new systems and processes become more robust and the recently implemented financial management standards become more embedded.

All audits with a limited assurance opinion have disclosed at least one high risk finding and these are subject to more rigorous follow up and are reported to Audit Committee on an exception basis

Where Internal Audit has identified areas for improvement, recommendations were made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within agreed target dates has been very high during the year, in many cases there is a considerable time gap between a control weakness being reported and the date determined by management for when the action can realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion.

PERFORMANCE INDICATORS

Efficiency			
Objective: To provide maximum assurance to inform the annual audit opinion			
KPI	Measure of Assessment	Target and (Frequency of Measurement)	Actual as at 31/3/13
Planned audits completed	% of assurance work planned to be completed to draft report stage as at the end of planning year 30 June	90% (Quarterly)	Annual target not yet due - on target at the end of Q3 but some slippage expected in period April to July (80%)
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Quarterly)	91% (87%) 14 days on average (18)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response Average time taken is also reported for information	95% (Quarterly)	91% (92%) 6 days on average (5)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	98% (100%)
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	98% (88%)
Quality			
Objective: To ensure that the service is effective and adding value			
KPI	Measure of Assessment	Target and (Frequency of Measurement)	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	96% (98%)
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (4 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	96 (96%) Overall average score 4.60 (4.49)
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	33 (47%)
Cost			
Objective: To ensure that the service is cost effective			
KPI	Measure of Assessment	Target and (Frequency of Measurement)	
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	Yes (Yes)

* figures in brackets are 2011/12 actual shown for comparison purposes

KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2012/13

Information Governance

The service is represented on the corporate Information Governance Group to provide advice and guidance and to carry out independent assurance work on the Council's information governance arrangements.

Grant Work

As the Council strives to maximise external funding to help it deliver its objectives, we have been increasingly required to provide independent assurance that funding is correctly spent by certifying grant claims. Such work adds value by ensuring no grant is lost through claw back or reputation damage that may impact on future external funding opportunities.

Free School Meals

An exercise was carried out to verify free school meals entitlement. As a result £54K has been recovered from the formula element of funds delegated to schools budgets.

Procure to Pay (P2P) Project

We have continued to work closely with our colleagues in Finance to provide advice and guidance to in support of the P2P project team set up to improve the effectiveness of the procure to pay process within Oracle E Business Suite.

Digital Durham

We have provided support to the Digital Durham Project by providing independent assurance that all relevant evidence required at each gateway stage of the project management plan is in place.

Review of Award of Contracts (on going)

As part of our counter fraud programme of work we have been working with colleagues in corporate procurement to identify purchases made outside of agreed contracts to highlight potential inefficiencies and detect any non-compliance with corporate procurement arrangements (potential fraud indicator).

Indoor facilities

We have reviewed cash collection and reconciliation arrangements and energy management arrangements in place in leisure centres following concerns raised by management.

Local Council Tax Scheme

We have supported the implementation of the Local Council Tax Support Scheme by verifying the tax base calculations.

Oracle Projects

We have provided advice to a number of projects relating to enhancements of the Oracle E:Business Suite

Membership of the Strategic Procurement Network (SPN)

The SPN is a corporate group and Internal Audit provides independent advice and challenge on internal control and VFM issues as they arise as well as acting as the Resources Service Grouping representative.

Project Assurance Framework

We have begun work to develop a joint project assurance framework with colleagues in ACE to enhance the existing project assurance framework relating to major corporate improvement programme and projects. Under this framework internal audit will seek to provide assurance on benefit realisation and any resultant inherent risks after projects are completed.

Schools Risk Management Self-Assessment Tool

In consultation with head teachers we have developed a control risk self-assessment tool to help embed effective risk management in schools

Public Health Transfer

We have completed a due diligence exercise relating to the transfer of the Public Health to the Council with effect from April 2013. This comprehensive exercise considered all aspects of the governance, risk management and internal control associated with the transfer and supported the successful completion of the transition project with Children and Adult Services.

Counter Fraud

Work has continued during the year to promote the Council's Counter fraud and Corruption Strategy to help embed a zero tolerance culture across the Council, including the roll out of fraud awareness training to all managers.

Other work carried out included:

- Helping service managers identify fraud risks and to design controls to prevent and /or detect fraud occurring.
- Conducting counter fraud reviews to help detect fraud and error in known high risk areas
- Supporting managers to investigate suspected fraud and irregularities
- Helping service managers prevent reoccurrences
- Monitoring and reporting upon fraud & irregularity activity to the Corporate Management Team and the Audit Committee

Miscellaneous Service Requests

Examples of ad hoc advice and consultancy work carried out during the year in include:

- Review of stores security following a number of reported incidents of inappropriate use
- Development and implementation of Financial Management Standards
- Review of the Sale of Windlestone Hall
- Review of project management arrangements for a major capital scheme
- Support to community buildings project
- Building maintenance quality management system compliance
- Cash collection arrangements at outside events
- Indoor facilities contract review of income sharing arrangements

KEY CONTROL ISSUES

Key Financial Systems

It is acknowledged that good progress has continued to be made during the year to improve the overall financial management framework, including the recent implementation of the financial management standards and clarification of roles and responsibilities following the full implementation of finance unitisation. However, as can be seen from Appendix E, the overall assurance opinion on the financial control environment operating during 2012/13 was, overall, still considered to be **Moderate**.

A review carried out early in the year relating to progress made on the implementation of recommendations made in the external auditor's 2010/11 interim and final governance reports indicated a number of weaknesses in the monitoring arrangements. Improvements identified were however addressed during the year and the subsequent monitoring of issues arising from the 2011/12 annual governance reports has been much more robust and the majority of areas requiring improvements during 2013/13 have now been addressed.

The main areas where improvements were identified through internal work related to cash collection and debt recovery. A number of control weaknesses were identified, primarily due to a lack of documented, clearly communicated procedures to clarify roles and responsibilities for all those involved in the process. This is being addressed.

Whilst significant progress has been made during the year to improve performance relating the payment of invoices, an interrogation of creditor payments identified a number of duplicate payments arising from both the automated and the manual processing of invoices. Whilst the value to be recovered of £58K is lower than previous years this indicates that there are still some weaknesses in the control environment.

Due to the change in audit planning year, some testing of the financial control environment is still in progress and consequently the resultant assurance opinion is yet to be determined in some areas. However, it should be noted that there has been good progress made on the implementation of audit recommendations arising from both internal and external audit work and consequently the completion of outstanding internal audit work is expected to improve the overall assurance opinion.

Business Continuity IT

Arrangements in place to manage risks associated with IT business continuity need improvement. Whilst it is recognised progress is being made on identifying a second site for ICT equipment this is still not operational.

Direct Payments – Social Care Personal Budgets

Weaknesses in the procedures in place relating to the control of direct payments were disclosed at audit which if not addressed will increase the risk of financial loss due to misuse of funds in this high risk fraud area.

Disposal of Land

A review of the sale of Windlestone Hall, carried out as a joint review with the external auditor following a letter of complaint that the property had been sold significantly under value, identified a number of control weaknesses in the processes and procedures in place relating to the disposal of land and buildings. Given the public interest in the circumstances of the sale, the implementation of agreed actions to address control weaknesses is being closely monitored by the Audit Committee.

Weaknesses in Controls Identified through fraud and irregularity investigations

Since the launch of the Counter Fraud and Corruption Strategy in March 2010, the number of potential cases of suspected fraud and / or irregularity reported to Internal Audit has increased each year. Details of cases reported and work being undertaken to combat the strategic corporate risk of fraud are reported to Corporate Management Team and the Audit Committee in an Annual Fraud & Irregularity Report.

It should be noted that of the 98 potential cases reported in 2012/13, improvements in control were identified in 34% of cases, irrespective of whether or not any wrong doing was substantiated.

Findings

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

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

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

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

Priority of our recommendations

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

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

Overall Assurance Opinion

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

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

SUMMARY OF ASSURANCE WORK CARRIED OUT

Audit Area	2009/10 Opinion	2010/11 Opinion	2011/12 Opinion	2012/13 Opinion	Opinion Conclusion
CORPORATE FINANCIAL MANAGEMENT RISKS					
P2P		Limited			
Compliance with key controls		Moderate			
Petty Cash Usage	Substantial	Moderate			Limited
Data Quality		Limited			
Internal use of Credit Cards		Limited			
Procurement Cards			Moderate		
Supplier/Contractors bank account amendments			Limited		
Direct Debit Payments					
Income from DCC Assets		Limited			
Income Reconciliation: Revenues & Benefits	Substantial				
Income from Online Sales	Moderate			Limited	Limited
Cash Management		Limited			
Cashier Security		Limited	Moderate		
Income collection (Debtors)		Limited		Limited	Limited
ICON Cash Management		Limited		*Moderate	*Moderate
Key Controls	Substantial	Limited		*Moderate	Moderate
Governance review			Moderate		
Central System Key Controls		Moderate			
Governance review		Moderate	Moderate		
Teachers Pension Fund: Annual Auditor Certification (TR17) Review of controls		Moderate	Moderate		
Service based key controls	Moderate				Moderate
HR arrangements across Directorates			Limited		
Electronic Data Interchange	Limited				
Tupe allowances	Limited				
Member expenses		Moderate			
Expenses and allowances					
Compliance with key controls	Substantial	Limited		Moderate	Moderate
Governance review			Moderate	*Moderate	Moderate
Compliance with key controls	Moderate	Moderate		Moderate	
Governance review			Moderate		
Housing and Council Tax Grants		Moderate			
Housing and Council Tax Grant	Limited	Moderate			Moderate
Housing and Council Tax Grant - Control Framework			Full		
Fraud and Error Unit			Moderate		
Revenues and Benefits Reconciliations				Substantial	
Short Term Investments	Moderate	Substantial	Substantial	Moderate	Moderate
Treasury Management					
Treasury Management Overview		Substantial			
Banking Contract	Substantial	Substantial			
Bank reconciliations	Substantial	Moderate	Limited		
Banking Arrangements					
Review of Opening Balances		Moderate		Limited	
Feeder systems and reconciliation processes	Substantial		Substantial		
VAT	Limited				
PAYE	Moderate				
SIMS/Oracle Reconciliation					
SSID Oracle reconciliation			Moderate		Moderate
Journals			Moderate		
Key controls and reconciliations				Limited	
MTFP - Control Design			Full		
Capital Programme Management			Moderate		Substantial
Budgetary Control & Financial Reporting	Moderate		Substantial		Substantial
Durrham City Homes	Moderate				Moderate
ALMO Rent Collection				Moderate	Moderate
Governance review					

Audit Area	2009/10 Opinion	2010/11 Opinion	2011/12 Opinion	2012/13 Opinion	Opinion Conclusion
CORE GOVERNANCE RISKS					
Information Governance					
Data Quality	Moderate	Substantial	Moderate	Moderate	
Sickness Absence		Substantial	Substantial		
Freedom of Information				*	
Records Management					
Information Security	Moderate	Moderate	Moderate	*Moderate	
Data Protection - Training		Limited	Limited		
Payment Card Industry Data Security Standard	Moderate	Moderate		Moderate	
Caldicott arrangements (A&CS)				Substantial	
Caldicott compliance (former CYPS)					
Caldicott compliance (former AWH)					
Home working		Moderate			
Internet Security	Moderate	Moderate	Moderate		
Standards Compliance					
Whistleblowing				Moderate	
RIPA				Substantial	
Mobile computing		Substantial			
SQL Server		Moderate			
Code of Connection (CoCo)	Moderate	Moderate			
Business Continuity for IT		Limited		*Limited	
IS-IT Strategy		Substantial			Moderate
Software Licenses		Limited			
Information Security:	Limited				
3rd Party Acceptable Use		No Assurance			
Business Continuity Planning		No Assurance			
Personal Information		Limited			
Organisational Arrangements		Moderate			
ICT Asset Management			Moderate		
Physical Security				*Limited	
Access Controls				*Moderate	
Encryption				*Limited	
Applications Review			Moderate		
ITSS	Substantial				
Change Controls	Moderate				
Unix Security	Moderate				
Network Management	Moderate		Moderate		
Windows Security	Substantial				
E-Tendering	Substantial				
Flexi System			Moderate		Moderate
Recruitment and selection			Moderate		
ER/VR				Substantial	
Exemptions and Variations			Moderate		
Tenders			Substantial		Substantial
EU Regulations					
Equality Impact Assessments				Moderate	
Equality, Diversity and Community Cohesion	Substantial				Full
Business Continuity Planning	Moderate				Substantial
Delegated Powers					Moderate
Whistleblowing Arrangements					Moderate
Key Decisions					Moderate
Health & Safety	Moderate				Substantial
Compliance with laws and regulations					Moderate

Audit Area	2009/10 Opinion	2010/11 Opinion	2011/12 Opinion	2012/13 Opinion	Opinion Conclusion
SERVICE BASED OPERATIONAL RISK					
Establishment Audits					
AWH	Moderate	Substantial			
Schools FMSIS Inspections	Substantial	Substantial			Moderate
Schools Other	Substantial	Substantial		Moderate	
Other CYPS	Limited	Substantial			
Gala Theatre - various aspects each year	Moderate	Moderate	Limited	Moderate	
Leisure Centres					
ACE					
Community Associations Funding		Moderate	Moderate		Moderate
AAP Neighbourhood Fund		Moderate	Moderate		
AAP Members Initiative Fund					
Welfare Rights		Substantial			
Traveller Arrangements - Illegal Encampments		Moderate			
AWH Governance Framework				Full	Full
AWH Quality Assurance System					
DECHA (Durham Employers Care & Health Alliance)	Substantial	Substantial			
DAC (Durham Assessment Centre)	Substantial				
Shared Lives Placement Scheme	Moderate	Substantial		Limited	
Personalisation - Direct Payments					
Contract Monitoring			Substantial	Substantial	
Reablement Services				Substantial	
Extra Care Housing				Moderate	
Continuing Health Care				Limited	
Emergency Duty Team Sectional and Overtime Costs				Substantial	
Share lives financial inspections				Substantial	
Fees and charges - Key controls				Moderate	
Various service based financial systems	Substantial	Moderate	Substantial	Moderate	
Education Psychology Service					
Children missing from education		Substantial	Moderate		
Review of Free School Meals Eligibility in Primary Schools		Moderate	Moderate		
External & High Cost Child Placements		Substantial			
ITSS	Substantial	Moderate			
Community of Learning - Extended Services Cluster	Limited				Substantial
School Transport			Full		
School Transport Charging Arrangements				*Moderate	
Award of additional pay in Schools					
Voluntary Funding Arrangements in Schools			Moderate	Limited	
Safe recruitment and selection arrangements within schools			Moderate		
School Academy Transfer Arrangements		Substantial	Moderate	Substantial	
BSF Programme			Moderate	Substantial	
Schools SLA's			Moderate	Moderate	
School Budget Preparation and Monitoring		Substantial	Moderate		
School Governor Support Service			Moderate		
Summary of service based financial systems	Limited	Substantial			
Education Development Service			Substantial		
Positive Activities for Young People (PAYP)				Limited	Full
School Catering				*Moderate	*Moderate
Procurement in Schools					
One Point - Children's Services for Under 5 year olds and their families					Substantial
SSID System Review				Moderate	Substantial
County Durham Care and Support - Shared Lives				Full	Substantial
Professional Practice oversight of Care Management Processes					Substantial
Management of service users finances and property					Substantial
Durham Federation					Substantial

Audit Area	2009/10 Opinion	2010/11 Opinion	2011/12 Opinion	2012/13 Opinion	Opinion Conclusion
NS	Substantial			Limited	
Bereavement Services	Substantial				
Parking Control and Enforcements	Substantial				
Grounds maintenance Partnering Contract	Moderate				
Economic Wellbeing Consumer Complaints		Substantial			
Public Safety - Markets		Limited			
Fleet Management - Fuel Stocks and Stores		Moderate			
Housing Maintenance - Gas (Durham City Homes)		Substantial		Substantial	
Housing Maintenance Responsive Repairs (Durham City Homes)		Substantial			
Housing Maintenance (Durham City Homes Planned Maintenance)				Full	
Leisure Services - Connection Management		Moderate			
Leisure works - contract management			Moderate		
Indoor facilities (Sports and Leisure)			Substantial		
Road Safety		Substantial			
Renewal and raising of licenses			Moderate		
Control of infectious diseases			Substantial		
Events Management - Control Design			Full	Moderate	
Customer Services			Moderate		
Enforcement and Education Neighbourhood Wardens			Limited		
Fleet Management Service			Substantial		
Facilities Management Service			Moderate		
Supported Housing (Income and Funding arrangements)				Full	
Management of Gym Memberships				Moderate	
MOT Arrangements				Moderate	
Street Lighting				Full	
Public Health enforcement - Housing Multiple Occupation Licences				Moderate	
Stores Management - central & on site management of disposal of surplus stock				Moderate	
School Crossing Patrol - Retainer payment arrangements				Limited	
Budgetary Control - Focus on management of duplicate receipting of expenditure on system and allocation of costs to budget heads				*Moderate	
				Moderate	

Audit Area	2009/10 Opinion	2010/11 Opinion	2011/12 Opinion	2012/13 Opinion	Opinion Conclusion
RED		Substantial			
County Durham Development Company (CDDC)		Substantial			
Inspection of dangerous structures		Moderate			
Planning Application System		Moderate			
NWA Collection					
Passenger Transport: coordinating public transport, home to school and social care transport - Concessionary fares		Substantial			Substantial
Strategic Traffic Management:					
Park and Ride Scheme		Moderate			
Public Right of Way		Moderate			
On Street Parking		Moderate			
ALMO's Governance Arrangements				Full	
HR ALMO's Contract Monitoring					
Homelessness		Limited			
Housing Tenancies		Moderate			
Building control		Substantial			
Planning Applications		Moderate			
Planning S106		Substantial		Moderate	
Utility Bills					
RESOURCES			Limited		
Land Charges			Moderate		Moderate
Flexi Scheme - Compliance			Moderate		
ICT Charges			Limited		
Registrars Service			Moderate		
Design & Print				Moderate	
Committee Services				Moderate	
Deferred Benefits				Moderate	
Contributions (Internal and External)		Substantial			
Bank Reconciliation		Substantial	Moderate		
Transfer Values and Interfund Transfers		Limited			
Benefits and Allowances		Moderate			
Governance		Substantial		Moderate	
Investments			Limited	Substantial	
Benefits and other payments			Moderate		

Audit Committee

27 June 2013



**Annual Review of the Effectiveness of
Internal Audit – 2012/13**

Report of Don McLure, Corporate Director of Resources

Purpose of the Report

1. The purpose of this report is to advise Members of the outcome of the annual review of the effectiveness of the Internal Audit Service.

Background

2. The Authority has a requirement under the Accounts and Audit (England) Regulations 2011 to review the effectiveness of Internal Audit each year. Internal Audit is an important element of the system of internal control and consideration of its effectiveness contributes to the annual review of the Authority's corporate governance arrangements, and is required to inform the Annual Governance Statement (AGS). If Internal Audit is not considered effective, the reliability of the annual internal audit opinion is in question.
3. The last review of the effectiveness of the service was carried out by the Corporate Director Resources, and considered by the Audit Committee in June 2012. This was informed by a series of questions considered independently by:
 - The Chair of the Audit Committee
 - The Corporate Director Resources
 - External Audit
 - The Head of Internal Audit
4. The review concluded that the service is effective but noted that some improvements had been identified.

Improvements made during the year

5. The main areas where improvements were identified from the last exercise and progress made to date is summarised below:

- **Development of Assurance Maps**

The development of assurance maps is linked to the roll out of a risk based auditing and the Control Risk Assessment (CRA) approach being rolled out as part of the current audit strategy to review of all key service activities over a 5 year programme. 2012/13 was the second year in this 5 year programme and consequently this longer term objective is still in progress.

- **Skills Mix**

It had been recognised that the skills mix of the in-house team needs improving in the specialist areas of IT audit and fraud investigation. In response attempts were made during the year to appoint an additional IT Auditor. Unfortunately we were unable to attract a suitable candidate. Consequently, to supplement the in-house team we have entered into a partnership agreement with Audit North, a not for profit NHS consortium, for the provision of IT Audit Services with effect from April 2013. Plans to strengthen fraud investigation skills were put on hold during the year pending consideration of the implications of the development of Single Fraud Investigative Services by the DWP as this would have implications for Housing Benefit Fraud Unit. This was expected to be operational in October 2012 but has been delayed. This will be progressed during 2013/14.

Three members of staff started studying for the Institute of Internal Audits (IIA) Diploma qualification during the year.

The existing contract with PriceWaterhouseCoopers has been extended for another year to allow completion of a three year audit programme relating to the pension fund and to enable further skill transfer to the in-house team in this specialist area.

Approach to this year's annual review of effectiveness

6. This year's review has been informed by the outcome of 2 exercises.

- Formal feedback from Corporate Directors and Heads of Service through the use of an evaluation questionnaire
- An early self- assessment of compliance against the new Public Sector Internal Audit Standards (PSIAS) carried out by the Manager of Internal Audit and Risk.

Survey Outcomes

7. In total, 15 questionnaires were returned from 28 issued. A summary of the responses and additional comments received are attached at Appendix 2

Compliance with PSIAS

8. The PSIAS came into effect from 1 April 2013. A copy of the PSIAS is attached at Appendix 3.
9. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows:
 - Definition of Internal Auditing
 - Code of Ethics
 - International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary)
10. The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.
11. To support the implementation of the PSIAS in Local Government, the Chartered Institute of Public Finance and Accountancy (CIPFA) have published a Local Government Application Note (Application Note).
12. The PSIAS and Application Note supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the CIPFA 2006 Code).
13. Under the Accounts and Audit Regulations 2011, the Council must make provision for internal audit in accordance with the PSIAS as well as the Application Note.
14. Whilst the PSIAS came into effect on 1 April 2013, the Application Note has only recently been published and general guidance issued by CIPFA is that public sector bodies should aim to be fully compliant by the end of 2013/14.
15. To identify any actions required to prepare for full compliance, an initial self-assessment has been carried out using a checklist provided in the Application Note. It should be noted that this checklist has been devised to support a full evidence based internal or external assessment, but at this early stage of assessment it has only been used to assess known gaps in processes and procedures to help prepare for full compliance. A copy of this assessment is attached at Appendix 4.
16. It should be noted that PSIAS 1300 requires that an external assessment is carried out at least every five years. This may be satisfied by either

arranging for a “full” external assessment or by undertaking a self-assessment with ‘independent validation’. The initial assessment carried out to inform this annual review of effectiveness is not such an assessment. Consideration of the format and timing of the external assessment will be considered and discussed with the Audit Committee at a later date.

Conclusions

17. The responses from the senior management survey, although disappointingly limited in number, were on the whole very positive.
18. These indicate that the service consults well with senior management regarding audit issues but the audit strategy and risk based approach could be improved to ensure that there is more clarity over how internal audit work can support the achievement of council priorities and objectives and provide more support on helping services achieve VFM.
19. Communicating audit outcomes was another area where improvements were highlighted in relation to the timeliness of the issuing of reports and ensuring that audit findings are reported in the context of “the bigger picture”.
20. The development of the assurance framework and assurance maps, mapping assurance on the areas and /or risks that senior management and the Audit Committee agree as priority, is key to improving the strategic planning process. Whilst work has already begun on this, it does require further senior management buy-in and time to progress successfully. The implementation of the PSIAS clearly demonstrates the importance of moving this on during 2013/14.
21. Another key area for improvement is the need to implement a more robust quality assurance programme. This new requirement of the PSIAS will help improve performance management and the identification of training and development issues which will in turn help drive the quality of the service offer once addressed.
22. Ensuring internal auditors have the right skills, knowledge and experience is always a challenge but especially at the current time in view of the external influences impacting on the operations of the council and the resultant extent and pace of the transformational/change agenda at a time of reducing resources. It is therefore important that the service optimises any opportunity to enhance its skills and knowledge base by enhancing the in house team, wherever resources allow, and ensuring the continuous professional development of all existing staff. Again, the PSIAS provides focus on the importance of this.
23. The service is already compliant with the majority of the requirements under the PSIAS as the previously professional standard for local authority internal audit, the CIPFA 2006 Code, largely reflected the expectation of

the IIA Standards. However, there are some new elements and the introduction of the PSIAS is an ideal opportunity to review all audit processes and procedures to ensure not only compliance but that the quality assurance framework in place is robust enough to evidence compliance. Since the demise of the tri-annual review of Internal Audit by the Audit Commission, the introduction of an external assessment to be carried at least once every 5 years is welcomed as it will help drive compliance and continuous improvement thereby increasing the overall quality and effectiveness of the service.

24. Actions required to address the areas identified for improvement from the outcomes of the both the Senior Management Survey and the initial self-assessment of compliance with the PSIAS and Application Note are summarised in the improvement plan attached at Appendix 5. This improvement plan fulfils part of the requirement of PSIAS to develop and maintain a Quality Assurance and Improvement Programme (QAIP). The quality assurance programme will be developed during the year and reported upon as part of next year's annual review of effectiveness.
25. There is sufficient evidence to support the conclusion that the service was overall effective during 2012/13 and that the opinion provided in the 2012/13 Annual Audit Report is reliable.
26. Plans are in place to address areas for improvement and compliance with the PSIAS will help maintain quality standards going forward.

Recommendations

27. Members are asked to consider the evidence provided in this report to gain assurance on the effectiveness of internal audit and to place reliance on its work.

Contact: Don McLure, Corporate Director Resources Tel 03000 261943

Appendix 1: Implications

Finance

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

Staffing

None

Risk

None

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

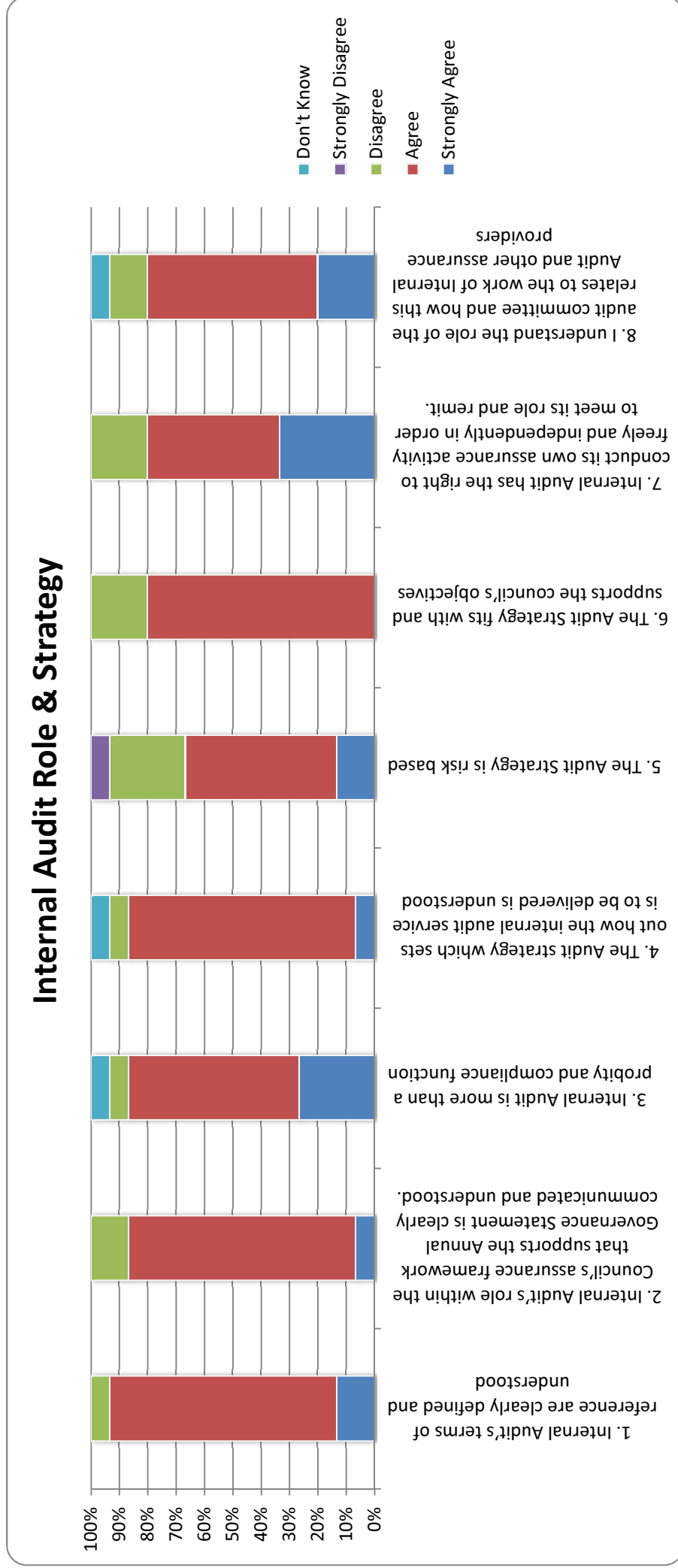
None

Disability

None

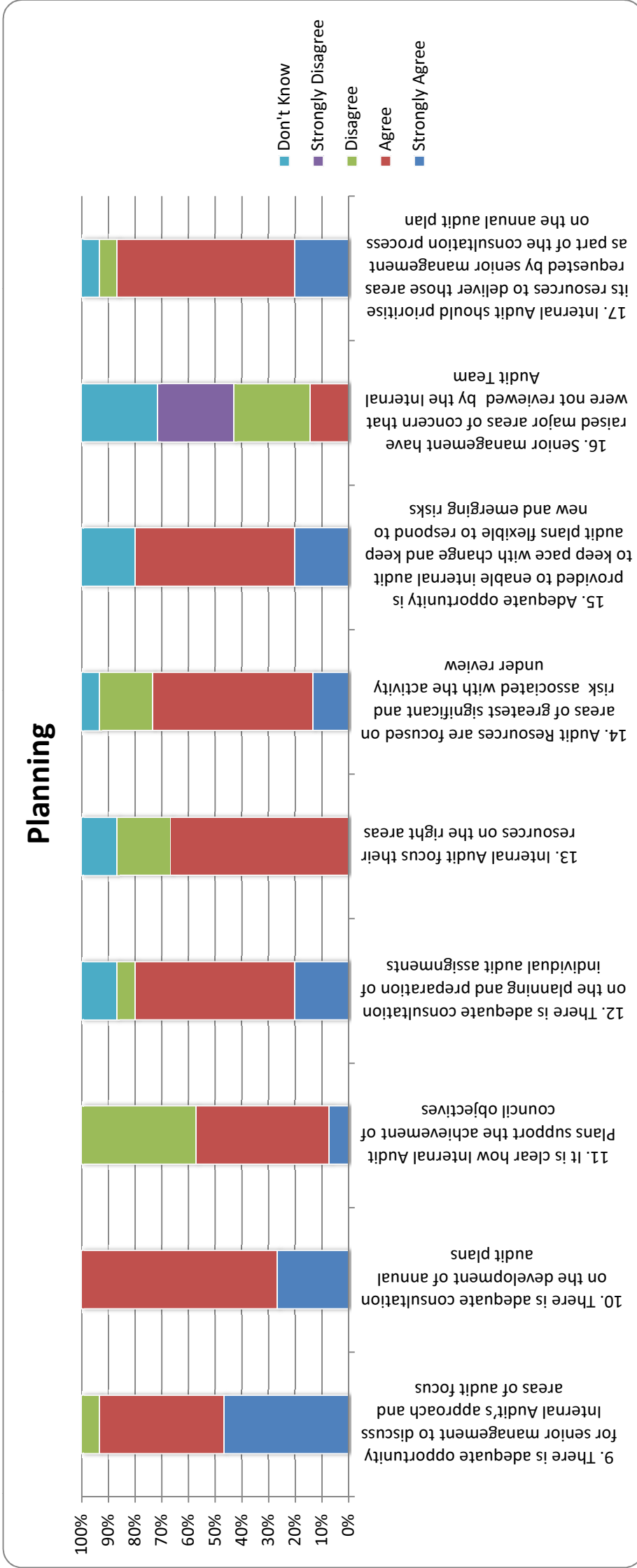
Legal Implications

Compliance with Accounts and Audit Regulations 2011



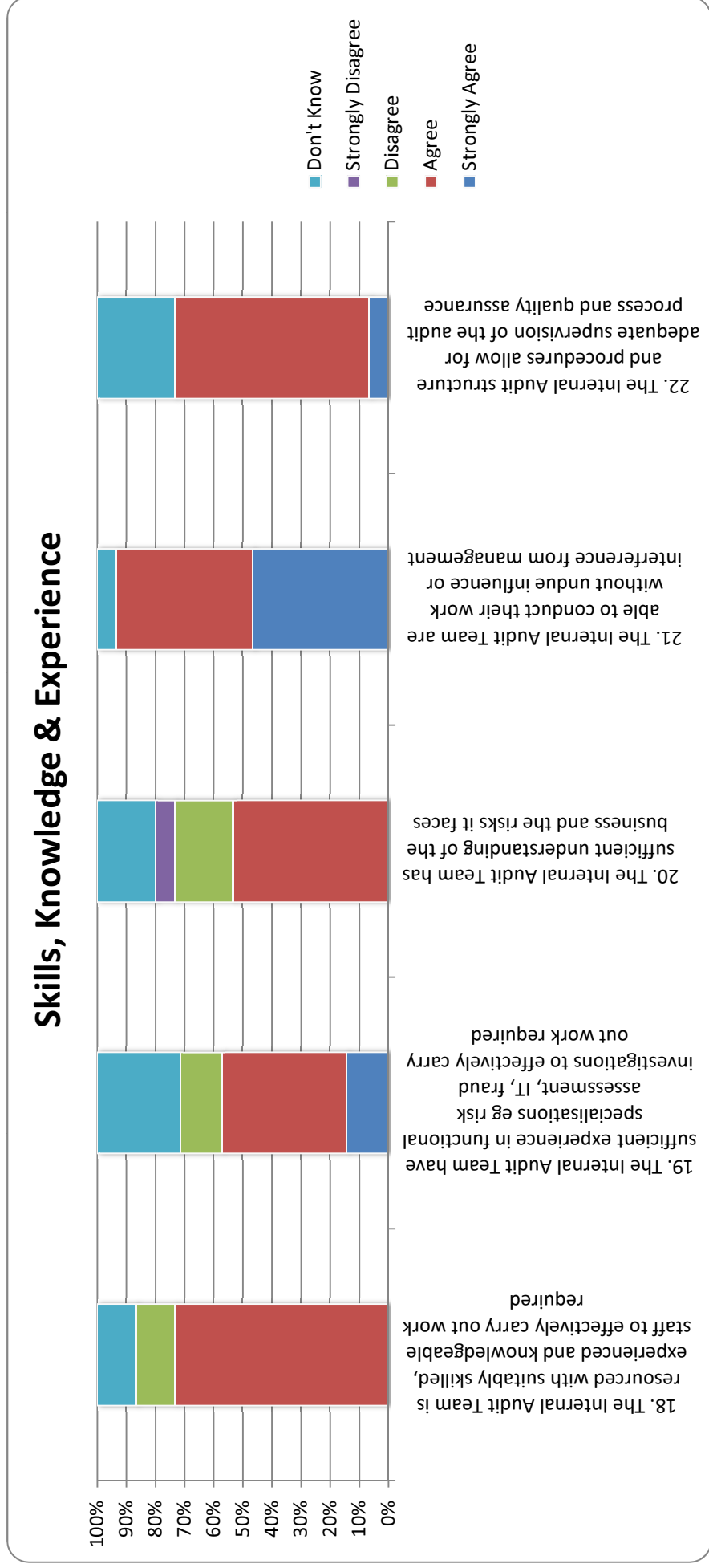
Additional Comments

- Risk based approach, and close working with services in developing programmes of work particularly welcomed.
- During the year IA have worked with me and my service management team to improve the TOR / CRA processes and to better manage the implementation / monitoring of IA recommendations.
- This could be more strongly aligned to service needs. Whilst appreciating that a level of independence is required at times this must be in-line with skills and ability.
- The staff are hard working and conscientious, but there is concern that sometimes they do not fully understand the areas they are auditing and reports that focus on how the auditor would have done something differently or judgements on procedural defects that are not significant lead staff being audited to the view that a "make-work judgemental" focus instead of a risk-based one is being pursued. It is fair to say that the approach has improved a lot recently, following concerns raised about one audit



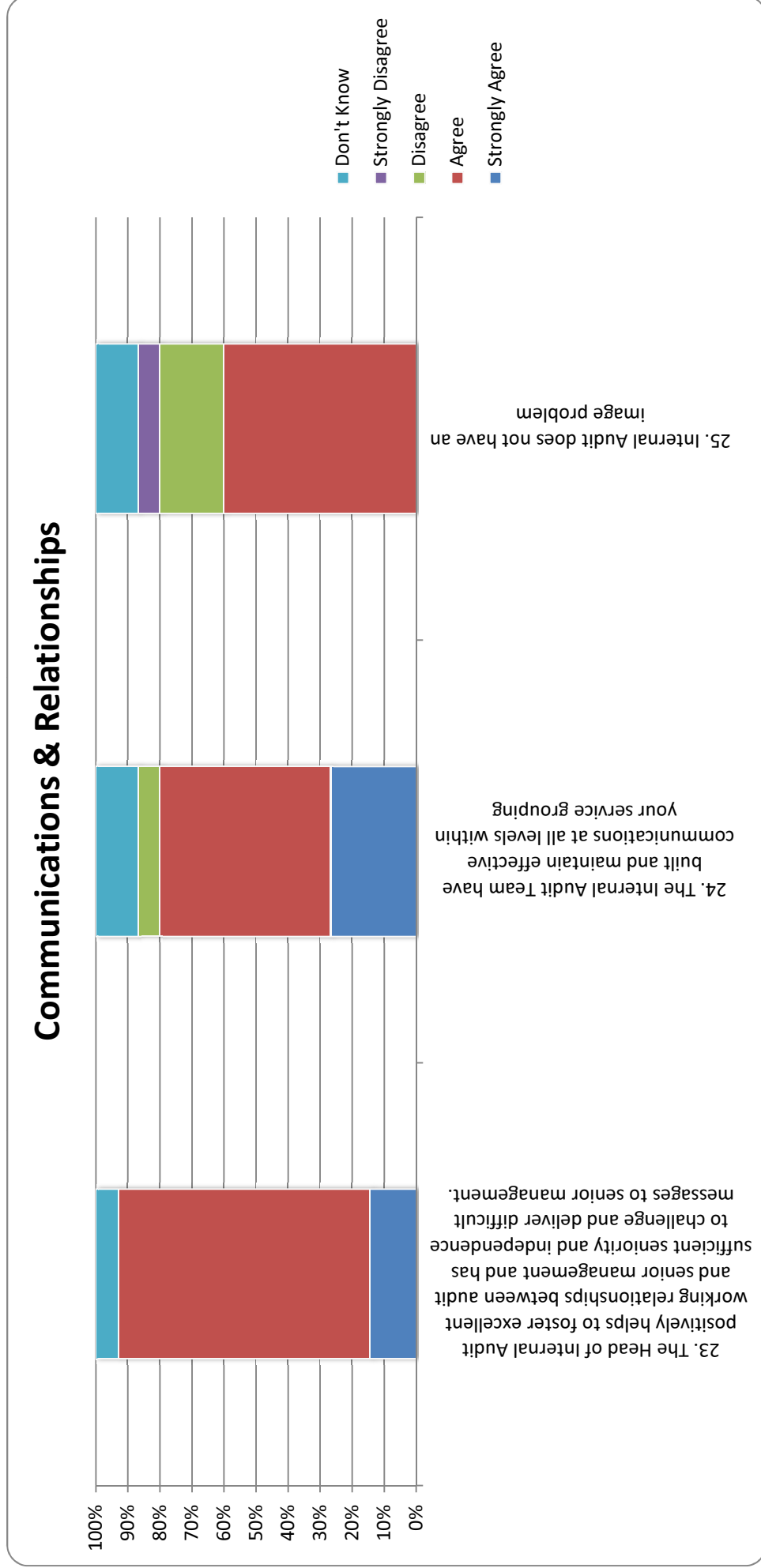
Additional Comments

- The use of clear TOR's and the CRA process for individual assignments has improved the focus of IA activity over recent years. The IA section are responsive to management concerns and take a risk based approach. I have always found the staff flexible and adaptive to the needs of the business and have used the team for a number of "special assignments" e.g. verifying the LCTSS tax base calculations; the recovery plan re Revs and Bens reconciliations in early 2012 etc.
- There needs to be a balance between what is dictated by service areas and what is deemed of interest/concern to Internal Audit. There does appear to be a good response and flexibility in adjusting plans where necessary.
- Needs to be more focus on high risk areas



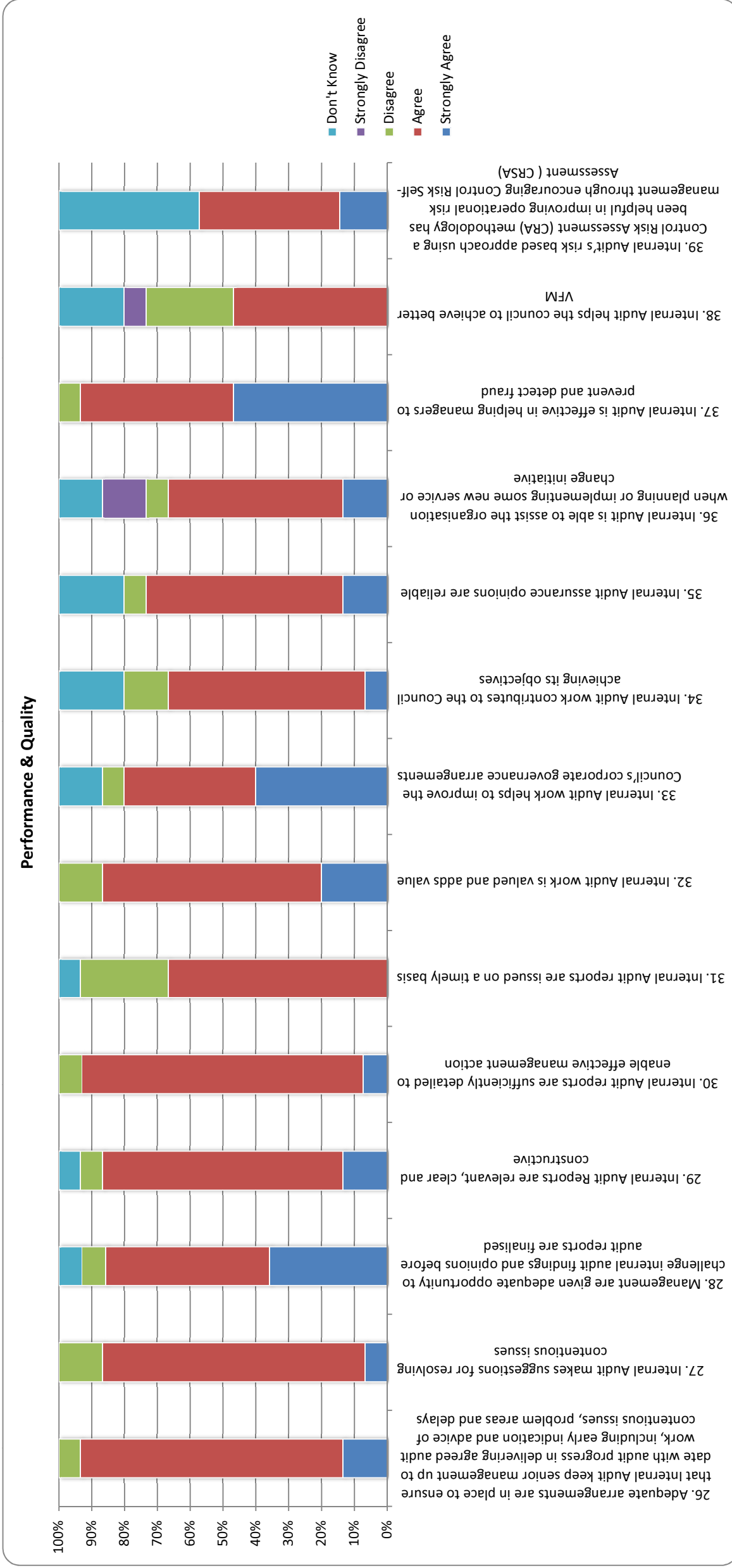
Additional Comments

- The relationship between the Audit Manager (Principal Auditors) and the audit staff on the ground appears to work well and there are clear frameworks around the process. The staff I have come across have been nothing but adaptive / willing to learn / open / challenging / professionally competent.
- The audit team shouldn't comment on high level technical issues until they have liaised with the relevant senior officer.
- Could do with more ICT focus



Additional Comments

- Excellent contact with management teams. Good relations overall, sometimes strained at times of high service demand, when there may not be an appreciation of service pressures and the hierarchy is chosen to elicit a response rather than personal contact with the manager. This however is improving from a mutual understanding of demands.
- IA will always suffer from an image problem due to the nature of their work, though this is not as bad as it was historically. A good IA review adds value / gives much needed assurance and in the main the majority of IA work achieves this. Sometimes there can be a tendency to make multiple recommendations when one is all that is required and there can be sometimes be inconsistency between audit judgements.
- Whilst the audit planned is prepared in consultation with HOS, I found the audit team are very helpful and can often accommodate changes to the programme in response to changes in the service and business needs within the service.
- Communications and relationships are good. If anything there could be a clear conclusion to audits at time.
- I think that the audit team do have an image problem although I am aware that work is on-going to improve this.
- I believe that the service is seen as one that seeks to find evidence of malpractice, rather than approaching an audit from an open mind.
- Won't Audit always have an image problem, just like ICT and accountants etc.?



Additional Comments

- Requires some further work; the recent audit on outside interests was very time consuming and could have been organised more efficiently.
- Particularly helpful in relation to responding to allegations of fraud or impropriety, often on top of the work programmes.
- The Council has only scratched the surface in terms of corporate fraud work / initiatives and much more could / should be done in this area. As noted earlier, there is a much more joined up approach now between IA and Service management in terms of developing / agreeing recommendations and the monitoring / reporting of delivery of these.
- Technical services have received a number of good internal audit reports within the past year which have added value. I have raised issues with Avril re the highway maintenance audit and I was pleased that we were able to work together to agree a mutually acceptable solution using a self assessment.
- The traditional areas of work, fraud etc, have clearer value, there is at times a question on the level of added value in value for money areas.
- I think that internal audit's strength is fraud detection, I am not convinced that it has the breadth of expertise required to audit many spheres of the council operation e.g. it may be able to establish if in house residential carers; road menders and lawyers could have better procedures, but may not be able to judge if they are doing the job to an adequate standard.
- Some of the issues I have are of our own making. We accept recommendations too readily and agree too short timescales. The fact that Paul visits our SMT monthly has made a huge improvement to our responses.
- My only comment would be for Audit reports to focus on major issues with less emphasis on minor findings.

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Public Sector Internal Audit Standards

Applying the IIA International Standards to
the UK Public Sector

Issued by the Relevant Internal Audit Standard Setters:



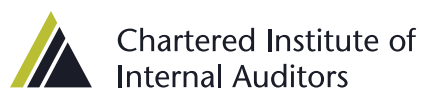
Llywodraeth Cymru
Welsh Government



HM TREASURY



In collaboration with:



Public Sector Internal Audit Standards

Applying the IIA International Standards to
the UK Public Sector

ISBN 978 1 84508 356 4

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SECTION 1

Introduction

A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

This document is therefore addressed to Accounting Officers, Accountable Officers, board and audit committee members, heads of internal audit, internal auditors, external auditors and other stakeholders such as chief financial officers and chief executives.

Framework overview

The Relevant Internal Audit Standard Setters (RIASS)¹ have adopted this common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

The overarching principle borne in mind when all potential public sector interpretations and/or specific requirements were considered was that only the minimum number of additions should be made to the existing IIA Standards. The criteria against which potential public sector requirements were judged for inclusion were:

- where interpretation is required in order to achieve consistent application in the UK public sector
- where the issue is not addressed or not addressed adequately by the current IIA Standards, or
- where the IIA standard would be inappropriate or impractical in the context of public sector governance (taking into account, for example, any funding mechanisms, specific legislation etc).

At the same time, the following concepts were also considered of each requirement or interpretation being proposed:

- materiality
- relevance
- necessity, and
- integrity (the additional commentary does not cause inconsistency elsewhere).

¹ The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

Wherever reference is made to the International Standards for the Professional Practice of Internal Auditing, this is replaced by the PSIAS. Chief audit executives are expected to report conformance on the PSIAS in their annual report.

Purpose of the PSIAS

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Additional guidance is a matter for the RIASS.

Scope

The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.

All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing (see section 3). The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.

The Code of Ethics promotes an ethical, professional culture (see section 4). It does not supersede or replace internal auditors' own professional bodies' Codes of Ethics or those of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

In common with the IIA IPPF on which they are based, the PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified accordingly:

- Assurance (A) and
- Consulting (C) activities.

The Standards employ terms that have been given specific meanings that are included in the Glossary.

Key governance elements

Within the PSIAS, the terms 'board' and 'senior management' need to be interpreted in the context of the governance arrangements within each UK public sector organisation, as these arrangements vary in structure and terminology between sectors and from one organisation and the next within in the same sector.

It is also necessary for the chief audit executive to understand the role of the Accounting or Accountable Officer, Chief Financial Officer, chief executive, the audit committee and other key officers or relevant decision-making groups as well as how they relate to each other. Key relationships with these individuals and groups are defined for each internal audit service within its charter.

Applicability

The Relevant Internal Audit Standard Setters for the various parts of the UK public sector are shown below, along with the types of organisations in which the PSIAS should be applied.

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
CIPFA			<p>UK Local authorities.</p> <p>England & Wales only The Office of the Police & Crime Commissioner, constabularies, fire authorities, National Park authorities, joint committees and joint boards in the UK.</p> <p>Scotland only Strathclyde Partnership for Transport.</p>
HM Treasury	<p>UK* Government departments and their executive agencies and non-departmental public bodies.</p>		
Department of Health		<p>England Clinical Commissioning Groups. NHS Trusts.</p>	

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
Scottish Government	<p>Scotland</p> <p>The Scottish Government, the Crown Office and Procurator Fiscal Service, Executive Agencies and non-ministerial departments, non-departmental public bodies, the Scottish Parliament Corporate Body and bodies sponsored / supported by the Scottish Parliament Corporate Body.</p>	<p>Scotland</p> <p>NHS Boards, Special NHS Boards, NHS Board partnership bodies in the public sector (eg joint ventures, Community Health Partnerships etc), NHS Board subsidiaries.</p>	
Welsh Government	<p>Wales</p> <p>The Welsh Government, National Assembly for Wales and Welsh Government sponsored bodies including commissioners.</p>	<p>Wales</p> <p>Health Boards and Trusts.</p>	
Northern Ireland Assembly: Department of Finance and Personnel (NI)	<p>Government departments, executive agencies, non-ministerial departments, non-departmental public bodies, NI health and social care bodies and other relevant sponsored bodies.</p>		

* Unless the body falls under the jurisdiction of the devolved governments.

Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

SECTION 4

Code of Ethics

Public sector requirement

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the Code of Ethics as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

Components

- 1 Principles that are relevant to the profession and practice of internal auditing;
- 2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

Public sector interpretation

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

1 Integrity

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2 Objectivity

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3 Confidentiality

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4 Competency

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

Public sector requirement

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information on which can be found at www.public-standards.gov.uk

Standards

Attribute Standards

1000 Purpose, Authority and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

Public sector requirement

The internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

1000.A1

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

1000.C1

The nature of consulting services must be defined in the internal audit charter.

1010 Recognition of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* in the Internal Audit Charter

The mandatory nature of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* must be recognised in the internal audit charter. The chief audit executive should discuss the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* with senior management and the board.

1100 Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.

1110 Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

Interpretation:

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit budget and resource plan;
- receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;
- approving decisions regarding the appointment and removal of the chief audit executive;
- approving the remuneration of the chief audit executive; and
- making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

Public sector requirement

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

Public sector interpretation

Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.

1110.A1

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results.

1111 Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1120 Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

1130 Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1

Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2

Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.C1

Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2

If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

Public sector requirement

Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

1200 Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 Proficiency

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

Interpretation:

Knowledge, skills and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations.

Public sector requirement

The chief audit executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

1210.A1

The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2

Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3

Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1

The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1

Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

1220.A2

In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3

Internal auditors must be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1

Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement's objectives; and
- Cost of the consulting engagement in relation to potential benefits.

1230 Continuing Professional Development

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

1300 Quality Assurance and Improvement Programme

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the *Definition of Internal Auditing* and the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics*. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

1311 Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Periodic assessments are conducted to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

Public sector requirement

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, eg the Accounting/Accountable Officer or chair of the audit committee as well as with the external assessor or assessment team.

1320 Reporting on the Quality Assurance and Improvement Programme

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board.

Interpretation:

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

Public sector requirement

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

1321 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement programme support this statement.

Interpretation:

The internal audit activity conforms with the Standards when it achieves the outcomes described in the *Definition of Internal Auditing*, *Code of Ethics* and *Standards*.

The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322 Disclosure of Non-conformance

When non-conformance with the *Definition of Internal Auditing*, the *Code of Ethics* or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

Public sector requirement

Instances of non-conformance must be reported to the board. More significant deviations must be considered for inclusion in the governance statement.

Performance Standards

2000 Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

Interpretation:

The internal audit activity is effectively managed when:

- The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;
- The internal audit activity conforms with the *Definition of Internal Auditing* and the *Standards*; and
- The individuals who are part of the internal audit activity demonstrate conformance with the *Code of Ethics* and the *Standards*.

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

Interpretation:

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.

Public sector requirement

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

2010.A1

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2

The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

2010.C1

The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.

2020 Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

Public sector requirement

The risk-based plan must explain how internal audit's resource requirements have been assessed.

Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.

2040 Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

2050 Coordination

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Public sector requirement

The chief audit executive must include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.

2060 Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.

Interpretation:

The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

2070 External Service Provider and Organisational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

Interpretation:

This responsibility is demonstrated through the quality assurance and improvement programme which assesses conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

2100 Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

2110 Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information among the board, external and internal auditors and management.

2110.A1

The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.

2110.A2

The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

2120 Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- Organisational objectives support and align with the organisation's mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the organisation's risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

2120.A1

The internal audit activity must evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

2120.A2

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

2120.C1

During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120.C2

Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.

2120.C3

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 Control

The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1

The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

2130.C1

Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.

2200 Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.

2201 Planning Considerations

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model; and
- The opportunities for making significant improvements to the activity's governance, risk management and control processes.

2201.A1

When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1

Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. For significant engagements, this understanding must be documented.

2210 Engagement Objectives

Objectives must be established for each engagement.

2210.A1

Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2

Internal auditors must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

2210.A3

Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria.

Public sector interpretation

In the public sector, criteria are likely to include value for money.

2210.C1

Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.

2210.C2

Consulting engagement objectives must be consistent with the organisation's values, strategies and objectives.

2220 Engagement Scope

The established scope must be sufficient to satisfy the objectives of the engagement.

2220.A1

The scope of the engagement must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.

2220.A2

If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1

In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2

During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

2230 Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

2240 Engagement Work Programme

Internal auditors must develop and document work programmes that achieve the engagement objectives.

2240.A1

Work programmes must include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.

2240.C1

Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 Performing the Engagement

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.

2310 Identifying Information

Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.

Interpretation:

Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

2320 Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

2330.A1

The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2

The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

2330.C1

The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

2340 Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

2400 Communicating Results

Internal auditors must communicate the results of engagements.

2410 Criteria for Communicating

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans.

2410.A1

Final communication of engagement results must, where appropriate, contain internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

2410.A2

Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3

When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.

2410.C1

Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete and timely.

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

2421 Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

2430 Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”

Internal auditors may report that their engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*”, only if the results of the quality assurance and improvement programme support the statement.

2431 Engagement Disclosure of Nonconformance

When nonconformance with the *Definition of Internal Auditing*, the *Code of Ethics* or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle or rule of conduct of the *Code of Ethics* or Standard(s) with which full conformance was not achieved;
- Reason(s) for nonconformance; and
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

2440.A1

The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must:

- Assess the potential risk to the organisation;
- Consult with senior management and/ or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

2440.C1

The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2

During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the board.

2450 Overall Opinions

When an overall opinion is issued, it must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

The communication will identify:

- The scope including the time period to which the opinion pertains;
- Scope limitations;
- Consideration of all related projects including the reliance on other assurance providers;
- The risk or control framework or other criteria used as a basis for the overall opinion; and
- The overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

2500 Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1

The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1

The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Interpretation:

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

Glossary

Add Value

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

Adequate Control

Present if management has planned and organised (designed) in a manner that provides reasonable assurance that the organisation's risks have been managed effectively and that the organisation's goals and objectives will be achieved efficiently and economically.

Public sector definition: Assurance Framework

This is the primary tool used by a board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

Public sector definition: Audit Committee

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

Board

The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically, this includes an independent group of directors (eg a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the 'board' may refer to the head of the organisation. 'Board' may refer to an audit committee to which the governing body has delegated certain functions.

Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Chief Audit Executive

Chief audit executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title of the chief audit executive may vary across organisations.

Code of Ethics

The *Code of Ethics* of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behaviour expected of internal auditors. The *Code of Ethics* applies to both parties and entities that provide internal audit services.

The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organisation is willing to accept.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Opinion

The rating, conclusion and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Engagement Work Programme

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider

A person or firm outside of the organisation that has special knowledge, skill and experience in a particular discipline.

Fraud

Any illegal act characterised by deceit, concealment or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

Public sector definition: Governance Statement

The mechanism by which an organisation publicly reports on its governance arrangements each year.

Impairment

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure and people.

Information Technology Governance

Consists of the leadership, organisational structures and processes that ensure that the enterprise's information technology supports the organisation's strategies and objectives.

Internal Audit Activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

International Professional Practices Framework

The conceptual framework that organises the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories (1) mandatory and (2) strongly recommended.

Public sector interpretation

Only the mandatory elements apply for the purposes of the Public Sector Internal Audit Standards.

Public sector interpretation: International Standards for the Professional Practice of Internal Auditing

The Public Sector Internal Audit Standards take the place of the International Standards where applicable.

Must

The *Standards* use the word “must” to specify an unconditional requirement.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Overall Opinion

The rating, conclusion and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Appetite

The level of risk that an organisation is willing to accept.

Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation’s objectives.

Should

The *Standards* use the word should where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Standard

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

Technology-based Audit Techniques

Any automated audit tool, such as generalised audit software, test data generators, computerised audit programmes, specialised audit utilities and computer-assisted audit techniques (CAATs).

Checklist for Assessing Conformance with the PSIAS and the Local Government

Application Note

This checklist has been developed to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. It incorporates the requirements of the PSIAS as well as the Application Note in order to give comprehensive coverage of both documents.

Please tick to indicate Y = YES, P = PARTIAL, N = NO. Evidence for each response must be provided and reasons for any partial or full non-conformance should be given, together with any compensating measures in place or actions in progress to address this.

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
1	Definition of Internal Auditing				
	Using evidence gained from assessing conformance with other Standards, is the internal audit activity:				
	a) Independent?	Y			Position and status within organisation

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	b) Objective?	Y			Audit working papers – auditors don't give assurance opinions in areas where they previously gave advice and support in the development of controls or in areas where they previously worked
	Using evidence gained from assessing conformance with other Standards, does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?	Y			Control Risk Assessment Methodology Standard methodology for determining opinions and rankings of findings/recommendations.
2	Code of Ethics				
	Integrity Using evidence gained from assessing conformance with other Standards, do internal auditors: <ul style="list-style-type: none"> a) Perform their work with honesty, diligence and responsibility? b) Observe the law and make disclosures expected by the law and the profession? c) Not knowingly partake in any illegal activity nor engage in acts 	Y Y Y			CRB checks for all audit staff. Annual declaration of interests

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	<p>that are discreditable to the profession of internal auditing or to the organisation?</p> <p>d) Respect and contribute to the legitimate and ethical objectives of the organisation?</p>	Y			
	<p>Objectivity Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by not:</p> <p>a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?</p> <p>b) Accepting anything that may impair or be presumed to impair their professional judgement?</p> <p>c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review?</p>	Y Y Y			
	<p>Confidentiality Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by:</p> <p>a) Acting prudently when using information acquired in the course of</p>	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	<p>their duties and protecting that information?</p> <p>b) Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation?</p>	Y			
	<p>Competency Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by:</p> <p>a) Only carrying out services for which they have the necessary knowledge, skills and experience?</p> <p>b) Performing services in accordance with the PSIAS?</p> <p>c) Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes?</p>	Y			<p>Risk Based approach should ensure adequate risk management skills can be applied to any audit activity – this will primarily relate to advice and consultancy type work and very specialist areas eg IT work and pension fund audit – delivered by external partner</p>
	<p>Do internal auditors have regard to the on Standards of Public Life's <i>Seven Principles of Public Life</i>?</p>	Y	Y		<p>All staff have annual appraisal - but only some professional qualified staff carry out CPD.</p> <p>Should be part of induction training- will be referenced in Audit Manual</p>

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	Standards				
3	Attribute Standards				
3.1	1000 Purpose, Authority and Responsibility				
	Does the internal audit charter include a formal definition of: <ul style="list-style-type: none"> a) the purpose b) the authority, and c) the responsibility of the internal audit activity consistent with the Public Sector Internal Audit Standards (PSIAS)?	Y Y Y			
LGAN	Does the internal audit charter define the terms 'board' and 'senior management', for the purposes of the internal audit activity? Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances.			N	Internal Audit Charter needs updating to reflect PSIAS. ,
	Does the internal audit charter also: <ul style="list-style-type: none"> a) Set out the internal audit activity's position within the organisation? b) Establish the CAE's functional reporting relationship with the 	Y Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	board?				
LGAN	c) Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively?	Y			
LGAN	d) Establish the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit?	Y			
	e) Establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	Y			
LGAN	f) Define the scope of internal audit activities?	Y			
LGAN	g) Recognise that internal audit's remit extends to the entire control environment of the organisation?	Y			
LGAN	h) Identify internal audit's contribution to the review of effectiveness of the control environment, as set out in the Accounts and Audit (England) Regulations 2011?	Y			
LGAN	i) Establish the organisational independence of internal audit?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	j) Cover the arrangements for appropriate resourcing?	Y			
	k) Define the role of internal audit in any fraud-related work?	Y			
	l) Set out the existing arrangements within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	Y			
	m) Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities?		P		To be addressed in review of IA Charter
	n) Define the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation?		P		As above
	o) Define the nature of consulting services?	Y			
	p) Recognise the mandatory nature of the PSIAS?			N	As above
	Does the chief audit executive (CAE) periodically review the internal audit charter and present it to senior management and the board for approval?	Y			Last review in Nov 2011
	Does the CAE attend audit committee meetings?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	Does the CAE contribute to audit committee agendas?	Y			
	Does the CAE have direct and unrestricted access to senior management and the board?	Y			
	Does the CAE have free and unfettered access to, as well as communicate effectively with, the chief executive or equivalent and the chair of the audit committee?		Y		Does have access but does not communicate with Chief Executive as a matter of routine expect through reports to CMT..
	Are threats to objectivity identified and managed at the following levels:				
	a) Individual auditor?	Y			
	b) Engagement?	Y			
	c) Functional?	Y			
	d) Organisation?	Y			
	<i>1110 Organisational Independence</i>				
	Does the CAE report to an organisational level equal or higher to the	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	corporate management team?				
LGAN	Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?	Y			
LGAN	Have reporting and management arrangements been put in place that preserve the CAE's independence and objectivity? This is of particular importance when the CAE is line managed by another officer of the authority.	Y			
LGAN	Does the CAE's position in the management structure:				
	a) Reflect the influence he or she has on the control environment?	Y			
	b) Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board?	Y			
	c) Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management?	Y			
	Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent? The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity:				

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	The board: a) approves the internal audit charter b) approves the risk-based audit plan c) approves the internal audit budget and resource plan	Y Y	P		Budget approval is not the responsibility of the audit committee but details of the resource position in terms of audit days needed and audit days available and any resource implications are reported to Audit Committee.
	d) receives communications from the CAE on the activity's performance (in relation to the plan, for example)	Y			
	e) approves decisions relating to the appointment and removal of the CAE			N	The responsibility for the appointment of the CAE is that of the S151 who is responsible for maintaining an adequate internal audit function
	f) seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations.	Y			The audit committee will challenge the level of resources if it had reason to question performance Annual review of effectiveness

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?			N	S151 has line management responsibility
	Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?			N	
	<i>1111 Direct Interaction with the Board</i>				
	Does the CAE communicate and interact directly with the board?	Y			
	<i>1120 Individual Objectivity</i>				
	Do internal auditors have an impartial, unbiased attitude?	Y			
	Do internal auditors avoid any conflict of interest, whether apparent or actual?	Y			
	<i>1130 Impairment to Independence or Objectivity</i>				
	If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?				N/A

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	Have internal auditors assessed specific operations for which they have been responsible within the previous year?			N	
	If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?				N/A
LGAN	Are assignments for on-going assurance engagements and other audit responsibilities rotated periodically within the internal audit team?		P		Scope to further rotate staff
LGAN	Have internal auditors declared interests in accordance with organisational requirements?	Y			Review date this last done
LGAN	Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies), has this been declared and investigated fully?				N/A
LGAN	Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?			N	
LGAN	Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	practice, subject to any confidentiality agreements?				
LGAN	Have internal auditors complied with the Bribery Act 2010?	Y			Ensure covered in induction training /audit manual
	If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?				N/A Need to ensure any potential conflict of interests when performing work for external bodies who buy services from DCC
	Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?				Need to reflect in Internal Charter and Audit Manual
					N/A
3.3	1200 Proficiency and Due Professional Care				
	<i>1210 Proficiency</i>				
	Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent?	Y			
	Is the CAE suitably experienced?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
LGAN	Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes?	Y			
LGAN	Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?		P		Some are slightly out of date but are reviewed prior to every new appointment
	Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?	Y			Plans in place to fill known skills gaps
	Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance?	Y			External audit partners appointment – networking groups
	Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?	Y			Knowledge will vary amongst audit staff - but they know where to seek advice if required
	Do internal auditors have sufficient knowledge of key information technology risks and controls?	Y			Knowledge will vary amongst audit staff - but they know where to seek advice if required
	Do internal auditors have sufficient knowledge of the appropriate	Y			Knowledge will vary amongst audit

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?				staff - but they know where to seek advice if required
	<i>1220 Due Professional Care</i>				
	Do internal auditors exercise due professional care by considering the:				
	a) Extent of work needed to achieve the engagement's objectives?	Y			
	b) Relative complexity, materiality or significance of matters to which assurance procedures are applied?	Y			
	c) Adequacy and effectiveness of governance, risk management and control processes?	Y			
	d) Probability of significant errors, fraud, or non-compliance?	Y			
	e) Cost of assurance in relation to potential benefits?	Y			
	Do internal auditors exercise due professional care during a consulting engagement by considering the:				

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	a) Needs and expectations of clients, including the nature, timing and communication of engagement results?	Y			Timeliness of reports has been an issue on some occasions
	b) Relative complexity and extent of work needed to achieve the engagement's objectives?	Y			
	c) Cost of the consulting engagement in relation to potential benefits?		P		Terms of reference have not always been agreed for consultancy engagement's so time commitment can be open ended
	<i>1230 Continuing Professional Development</i>				
LGAN	Has the CAE defined the skills and competencies for each level of auditor?	Y			JD/PS
LGAN	Does the CAE periodically assess individual auditors against the predetermined skills and competencies?		P		Appraisals carried out by Audit Managers – some assessment through quality assurance framework but needs developing and formalising
	Do internal auditors undertake a programme of continuing professional development?		P		Qualified staff only
	Do internal auditors maintain a record of their professional		P		As above

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	development and training activities?				
3.4	1300 Quality Assurance and Improvement Programme				
	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?		P		Operational service plan traditionally in place to capture improvement actions but needs updating to reflect PSIAS requirements Quality assurance programme needs to be developed
	Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?		P		Annual review of effectiveness undertaken but as yet does not include all aspects of QAIP
	Does the CAE maintain the QAIP?		P		Updated QAIP needed
LGAN	If the organisation is a 'larger relevant body' in England, does it conduct a review of the effectiveness of its internal audit at least annually, in accordance with the Accounts and Audit (England) Regulations 2011 section 6(3)?	Y			
	<i>1310 Requirements of the Quality Assurance and Improvement Programme</i>				
	Does the QAIP include both internal and external assessments?		P		External auditor has been asked to

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
					input into the annual review of effectiveness in the pass. Customer feedback S151 Feedback from Chair of the Audit Committee
	<i>1311 Internal Assessments</i>				
LGAN	Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?	Y			Also - key responsibility of Audit Managers
	Do internal assessments include ongoing monitoring of the internal audit activity, such as:				
	a) Routine quality monitoring processes?		P		Needs developing in some areas
	b) Periodic assessments for evaluating conformance with the PSIAS?		P		Quality assurance framework will need developing to evidence this
LGAN	Does on - going performance monitoring include comprehensive performance targets?	Y			
LGAN	Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?	Y			Included in internal charter agreed by CMT and Audit Committees

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
LGAN	Does the CAE measure, monitor and report on progress against these targets?	Y			
LGAN	Does ongoing performance monitoring include obtaining stakeholder feedback?	Y			
	Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices? Sufficiency would require knowledge of the PSIAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories, etc.	Y			Self assessment carried out by HIA and reviewed by S151 Officer.
LGAN	Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?	Y			
	<i>1312 External Assessments</i>				
	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?			N	Plans for assessment will be developed during 2013/14
LGAN	Has the CAE considered the pros and cons for the different types of external assessment (ie 'full' or self-assessment plus 'independent validation')?			N	As above

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?			N	As above
LGAN	Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?			N	As above
	Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?			N	As above
	Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process? Competence can be determined in the following ways: a) experience gained in organisations of similar size b) complexity c) sector (ie the public sector) d) industry (ie local government), and e) technical experience. Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.			N	As above

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?			N	As above
	Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.				N/A
	<i>1320 Reporting on the Quality Assurance and Improvement Programme</i>				
	Has the CAE reported the results of the QAIP to senior management and the board?		P		Outcomes from annual review of effectiveness (periodic internal assessment) included in annual audit report presented to both CMT and Audit Committee but due to timing issues in the past this reflects the results from the previous year's exercise. Separate report on effectiveness presented to AC to consider on latest review each year in addition to the annual report. Need to improve the timeliness of information reported to CMT on this in future.

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	<p>Note that:</p> <p>a) the results of both external and periodic internal assessment must be communicated upon completion</p> <p>b) the results of ongoing monitoring must be communicated at least annually</p> <p>c) the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS.</p>				
	Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?		P		Any improvements identified through annual review of effectiveness will be reported in the annual report - formal implementation of QAIP yet to be developed .
	<i>1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'</i>				
	Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?				N/A yet but areas of noncompliance will be reported when a further assessment is carried out at the end of 2013/14

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	<i>1322 Disclosure of Non-conformance</i>				
	Has the CAE reported any instances of non-conformance with the PSIAS to the board?				Will be highlighted in annual review of effectiveness and annual audit report going forward
	Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?				Not yet applicable
4	Performance Standards				
	Do the results of the internal audit activity's work achieve the purposes and responsibility of the activity, as set out in the internal audit charter?	Y			
	Does the internal audit activity conform with the <i>Definition of Internal Auditing</i> and the <i>Standards</i> ?	Y			Internal Audit Charter requires updating to reflect new definition
	Do individual internal auditors, who are part of the internal audit activity, demonstrate conformance with the <i>Code of Ethics</i> and the <i>Standards</i> ?	Y			Covering by existing charter and CIPFA's Code of ethics but needs revisiting to ensure compliance with IIA's Code of Ethics

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	Does the internal audit activity add value to the organisation and its stakeholders by				
	a) Providing objective and relevant assurance?	Y			
	b) Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes?	Y			
	<i>2010 Planning</i>				
	Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?	Y			All audits in 2013/14 linked to council priorities but further work needed to improve annual risk based planning linked to assurance mapping
	Does the risk-based plan take into account the requirement to produce an annual internal audit opinion?	Y			
	Does the risk-based plan take into account the organisation's assurance framework?		P		Assurance framework needs development
	Does the risk-based plan incorporate or is it linked to a strategic or high-level statement of:				
	a) How the internal audit service will be delivered?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	b) How the internal audit service will be developed in accordance with the internal audit charter?	Y			
	c) How the internal audit service links to organisational objectives and priorities?	Y			
	Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?	Y			Reflects Audit strategy in IA Charter but Charter and Strategy are to be reviewed in 2013/14
	In developing the risk-based plan, has the CAE taken into account the organisation's risk management framework and relative risk maturity of the organisation?	Y			Risk Maturity of organisation considered to be "risk aware". Audit plan reflects the audit strategy to embed operational risk management using CRA methodology
	If such a risk management framework does not exist, has the CAE used his or her judgement of risks after input from senior management and the board and evidenced this?	Y			
LGAN	Does the risk-based plan set out the:				
	a) Audit work to be carried out?	Y			
	b) Respective priorities of those pieces of audit work?			N	Area for improvement
	c) Estimated resources needed for the work?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
LGAN	Does the risk-based plan differentiate between audit and other types of work?	Y			
LGAN	Is the risk-based plan sufficiently flexible to reflect the changing risks and priorities of the organisation?	Y			
	Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls?	Y			
	Is the internal audit activity's plan of engagements based on a documented risk assessment?		P		<p>Risk assessment based on review of key service activities as per strategic plan - but needs to be developed to reflect outcomes from other assurance sources and links to assurance framework .</p> <p>Post Audit Evaluations carried out after each audit using CRA approach is being used to inform risk assessment but requires further development</p>
	Is the risk assessment used to develop the plan of engagements undertaken at least annually?		P		Post Audit Evaluations are used to update Strategic Audit Plan/Risk Assessment but requires further development

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
<p>LGAN</p>	<p>In developing the risk-based plan, has the CAE also considered the following:</p> <ul style="list-style-type: none"> a) Any declarations of interest (for the avoidance for conflicts of interest)? b) The requirement to use specialists, eg IT or contract and procurement auditors? c) Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary? d) The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion? 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>			<p>opment to capture other assurance sources and links to assurance framework.</p> <p>Services activities included in strategic plan reviewed every year</p>
	<p>Is the input of senior management and the board considered in the risk assessment process?</p>	<p>Y</p>			<p>I A Charter approved by CMT and Audit Committee</p>

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	Does the CAE identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinion and any other conclusions?	Y			Current format of Annual Audit Report reflects requirements outlined by CMT when considering an earlier draft
	Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?	Y			Assignments only included in proposed annual audit plans where they fit with IA's Role
	Are consulting engagements that have been accepted included in the risk-based plan?	Y			
	<i>2020 Communication and Approval</i>				
	Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval?	Y			Annual Plans reported to CMT for endorsement and Audit Committee for approval
	Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?	Y			Quarterly Progress Reports
	Has the CAE communicated the impact of any resource limitations to senior management and the board?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	<i>2030 Resource Management</i>				
	Does the risk-based plan explain how internal audit's resource requirements have been assessed?	Y			
LGAN	Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise abortive work and time?	Y			As far as this is practical
LGAN	If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board? This may include an imbalance between the work plan and resource availability and/or other significant matters that jeopardise the delivery of the plan or require it to be changed.				Would do this if necessary
	<i>2040 Policies and Procedures</i>				
	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	Y			Need updating to reflect PSIAS and co-ordinating through the development of an audit manual
LGAN	Has the CAE established policies and procedures to guide staff in performing their duties in a manner than conforms to the PSIAS? Examples include maintaining an audit manual and/or using electronic		P		As above

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	management systems.				
LGAN	Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?		P		As above
	<i>2050 Coordination</i>				
	Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Y			
LGAN	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?		P		In development
	Does the CAE share information and coordinate activities with other internal and external providers of assurance and consulting services?		P		External audit and CAS quality assurance team examples but could be developed further
LGAN	Does the CAE meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans?	Y			
	<i>2060 Reporting to Senior Management and the Board</i>				
	Does the CAE report periodically to senior management and the	Y			Quarterly progress reports

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?				
	Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?	Y			
	Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?	Y			Quarterly reporting developed in consultation with CMT and Audit Committee
	<i>2070 External Service Provider and Organisational Responsibility for Internal Auditing</i>				
	Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	Y			
	Does the internal audit activity evaluate and contribute to the improvement of the organisation's governance, risk management and	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	internal control processes?				
	Does the internal audit activity evaluate and contribute to the improvement of the above using a systematic and disciplined approach and is this evidenced?	Y			
	<i>2110 Governance</i>				
	Does the internal audit activity:				
	a) Promote appropriate ethics and values within the organisation?	Y			
	b) Ensure effective organisational performance management and accountability?	Y			
	c) Communicate risk and control information to appropriate areas of the organisation?	Y			
	d) Coordinate the activities of and communicate information among the board, external and internal auditors and management?	Y			
	Does the internal audit activity assess and make appropriate recommendations for improving the governance process as part of accomplishing the above objectives?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	<p>Has the internal audit activity evaluated the:</p> <p>a) design</p> <p>b) implementation, and</p> <p>c) effectiveness</p> <p>of the organisation's ethics-related objectives, programmes and activities?</p>		P		Will be covered by various audits in part but not as a specific audit – planned for 2013/14
	Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	Y			IT strategy audit and other IT audits
LGAN	Has the CAE considered the proportionality of the amount of work required to assess the ethics and information technology governance of the organisation when developing the risk-based plan?	Y			
	<i>2120 Risk Management</i>				
	Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that:				
	a) Organisational objectives support and align with the organisation's	Y			As the CAE is also responsible for the

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	<p>mission?</p> <p>b) Significant risks are identified and assessed?</p> <p>c) Appropriate risk responses are selected that align risks with the organisation's risk appetite?</p> <p>d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities?</p>	<p>Y</p> <p>Y</p>	<p>P</p>		<p>RM function independent peer reviews are undertaken periodically by external sources eg Zurich, Marsh.</p> <p>Risk based approach to all audit work provides some assurance that operational risk management is effective and any significant risks are incorporated in strategic risk management processes</p> <p>Risk appetite not defined</p>
	<p>Has the internal audit activity evaluated the risks relating to the organisation's governance, operations and information systems regarding the:</p> <p>a) Achievement of the organisation's strategic objectives?</p> <p>b) Reliability and integrity of financial and operational information?</p>	<p>Y</p> <p>Y</p>			<p>Considered in RBA and development of CRA</p>

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	c) Effectiveness and efficiency of operations and programmes?	Y			
	d) Safeguarding of assets?	Y			
	e) Compliance with laws, regulations, policies, procedures and contracts?	Y			
	Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?	Y			Fraud Risk Register
	Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?	Y			RBA applied to all audit work
	Are internal auditors alert to other significant risks when undertaking consulting engagements?	Y			
	Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?	Y			
	<i>2130 Control</i>				
	Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations				

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	and information systems regarding the:				
	a) Achievement of the organisation's strategic objectives?	Y			
	b) Reliability and integrity of financial and operational information?	Y			
	c) Effectiveness and efficiency of operations and programmes?	Y			
	d) Safeguarding of assets?	Y			
	e) Compliance with laws, regulations, policies, procedures and contracts?	Y			
	Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?	Y			
4.3	2200 Engagement Planning				
	Do internal auditors develop and document a plan for each engagement?	Y			TOR
	Does the engagement plan include the engagement's:				
	a) Objectives?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	b) Scope?	Y			
	c) Timing?	Y			
	d) Resource allocations?	Y			
	Do internal auditors consider the following in planning an engagement, and is this documented:				
	a) The objectives of the activity being reviewed?	Y			
	b) The means by which the activity controls its performance?	Y			
	c) The significant risks to the activity being audited?	Y			
	d) The activity's resources?	Y			
	e) The activity's operations?	Y			
	f) The means by which the potential impact of risk is kept to an acceptable level?	Y			
	g) The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	h) The opportunities for making significant improvements to the activity's governance, risk management and control processes?	Y			
	Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following:				
	a) Objectives?	Y			
	b) Scope?	Y			
	c) The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)?	Y			
	For consulting engagements, have internal auditors established an understanding with the engagement clients about the following:				Not all advice and consultancy reviews and F & I reviews have had TOR in the past - area for improvement
	a) Objectives?		P		
	b) Scope?		P		
	c) The respective responsibilities of the internal auditors and the		P		

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	client and other client expectations?				
	For significant consulting engagements, has this understanding been documented?		P		
	<i>2210 Engagement Objectives</i>				
	Have objectives been agreed for each engagement?	Y			
	Have internal auditors carried out a preliminary risk assessment of the activity under review?	Y			
	Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?	Y			
	Have internal auditors considered the probability of the following, when developing the engagement objectives:				
	a) Significant errors?	Y			
	b) Fraud?	Y			
	c) Non-compliance?	Y			
	d) Any other risks?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether objectives and goals have been accomplished?	Y			Performance management risks should be covered in CRA
	If the criteria have been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls?	Y			
	If the criteria have been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria?	Y			
LGAN	If the value for money criteria have been referred to, has the use of all the organisation's main types of resources been considered; including money, people and assets?				N/A No VFM criteria specified
	Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?	Y			
	Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives?	Y			
	<i>2220 Engagement Scope</i>				

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	Is the scope that is established for the engagement sufficient to satisfy the engagement's objectives?	Y			
	Does the engagement scope include consideration of the following relevant areas of the organisation:				
	a) Systems?	Y			
	b) Records?	Y			
	c) Personnel?	Y			
	d) Premises?	Y			Where applicable
	Does the engagement scope include consideration of the following relevant areas under the control of outside parties, where appropriate:				
	a) Systems?	Y			
	b) Records?	Y			
	c) Personnel?	Y			
	d) Premises?	Y			
	Where significant consulting opportunities have arisen during an	Y			If the review changes from an assur-

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?				ance review to a consultancy review the reasons and expectations should be documented
	Where significant consulting opportunities have arisen during an assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting Standards?		P		Area for improvement to ensure that all consultancy type reviews have agreed TOR's
	For a consulting engagement, was the scope of the engagement sufficient to address any agreed-upon objectives?		P		As above
	If the internal auditors developed any reservations about the scope of a consulting engagement while undertaking that engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement?	Y			Need to ensure that this can be evidenced
	During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements?	Y			
	During consulting engagements, were internal auditors alert to any significant control issues?	Y			They should always be alert to significant control issues whatever they are doing

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	<i>2230 Engagement Resource Allocation</i>				
	Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of the engagement based on:				
	a) The nature and complexity of each individual engagement?	Y			
	b) Any time constraints?	Y			
	c) The resources available?	Y			
	<i>2240 Engagement Work Programme</i>				
	Have internal auditors developed and documented work programmes that achieve the engagement objectives?	Y			Yes – if previously audited CRA approach - work programme developed for each assignment as part of the planning and pre stage of each audit -
	Do the engagement work programmes include the following procedures for:	Y			
	a) Identifying information?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	b) Analysing information?	Y			Need to review testing strategies - will vary from assignment to assignment
	c) Evaluating information?	Y			
	d) Documenting information?	Y			
	Were work programmes approved prior to implementation for each engagement?		P		CRA and TOR approved Need to review processes for approving testing strategies
	Were any adjustments required to work programmes approved promptly?		P		As above
	Have internal auditors carried out the following in order to achieve each engagement's objectives:				Can only be assessed by testing work carried out. Programme of test sampling to be carried out by Audit Managers and CAE
	a) Identify sufficient information?	Y			
	b) Analyse sufficient information?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	c) Evaluate sufficient information?	Y			
	d) Document sufficient information?	Y			
	<i>2310 Identifying Information</i>				
	Have internal auditors identified the following in order to achieve each engagement's objectives:				Need to develop quality assurance framework to evidence compliance
	a) Sufficient information?	Y			
	b) Reliable information?	Y			
	c) Relevant information?	Y			
	d) Useful information?	Y			
	<i>2320 Analysis and Evaluation</i>				
	Have internal auditors based their conclusions and engagement results on appropriate analyses and evaluations?	Y			Need to develop quality assurance framework to evidence
LGAN	Have internal auditors remained alert to the possibility of the following:				
	a) intentional wrongdoing	Y			As above

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	b) errors and omissions	Y			
	c) poor value for money	Y			
	d) failure to comply with management policy, and	Y			
	e) conflicts of interest	Y			
	when performing their individual audits, and has this been documented?				Should be identified as potential risks in CRA
	<i>2330 Documenting Information</i>				
	Have internal auditors documented the relevant information required to support engagement conclusions and results?	Y			
LGAN	Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached?	Y			
	Does the CAE control access to engagement records?	Y			
	Has the CAE obtained the approval of senior management and/or legal counsel as appropriate before releasing such records to external	Y			Internal Audit Charter approved by makes it clear finalised reports will be shared with EA

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	parties?				
	Has the CAE developed and implemented retention requirements for all types of engagement records?	Y			Need to review where this documented - Should be referenced in internal audit charter and manual
	Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?	Y			Record management arrangements need to be documented in Audit Manual
	<i>2340 Engagement Supervision</i>				
	Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?	Y			Audit Working Papers
	Is appropriate evidence of supervision documented and retained for each engagement?	Y			Audit working papers
4.5	2400 Communicating Results				
	Do internal auditors communicate the results of engagements?	Y			
	<i>2410 Criteria for Communicating</i>				
	Do the communications of engagement results include the following:				

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	a) The engagement's objectives?	Y			
	b) The scope of the engagement?	Y			
	c) Applicable conclusions?	Y			
	d) Recommendations and action plans, if appropriate?	Y			
LGAN	Has the internal auditor discussed the contents of the draft final report with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?	Y			
LGAN	If recommendations and an action plan have been included, are recommendations prioritised according to risk?	Y			
LGAN	If recommendations and an action plan have been included, does the communication also state agreements already reached with management, together with appropriate timescales?	Y			
LGAN	If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?	Y			
LGAN	Do communications disclose all material facts known to them in their	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	audit reports which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements?				
LGAN	Do the final communications of engagement results contain, where appropriate, the internal auditor's opinions and/or conclusions, building up to the annual internal audit opinion on the control environment?	Y			
	When an opinion or conclusion is issued, are the expectations of senior management, the board and other stakeholders taken into account?	Y			Opportunity to challenge opinion
	When an opinion or conclusion is issued, is it supported by sufficient, reliable, relevant and useful information?	Y			
	Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?	Y			In relation to satisfactory performance of risk management in relation to the area of activity - not necessary over-all service delivery performance
	When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	Y			Disclosure on audit reports
LGAN	If the CAE has been required to provide assurance to other partnership organisations, has he or she also demonstrated that their				Can't recall ever providing assurance to a third party

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	fundamental responsibility is to the management of the organisation to which they are obliged to provide internal audit services?				
	<i>2420 Quality of Communications</i>				
	Are communications:				
	a) Accurate?	Y			
	b) Objective?	Y			
	c) Clear?	Y			
	d) Concise?	Y			
	e) Constructive?	Y			
	f) Complete?	Y			
	g) Timely?		P		Has been an issue on occasions
	<i>2421 Errors and Omissions</i>				
	If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	<i>2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'</i>				
	Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement?				N/A Internal Audit Reports do not state they have been conducted in accordance with the standards
	<i>2431 Engagement Disclosure of Nonconformance</i>				
	Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following: a) The principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved? b) The reason(s) for non-conformance? c) The impact of non-conformance on the engagement and the engagement results?				Will consider reporting needs required by the PSIAS
	<i>2440 Disseminating Results</i>				
	Has the CAE determined the circulation of audit reports within the	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	organisation, bearing in mind confidentiality and legislative requirements?				
	Has the CAE communicated engagement results to all appropriate parties?	Y			
	Before releasing engagement results to parties outside the organisation, did the CAE:				Only usually applies to external audit
	a) Assess the potential risk to the organisation?	Y			
	b) Consult with senior management and/or legal counsel as appropriate?	Y			
	c) Control dissemination by restricting the use of the results?	Y			Where applicable
	Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?	Y			Quarterly progress reports
	<i>2450 Overall Opinion</i>				
	Has the CAE delivered an annual internal audit opinion?	Y			
	Does the annual internal audit opinion conclude on the overall	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	adequacy and effectiveness of the organisation's framework of governance, risk management and control?				
	Does the annual internal audit opinion take into account the expectations of senior management, the board and other stakeholders?	Y			Opportunity to challenge overall conclusion
	Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information?	Y			
	Does the communication identify the following:				
	a) The scope of the opinion, including the time period to which the opinion relates?	Y			
	b) Any scope limitations?	Y			
	c) The consideration of all related projects including the reliance on other assurance providers?		P		Needs developing
	d) The risk or control framework or other criteria used as a basis for the overall opinion?	Y			Reflects assurance opinion methodology applied to individual audits
	Where a qualified or unfavourable annual internal audit opinion is				N/A to date

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	given, are the reasons for that opinion stated?				
	Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement?	Y			
	Does the annual report incorporate the following:				
	a) The annual internal audit opinion?	Y			
LGAN	b) A summary of the work that supports the opinion?	Y			
LGAN	c) A disclosure of any qualifications to the opinion?	Y			
LGAN	d) The reasons for any qualifications to the opinion?	Y			
LGAN	e) A disclosure of any impairments or restriction in scope?	Y			
LGAN	f) A comparison or work actually carried out with the work planned?	Y			
	g) A statement on conformance with the PSIAS?		P		Reference to quality assurance framework and outcomes of annual review of effectiveness - will do in future as compliance with PSIAS becomes embedded
LGAN	h) The results of the QAIP?		P		Areas for improvement from initial assessment will be included in an im-

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
LGAN	i) Progress against any improvement plans resulting from the QAIP?		P		Improvement programme
LGAN	j) A summary of the performance of the internal audit activity against its performance measures and targets?	Y			
	k) Any other issues that the CAE judges is relevant to the preparation of the governance statement?	Y			Where applicable
4.6	2500 Monitoring Progress				
	Has the CAE established a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action?	Y			
	Where issues have during the follow-up process, has the CAE considered revising the internal audit opinion?			N	Considered but generally a delay between agreement of action, implementation and evidences effectiveness – overall annual opinion not adjusted
	Do the results of monitoring management actions inform the risk-based planning of future audit work?		P		Depends on extent to which implementation can be evidenced

Ref	Conformance with the Standard	Y	P	N	Evidence (Comments)
	Does the internal audit activity monitor the results of consulting engagements as agreed with the client?	Y			Any recommendation will be incorporated into actions database
4.7	2600 Communicating the Acceptance of Risks				
	If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?	Y			Will be highlighted in quarterly progress reports
	If, after discussion with senior management, the CAE continues to conclude that the level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board?	Y			

Ref	Area of Improvement	Driver for Improvement	Action Required	Responsible Officer	Target Date	Progress to Date	
1.							
2.	Audit Strategy	PSIAS Ref 2000	Survey Ref Q5, Q13, Q20	Review Audit Strategy in consultation with senior management to improve risk based strategy planning and ensure that audit resources are focused on the right areas and add most value	Avril Wallage	31/3/14	
3.		2050		Agree with CMT and Audit Committee on areas on which assurance is required	Avril Wallage	30/09/13	
4.		2050		Agree the definition of assurance with CMT/Audit Committee	Avril Wallage	30/09/13	
5.		2050		Develop common assurance language to be applied across all assurance providers	Avril Wallage	30/09/13	
6.		2050		Develop Assurance Maps in consultation with senior management to improve understanding of business and the risks it faces. Capture who, what, how and when assurance is or could be provided on the management of those risks and map to those areas where it is agreed assurance is needed	Audit Managers	28/02/14	Risk Based Approach and Control Risk Assessment (CRA) methodology has begun this process at the planning stage of individual audit assignments but needs to be progressed at strategic planning stage to provide clarity to CMT and Audit Committee on overall assurance sources and outcomes and to demonstrate the added value provided by Internal

Ref	Area of Improvement	Driver for Improvement	Action Required	Responsible Officer	Target Date	Progress to Date
7.	Audit Terms of Reference – Independence and objectivity	1000	Promote awareness of Audit Terms of Reference and audit strategy across the organisation	Avril Wallage	31/3/14	Audit assurance and any assurance gaps.
8.		1120	Ensure staff records within the Audit Management Software log details of areas to which staff are seconded to evidence that staff are not allocated to an area in which they were previously involved.	Audit Managers	On going	
9.		1120	Training to be given to all audit staff on IIA Code of Ethics and Seven Principles of Public Life which underpin PSIAS to reinforce existing professional ethical standards	Avril Wallage	31/7/2013	
10.		1120	Ensure all audit staff have completed annual declaration of interests	Avril Wallage	31/07/2013	
11.		1000	HIA to communicate directly with Chief Executive periodically	Avril Wallage	31/03/2013	
12.			Rotate on-going assurance arrangements periodically within the team (No more than 2 consecutive audits if no significant changes wherever possible)	Audit Managers	Immediate effect	
13.		1000	Update Internal Audit Charter to	Avril Wallage	31/3/14	

Ref	Area of Improvement	Driver for Improvement	Action Required	Responsible Officer	Target Date	Progress to Date
14.	Skills Knowledge & Experience	1200	<p>reflect requirements of PSIAS, in particular to define the terms “board” and senior management for the purpose of the internal audit activity</p> <p>Carry out a formal skills assessment of audit staff and develop a programme of continuous professional development for all staff to supplement existing corporate staff appraisal scheme and inform service training plan</p> <p>Ensure records maintained to record training and personal development are complete</p>	Audit Managers	31/3/14	
15.		1200	<p>Work closer with senior management to understand the business better – especially new initiatives and developments</p>	Audit Management	On -going	
16.		1200	<p>Improve team briefings and internal communications to ensure any business intelligence is shared more effectively</p>	Avril Wallage	30/09/13	
17.	Quality Assurance	1300	<p>Review and further develop existing quality assurance processes and formalise into a quality assurance programme to clearly evidence on going</p>	Avril Wallage	30/09/13	

Ref	Area of Improvement	Driver for Improvement	Action Required	Responsible Officer	Target Date	Progress to Date
18.		1320	compliance with agreed policies and procedures and PSIAs and through internal assessment Include reporting on the outcomes of the quality assurance programme and any improvement plans in Annual Audit Report	Avril Wallage	30/06/2014	
19.		1312	Approach and timing of external assessment to be developed and agreed with the CFO	Avril Wallage	30/06/14	
20.	Audit Planning	2010	Review strategic planning process and resultant annual plans to ensure link between audit work and supporting the achievements of the Council is clear.	Avril Wallage	2013/14	2013/14 Plan shows some indicative links
21.		2010	Review all documentation where definition of Internal Audit is quoted and ensure PSIAs used and promote awareness	Avril Wallage	30/09/13	Linked to current development of Audit Manual
22.		1220/2010	Audit Assignment planning and preparation process should confirm links to corporate priorities and objectives to help determine priorities for audit scope and put resultant audit findings into a corporate context	Avril Wallage	01//07/13	.
23.		2200	Ensure the scope of all audit work including Advice & Consultancy type reviews are	All Audit Staff	Immediate	This is standard practice for assurance type reviews where CRA Risk Based

Ref	Area of Improvement	Driver for Improvement	Action Required	Responsible Officer	Target Date	Progress to Date
			approved by relevant heads of service or their nominated key contact prior to fieldwork commencing to evidence that they support the scope. Quality check compliance as part of sign off process to audit scope/TOR's Quality check compliance as part of a formal quality review process of a sample of audits undertaken during the year	Audit Managers Avril Wallage	On going	Approach methodology is applied but has not always been the case for advice & consultancy reviews
24.		2010	Q17	Avril Wallage	30/6/13	
25.		2010		Avril Wallage	30/6/13	
26.		2010	Q36	Audit Management	On-going	Work already in progress to develop joint assurance protocol on major projects
27.		2010	Q38	All Auditors	On-going	Helping to support VFM is already a standard audit objective

Ref	Area of Improvement	Driver for Improvement	Action Required	Responsible Officer	Target Date	Progress to Date
			communicated through audit reporting Quality check compliance as part of sign off process to audit scope/TOR's and reports Quality check compliance as part of a formal quality review process of a sample of audits undertaken during the year	Audit Managers Avril Wallage	On-going 31/5/2014	
28.	Communications and relationships	2420	Improve timeliness of feedback on audit findings by improving the performance management of planned and actual fieldwork completion dates and issue of draft reports and final reports	Audit Managers	31/07/2013	
29.		2420	Improve challenge to significance of audit findings and priority rankings through audit clearance processes	Principal Auditors/Audit Managers		
30.		Q39	Improve awareness of the CRA methodology to help embed operational risk management and follow up on its implementation as a self-assessment tool by including a formal recommendation to this effect in audit report action	All Audit Staff	1/7/2013	

Ref	Area of Improvement	Driver for Improvement	Action Required	Responsible Officer	Target Date	Progress to Date
31.	Policies and Procedures	2040	plans. Improve the co-ordination and review mechanisms of existing policies and procedures by capturing in Audit Manual	Avril Wallage	30/09/13	In progress but requires updating to reflect PSIAS
32.		2240	Review processes for approving work programmes and testing strategies as part of the planning and preparation stage of audit assignments	Avril Wallage	30/09/13	
33.		2330	Determine retention policy and archiving arrangements in line with council retention guidelines	Avril Wallage	30/09/13	
34.	Audit Opinions	2450	Improve communication of reliance placed on other providers of assurance in arriving at audit opinions (assignments and overall audit opinion)	Avril Wallage	30/09/2013	

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Audit Committee

27 June 2013



Internal Audit Plan 2013-14 (JULY 2013 TO JUNE 2014)

Report of Don McLure, Corporate Director Resources

Purpose of the Report

1. To submit the proposed Annual Internal Audit Plan for 2013-14, as detailed in Appendix 2 attached, for approval.

Background

2. The Public Sector Internal Audit Standards (PSIAS), that came to effect from April 2013, define internal audit as,

“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

3. The agreed audit strategy and terms of reference for the internal audit service to fulfil this objective are detailed in the Internal Audit Charter approved by the Audit Committee.
4. A summary of the agreed audit strategy and the types of work carried out by the service to deliver this strategy, which have informed the development of the 2013/14 audit plan are provided in Appendix 2.
5. The Internal Audit Charter and Audit Strategy will be reviewed during 2013/14 in accordance with the requirements of the PSIAS.

Preparation of 2013-14 Audit Plan

6. In consultation with Service Groupings’ Senior Management Teams, the provisional strategic plan has been reviewed and revised to reflect changes in structures, changes in key service activities and management’s preference for the timing of reviews.
7. The proposed annual audit plan for 2013-14 attached was endorsed by the Corporate Management Team 12 June 2013 and includes provision for :
 - Work started in 2012-13 which is not expected to be finalised until after the end of June
 - Work deferred from the approved 2012-13 plan carried forward into 2013-14 previously agreed.

- Planned assurance work scheduled in year 3 of the 5 year strategic plan
 - Annual due diligence work on key financial systems and compliance with key corporate policies
 - Service requests identified through the consultation process with senior management
 - Grant certification work
 - The continuation of fraud awareness initiatives
 - Counter fraud reviews aimed to detect and prevent fraud in high risk areas
 - Corporate provision for reactive advice and consultancy work type and new emerging risks, including suspected fraud and irregularities (contingency)
 - Corporate provision for planning, quality assurance and reporting
 - Follow up of agreed audit recommendations
8. The detailed scope of audit reviews included in the plan has not yet been determined. These will be developed as part of the planning and preparation stage of each individual assignment in accordance with the agreed audit strategy. This ensures that audit resources assigned to individual reviews are focused upon operational risks, controls and the assurance environment expected to be in place at the time reviews are actually carried out. This is particularly important due to the extent of change management across the Council.
9. Operational risks are those that arise directly from the core activities of delivering services and include:
- Financial Management Risks
 - Project Risks
 - Performance Management Risks
 - Partnership Risks
 - Human Resources Risks
 - IT and Information Governance Risks
 - Procurement and Contract Risks
 - Legal Risks
 - Service Specific Risks
10. In evaluating the management of these risks, Internal Audit aims to help the achievement of corporate priorities and objectives by providing assurance on:
- The adequacy of risk identification, assessment and mitigation – including the adequacy and effectiveness of the strategic risk management process
 - The adequacy and application of controls to mitigate identified risk
 - The adequacy and extent of compliance with the Council's corporate governance framework
 - The extent of compliance with relevant legislation
 - The extent to which the Council's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money
 - The quality and integrity of financial and other management information utilised within the Council
11. In accordance with the agreed audit strategy, we will, in consultation with the nominated service manager or key contact, prepare a Control Risk Assessment

(CRA) prior to the start of each planned assurance review included in annual audit plans to:

- Identify and agree key service/system operational objectives
- Assess and agree key risks
- Identify and agree expected/existing key controls
- Identify other key sources of assurance and what assurance they provide that risks are effectively managed
- Inform the scope and terms of reference for audit
- Identify key stakeholders/contacts and circulation list for report
- Provide a mechanism for on going **self**-assessment post audit (**CRSA**)

12. We will endeavour to schedule agreed work within the timing preference expressed by services, but inevitably this may not always be possible due to the practicalities of scheduling work across all service groupings to match estimated audit resources available.

13. Given the extent of the transformation and change agenda with which the Council is faced at this time, it is particularly important that the annual audit plan is flexible and allows for the service to be pro-active in supporting management in the consideration of control issues relating to new or emerging risks. Consequently it is proposed that only approximately 70% of estimated audit resources available are pre-programmed each year. The remaining 30% will be set aside as a contingency provision to respond to new and emerging risks, including reactive work to potential fraud and irregularity, and changes to the strategic audit plan to reflect changes in service priorities and /or risks.

14. Service requests are encouraged at any time and will be considered in relation to the risk and the type of audit work required e.g. control design and/or compliance assurance, grant certification work, advice and consultancy etc, and whether or not the service has the necessary skills and resources to undertaken the work requested.

15. Any proposals to amend approved plans will be discussed with Corporate Directors and any significant changes will be reported to the Audit Committee for approval.

Delivery of the 2013/14 Audit Plan

16. The audit days required to deliver the proposed audit plan, which includes provision for reactive fraud and irregularities and a contingency provision for new and emerging risks, has been estimated to be **3351** days.

17. The audit days available to deliver the Council's Internal Audit Plan for 2013/14, based on actual staff in post, has been estimated at **2990** days as illustrated in the following table:

Estimated Gross Days Available (19.6) FTE	5105	100%
Less overheads:		
Uncontrollable, e.g. annual leave, bank holiday, sickness, maternity	945	18
Controllable e.g. training, development and divisional management	654	13
Productive Days Available	3506	69%
Less days required to deliver agreed services for external clients:		
Durham Police and Crime Commissioner /Durham Constabulary	180	
Durham and Darlington Fire & Rescue Authority	70	
Pension Fund (In house element – specialist support provided by external partner (PwC)	20	
Durham Joint Crematorium	20	
Mounsett Joint Crematorium	20	
Durham City Charter	6	
Schools SLA	200	
	516	
Productive Days Available to Durham County Council	2990	58%

18. It is planned to address the shortfall in days required to the deliver the proposed plan of 361 days by:

- The creation of an additional post , funded from the additional income from the schools SLA
- The engagement of Audit North, our newly appointed IT Audit Partner, to deliver some of our IT audit work, funded from a temporary vacancy arising from secondment
- The backfilling of a temporary vacancy, arising from a secondment, on a fixed term basis
- The creation of a trainee auditor post funded from a permanent vacancy

19. Monitoring of the plan will continue during the year through quarterly progress reporting to provide feedback on delivery and to discuss any new or emerging risks.

Recommendations

20. It is recommended that Members:

- Note the audit strategy previously agreed.
- Approve the proposed audit plan for 2013/14, as detailed in the attached Appendix 2.

Contact: Avril Wallage **Tel:** 03000 269645

Appendix 1: Implications

Finance

No direct financial implications

Risk

None

Staffing

None

Equality and Diversity / Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human Rights

None

Consultation

None

Procurement

None

Disability Discrimination

None

Legal Implications

Compliance with the Accounts and Audit Regulations 2011

Background : Audit Strategy and types of audit of audit work carried out

Planned Assurance Reviews

21. The key responsibility of internal audit is to provide an independent annual assurance opinion on the adequacy and effectiveness of the Council's control framework and environment - including risk management, control and governance arrangements. This is a statutory requirement and is a key source of assurance to inform the Council's Annual Governance Statement which in turn provides assurance to the public that the Council is well managed.
22. The Council's Control Framework is defined as the key controls in place to manage key risks. Managers are responsible for identifying risks that may prevent the achievement of service and corporate objectives and ensuring that these risks are managed effectively.
23. Assurance on the adequacy and effectiveness of control framework is needed by those charged with governance. This role has been delegated by the Council to the Audit Committee who have the responsibility to ensure that the Council's corporate governance arrangements are effective and for approving the Council's AGS.
24. In considering assurance requirements it is important that there is an agreed understanding of what is meant by assurance. Assurance is therefore defined as, "a review or assessment that gives a reasonable level of confidence that something is adequate and effective".
25. Assurance on the control framework can therefore be gained from a number of sources. In summary, the council's assurance council's framework can be illustrated using a "three line " approach whereby:
 - **1st Line** – the front line/day to day management - responsible for establishing controls to mitigate risks
 - **2nd Line** – oversight function e.g corporate risk management, corporate performance management, service based quality assurance and compliance teams
 - **3rd line** – internal audit, external audit, external inspection/review agencies and the Audit Committee - provide independent review of 1st and 2nd line of defence.
26. To enable a systematic review of key risks and key controls across the whole Council, which is necessary to inform the annual audit opinion, an exercise was begun in 2011 in consultation with service managers to identify all key service activities on which assurance is required by the Audit Committee.
27. This led to the development of a draft strategic audit plan that was endorsed by Corporate Management Team (CMT) and approved by the Audit Committee on 8th June and 30th June 2011 respectively.
28. The agreed audit strategy is summarised as follows:
 - To work in consultation with senior management teams and other providers of assurance to prepare strategic and annual audit plans

- To carry out planned assurance reviews of all key service activities/systems over a rolling 5 year programme
- To focus on key risks and key controls where there is little or no assurance
- To take assurance from the work of 1st and 2nd line of defence to reduce or tailor audit reviews of the 1st Line.

29. Wherever possible Internal Audit will seek to place reliance on the work of other assurance providers to avoid any unnecessary duplication.

30. In the longer term, it is intended that all key risks and key controls and the level of assurance provided by all key assurance providers are captured in assurance maps, categorised by risk type. These assurance maps will underpin the Council's assurance framework and provide clarity to CMT and the Audit Committee on how and when assurance is provided that key controls are both adequate and effective in managing identified risks. Any duplication or gaps in assurance identified through the mapping process should then provide a basis for a more co-ordinated and coherent approach to future assurance provision.

Counter Fraud Work

31. Provision is also made in annual audit plans to support service managers at an operational level to mitigate the strategic risk of fraud and corruption. Given the current economic climate and the extent of change across the Council this risk has increased.

32. Work carried out under this category includes:

- Preparing and promoting the Council's Counter Fraud and Corruption Strategy
- Helping service managers identify fraud risks and design controls to prevent and/or detect fraud occurring
- Conducting counter fraud reviews to help detect fraud and error in known high risk areas
- Supporting managers to investigate fraud
- Helping service managers prevent reoccurrences
- Monitoring and reporting upon fraud & irregularity activity

Grant Certification Work

33. Some provision is made in internal audit plans for the certification of grant claims where grant conditions of external funding providers require it.

Follow Up

34. Provision is made in annual plans to provide assurance that management responds appropriately to address agreed weaknesses in controls, identified through the audit process, which may increase the impact or the likelihood of risk occurring above an acceptable level.

Monitoring and Reporting

35. Provision is made in the plan for monitoring the delivery of the agreed plans to the required professional standards and for reporting progress to Corporate Directors and the Audit Committee on a quarterly basis. This reporting mechanism will also allow a regular forum for consideration of new or emerging risks and the agreement of any proposed changes to the approved plan.

Advice and consultancy work

36. To help provide proactive support to management in the identification, assessment and managing of new and emerging risks, internal audit plans also include provision for advice and consultancy work. Examples of this type of work include:

- Representation on corporate working groups
- Business process reviews
- Mystery shopping
- Support in the development and implementation of projects or new initiatives
- Value for money reviews
- Ad hoc requests for advice and guidance
- Data analytics
- Review of controls to address known weaknesses in the control environment identified through fraud and irregularity investigations or planned assurance work where additional or follow up work is required.

DRAFT ANNUAL INTERNAL PLAN 2013-14 (July 2013-June 2014)

CORPORATE PROVISIONS		DAYS	SUB T				
PLANNING, REPORTING AND SERVICE DEVELOPMENT							
Planning and reporting							
Follow Up		200					
Quality Assurance and Performance Monitoring		150					
Continuous development of service, including performance management arrangements and development of library key of inherent/operational risks) and controls		150					
Further Development of Corporate Assurance Framework and risk and assurance mapping		30					
Audit Committee Reporting and Support		50					
		25	605				
COUNTER FRAUD							
SCOPE							
Counter Fraud Awareness	Maintaining awareness of new initiatives, promoting fraud awareness, monitoring and reporting	120					
NFI	Co-ordination of NFI submissions and outcomes.	30					
Code of Conduct - Employees	To test compliance with requirements regarding declaration of interests & and identify related party transactions	20					
Grants Payable (c/frd from 2012/13)	To identify all grant payments made by the Council and develop and implement risk based programme of compliance assuring testing in this high risk fraud area.	20					
Housing Tenancy (c/frd from 2012/13)	Development of data matching and implementation of testing to detect sub-letting and related potential fraud e.g Right to Buy/Housing Benefit	40					
Creditor Payments	IDEA Data Interrogation to detect potential duplicates / inappropriate payments	40					
Personal Budgets	To review arrangements in place to prevent and detect fraudulent use of personal care budgets	20					
Procurement	Data analysis of creditor payments to detect inappropriate procurement and help identify poor VFM/Efficiency savings	50	340				
CORPORATE GOVERNANCE							
SCOPE							
Strategic Risk Management	Review of corporate risk register following quarterly update to assess reliability of assurance provided in relation to risks that have been removed or reduced to	8					
Ethical Culture	To evaluate the design, implementation and effectiveness of the organisation's ethics related objectives , programme and activities. NB This is a requirement of the new PSIAS that came into effect from 1/4/2013.	30	38				
GRANT CERTIFICATION							
	Provision to respond to service requests to certify grant claims from external funding bodies	40	40				
CONTINGENCY							
Advice and Consultancy	Provision to address new and emerging risks	600					
Investigations	Provision to complete investigations in progress at the year end and new cases arising during the year.	300	900				
SERVICE ACTIVITY/RISK AREA	SERVICE	LINKS TO COUNCIL OBJECTIVES & PRIORITIES	OUTLINE SCOPE	AUDIT TYPE	TIMING	DAYS	SUB T
ACE							
AUDITS IN PROGRESS @ 30-6-13							
Area Action Partnerships	Partnerships and Community Engagement			Assurance		1	
Partnership Governance Framework	Partnerships and Community Engagement			Assurance		3	
Data Protection	Planning & Performance			Assurance		5	
Data Quality	Planning & Performance			Assurance		10	
Corporate Communication	Policy & Communications			Advice & Consultancy		5	
Business Continuity	Policy & Communications			Advice & Consultancy		5	
AUDITS SCHEDULED FROM STRATEGIC PLAN							
Transformation and change	Policy & Communications	ABC9	Efficient and effective services				
			Development of Joint Working Methodology for assurance on Corporate Improvement Programmes/Projects	Advice & Consultancy	July 2013	40	

SERVICE ACTIVITY/RISK AREA	SERVICE	LINKS TO COUNCIL OBJECTIVES & PRIORITIES	OUTLINE SCOPE	AUDIT TYPE	TIMING	DAYS	SUB T
Data Quality	Planning & Performance	ABC8 Council assets are optimised and information effectively managed	Rolling programme of quality of PI data	Assurance		40	
Data Protection	Planning & Performance	ABC8 Council assets are optimised and information effectively managed	Rolling programme of compliance reviews	Assurance		30	
Information Governance	Planning & Performance	ABC8 Council assets are optimised and information effectively managed	Participation on Information Governance Group	Advice & Consultancy		3	
Partnerships Governance Framework	Partnerships & Community Engagement	ABC5 Effective Partnership Working	Review of outcomes from annual self-assessment exercise and test sample of partnerships as part of a rolling programme of independent reviews	Assurance		30	
SERVICE REQUESTS							
Area Action Partnerships	Partnerships & Community Engagement	ABC5 Effective Partnership Working	Performance Management Framework	Advice & Consultancy	August/Sept 2013	10	
Community Engagement	Partnerships & Community Engagement	ABC4 Communities and stakeholders are engaged and communicated with	Participatory Budgets Model	Advice & Consultancy	July 2013	10	
		ABC4 Communities and stakeholders are engaged and communicated with	Community Buildings	Advice & Consultancy	April 2014	10	202
CAS							
WORK IN PROGRESS @ 30-6-13							
Looked After Children	Children's Care	C5		Assurance		10	
Specialist Services - Prevention and Early Intervention	Children's Care	C7		Assurance		10	
Safeguarding of Children in Schools	Education / Children's Care	C5		Assurance		10	
One Point - Arrangements with the Health Service	Early Intervention & Involvement	C7		Assurance		5	
Calicoat Compliance	Planning & Service Strategy	ABC8		Assurance		2	
Troubled Families Programme	Children's Care	C6		Assurance		5	
AUDITS DEFERRED FROM 2012-13							
Adult Learning Service	Education	W5	Operational Risk Management	Assurance		10	
County Durham Children and Families Trust	Planning & Service Strategy	ABC5	Partnership Governance	Assurance		10	
POPPIE System	Planning and Service Strategy	ABC8	Information Governance	Assurance		15	
School Funding	Education	ABC9	Review of school balances. To be carried out under Resources following requests from both service groupings to review in 2013/14	Assurance		0	
ASSURANCE AUDITS SCHEDULED IN STRATEGIC PLAN							
Secure Services - Contract with Youth Justice Board	Children's Care	S6	Partnership Governance	Assurance		10	
Health & Well Being Partnership Board	Planning & Strategy Service	ABC5	Partnership Governance	Assurance		15	
SEN Placement and Provision	Education	C1	Operational Risk Management - Incorporating reviewing the effectiveness of service monitoring arrangements of SEN funded spending in schools	Assurance		10	
Calicoat Compliance	Planning and Service Strategy		Information Governance	Assurance		5	
Schools Organisations and Capital Programme	Education	ABC8	Operational Risk Management	Assurance		15	

SERVICE ACTIVITY/RISK AREA	SERVICE	LINKS TO COUNCIL OBJECTIVES & PRIORITIES	OUTLINE SCOPE	AUDIT TYPE	TIMING	DAYS	SUB T
SERVICE REQUESTS							
Supported Housing	Adult Care	S4	Safeguarding adults whose circumstances make them vulnerable and protect them from avoidable harm	Assurance	Nov-13	15	
Gypsies & Travellers Un-authorised Encampments	Early Intervention & Involvement	S5	Build community and organisational resilience for emergency preparedness, response and recovery	Advice & Consultancy	Jul-13	5	
Youth Offending Service	Early Intervention & Involvement	S6	Reduce re-offending rates for adults and young people	Advice & Consultancy	TBA	10	
Domestic Abuse Partnership	Early Intervention & Involvement	S3	Improve the safety of victims and reduce repeat incidents of domestic abuse	Assurance		10	
School Funding	Education	ABC9	Efficient and effective services	Assurance	Jul-13	0	
Post 16 Education and Training	Education	C1	Children and young people are supported to achieve and attain to prepare them for adulthood	Advice & Consultancy	Aug-13	10	
Blue Badge Scheme	Planning and Service Strategy	ABC2	People are treated fairly and differences respected	Assurance		10	
Capita One System	Planning and Service Strategy	ABC8	Council assets are optimised and information effectively managed	Assurance		10	
TEWV	Planning and Service Strategy	ABC5	Effective Partnership Working	Assurance		10	
Stop Smoking Service	Public Health	H1	Reduce mortality from cancers and circulatory diseases	Assurance		10	
Support to the Director of Public Health on providing assurance on Health Protection Arrangements	Public Health	ABC9	Efficient and effective services	Assurance		10	
School Benevolent Fund	Schools Financial Management	C1	Children and young people are supported to achieve and attain to prepare them for adulthood	Advice & Consultancy		5	237

NEIGHBOURHOOD SERVICES

WORK IN PROGRESS @ 30-06-13

Construction Services and Planned Maintenance Programme	Direct Services - Building and Facilities Maintenance			Assurance		5	
Enforcement and engagement - Neighbourhood Wards	Direct Services - Streetscene			Assurance		5	
MTFP - Use of Council vehicles for home to work journeys	Direct Services - County Fleet			Advice & Consultancy		5	

SERVICE ACTIVITY/RISK AREA	SERVICE	LINKS TO COUNCIL OBJECTIVES & PRIORITIES	OUTLINE SCOPE	AUDIT TYPE	TIMING	DAYS	SUB T
AUDITS DEFERRED FROM 2012-13							
Markets	EHCP - Consumer Protection	W3	A co-ordinated investment in housing infrastructure, employment, retail, leisure, education and health	Operational Risk Management	Assurance	10	
ASSURANCE AUDITS SCHEDULED IN STRATEGIC PLAN							
Strategic Waste Management	Projects and Business Services	G8	Deliver sustainable waste management solutions	Operational Risk Management	Assurance	20	
Clean and Green Services - Housing Association Contracts	Direct Services - Streetscene	G3	Cleaner, greener, more attractive and sustainable environment	Operational Risk Management	Assurance	15	
Licensing and Regulation of Business	EHCP - Public Safety	ABC9	Efficient and effective services	Operational Risk Management	Assurance	12	
Private Sector Housing	EHCP - Environmental protection	W6	An improved housing offer across County Durham	Operational Risk Management	Assurance	12	
Winter Maintenance	Technical Services - Strategic Highways	S11	Improved safety of roads and pavements	Review of operational risk management self assessment	Assurance	5	
Gala Theatre	Sport and Leisure	ABC9	Efficient and effective services	Operational Risk Management incorporating follow up on limited assurance audits relating to Stage School and Box Office	Assurance	15	
Building Maintenance	Direct Services - Building and Facilities Maintenance	ABC8	Council assets are optimised and information effectively managed	Building Compliance	Assurance	15	
SERVICE REQUESTS							
Environment Partnership	Customer Relations, Policy & Performance	ABC5	Effective Partnership Working	Support in review of partnership risk management	Advice & Consultancy	10	
Building maintenance	Direct Services - Building and Facilities Maintenance	ABC8	Council assets are optimised and information effectively managed	Quarterly compliance with Quality Management System	Assurance	4	
Indoor sport facilities	Sport and Leisure	ABC5	Effective Partnership Working	CLUK Income Share Agreement - Partnership Governance	Assurance	2	
Sport Development	Sport and Leisure	ABC9	Efficient and effective services	Integrated Leisure Management System Development & Implementation	Advice & Consultancy	5	
Stanley Bowls	Sport and Leisure	ABC8	Council assets are optimised and information effectively managed	County Durham Sport Grant	Grant Certification	6	
		ABC8	Council assets are optimised and information effectively managed	Annual Audit of Accounts	Advice & Consultancy	3	149
REGENERATION AND ECONOMIC DEVELOPMENT							
AUDITS IN PROGRESS @ 30-6-13							
Business Durham	Economic Development & Housing				Assurance	2	
Taxi Contracts	Transport and Contract Services				Assurance	5	
Private Sector Housing	Economic Development & Housing				Assurance	5	
Housing Tenancies	Economic Development & Housing				Assurance	3	
Project Genesis	Strategic Programmes and Performance				Advice & Consultancy	2	
AUDITS DEFERRED FROM 2012-13							
Visit County Durham	Economic Development & Housing	W8	Strengthened cultural and tourism offer across the County	Operational Risk Management	Assurance	10	
Building Control	Planning & Assets	ABC9	Efficient and effective services	Mystery shopping to test compliance with procedures	Advice & Consultancy	10	
AUDITS SCHEDULED FROM STRATEGIC PLAN							

SERVICE ACTIVITY/RISK AREA	SERVICE	LINKS TO COUNCIL OBJECTIVES & PRIORITIES	OUTLINE SCOPE	AUDIT TYPE	TIMING	DAYS	SUB T
Planning Development Control	Planning & Assets	ABC9 Efficient and effective services	Advice to steering group implementing new planning system	Advice & Consultancy	On-going	5	
Building Control	Planning & Assets	ABC9 Efficient and effective services	Operational Risk Management - potential focus on safety at sports grounds	Assurance	April 2014	10	
Asset Management	Planning & Assets	G6 Reduced number of vacant and derelict buildings	Operational risk management - disposal of land and buildings	Assurance	December 2013	25	
Durham City Homes - Housing Rents	Economic Development & Housing	ABC8 Council assets are optimised and information effectively managed	Financial Risk Management	Assurance	August 2013	20	
ALMOs Housing Rents	Economic Development & Housing	ABC8 Council assets are optimised and information effectively managed	Financial Risk Management	Assurance	April 2014	10	
Civil Parking, Park and Ride, Off Street Parking	Transport & Contract Services	ABC8 Council assets are optimised and information effectively managed	Operational Risk Management	Assurance	September 2013	20	
Sustainable Transport	Transport & Contract Services	ABC8 Council assets are optimised and information effectively managed	Operational Risk Management	Assurance	April 2014	25	
Supported Housing - CCTV	Transport & Contract Services	ABC8 Council assets are optimised and information effectively managed	Operational Risk Management	Assurance	April 2014	10	
SERVICE REQUESTS							
Carbon Reduction Commitment	Planning & Assets	G1 Reduced CO2 emissions		Assurance	July/August	10	182
RESOURCES							
AUDITS IN PROGRESS @ 30-6-13							
Payroll	HR&OD			Assurance		2	
Income & Debt Recovery	Finance Services			Assurance		2	
Budgetary Control & Reporting	Finance Services			Assurance		2	
Taxation PAYE	Corporate Finance			Assurance		1	
Procurement Cards	Finance Services			Assurance		1	
Flexible working and contract variations	HR&OD			Assurance		2	
Internet Security	ICT			Assurance		1	
Information Security - Forensic Readiness	ICT			Assurance		4	
Income and Expenditure Project	ICT			Assurance		2	
Corporate Credit Cards	Corporate Finance			Assurance		1	
Petty Cash Usage	Corporate Finance			Assurance		1	
Public Services Network	ICT			Assurance		3	
Corporate Governance- Litigation Database	Legal & Democratic Services			Assurance		1	
AUDITS DEFERRED FROM 2012-13							
Card terminals / PCI Compliance		ABC8 Council assets are optimised and information effectively managed	Compliance with key controls	Assurance	October 2013	10	
AUDITS SCHEDULED FROM STRATEGIC PLAN							
RIPA Working Group	Legal & Democratic Services		Participation on corporate working group	Advice & Consultancy		2	
Electional Services	Legal	ABC9 Efficient and effective services	Operational Risk Management	Assurance	March 2014	10	
Homeworking	HR&OD	ABC9 Efficient and effective services	Operational Risk Management	Assurance		10	
Payroll	HR&OD	ABC9 Efficient and effective services	Compliance with key controls	Assurance		20	
General Ledger System	Corporate Finance	ABC8 Council assets are optimised and information effectively managed	Compliance with key controls	Assurance	November 2013	15	
			Bank reconciliation - key control testing	Assurance	October 2013	15	
			Journal Transfer- key control testing	Assurance	February 2014	10	
			Capital accounting - system review	Assurance	November 2013	20	

SERVICE ACTIVITY/RISK AREA	SERVICE	LINKS TO COUNCIL OBJECTIVES & PRIORITIES	OUTLINE SCOPE	AUDIT TYPE	TIMING	DAYS	SUB T
MTFP 3		ABC7	A balanced four year financial plan that reflects council priorities	Operational Risk Management	Assurance	July 2013	20
Treasury Management	Corporate Finance Corporate Finance	ABC8	Council assets are optimised and information effectively managed	Short Term Investments - Compliance with key controls	Assurance	January 2014	15
Procurement	Corporate Finance	ABC8	Council assets are optimised and information effectively managed	Compliance with corporate procedures - quotations	Assurance		10
		ABC8	Council assets are optimised and information effectively managed	Compliance with corporate procedures - tendering	Assurance		10
		ABC8	Council assets are optimised and information effectively managed	Participation on Strategic Procurement Network Working Group	Advice & Consultancy		3
	ICT	ABC8	Council assets are optimised and information effectively managed	IT Purchasing	Assurance		10
Central Establishment Recharges	Finance Services	ABC8	Council assets are optimised and information effectively managed	System Review	Assurance	July/August 2013	15
Revs & Bens reconciliations	Finance Services	ABC8	Council assets are optimised and information effectively managed	Compliance with key controls	Assurance	September 2013	15
P2P System	Finance Services	ABC8	Council assets are optimised and information effectively managed	Compliance with key controls (including use of procurement cards)	Assurance	January 2014	30
Housing Benefit (HB) and Council Tax Reduction (CTR) admin (incl. HB Subsidy and DHP)	Finance Services	ABC8	Council assets are optimised and information effectively managed	Benefits system review following implementation of Council Tax Reduction Scheme	Assurance	October 2013	65
Welfare Assistance Scheme	Finance Services	ABC6	The effects of the welfare reform agenda are effectively managed	Operational Risk Management	Assurance	July 2013	10
NNDR	Finance Services	ABC8	Council assets are optimised and information effectively managed	System Review of new business rates system	Assurance	October 2013	40
Council Tax	Finance Services	ABC8	Council assets are optimised and information effectively managed	Compliance with key controls	Assurance	October 2013	40
Cash Collection	Finance Services	ABC8	Council assets are optimised and information effectively managed	Compliance with key controls	Assurance	January 2014	30
Debtors	Finance Services	ABC8	Council assets are optimised and information effectively managed	Compliance with key controls	Assurance	January 2014	25
Information Security Policies	Finance Services	ABC8	Council assets are optimised and information effectively managed	Compliance with key controls / Information Governance	Assurance		20
Infrastructure/Networks	ICT	ABC8	Council assets are optimised and information effectively managed	Compliance with key controls / Information Governance	Assurance		10
Mobile Computing	ICT	ABC8	Council assets are optimised and information effectively managed	Compliance with key controls	Assurance		10
SQL Server	ICT	ABC8	Council assets are optimised and information effectively managed	Compliance with key controls	Assurance		10
Software Licenses	ICT	ABC8	Council assets are optimised and information effectively managed	Compliance with key controls	Assurance		10
SERVICE REQUESTS							
Digital Durham	ICT	ABC8	Council assets are optimised and information effectively managed	Project Support	Advice & Consultancy		10
Appraisals	HR&OD	ABC11	A strategic approach to organisational development	Compliance with corporate policy	Assurance	January 2014	20
Attendance Management Framework	HR&OD	ABC10	Good employee and member well-being	Review of effectiveness	Assurance	April 2014	20
Comensura	HR&OD	ABC8	Council assets are optimised and information effectively managed	System review requested by CAS	Assurance		20
S17 Payments - Safeguarding welfare of children	Finance Services	ABC8	Council assets are optimised and information effectively managed	System review	Assurance		10
Public Health Financial Management Arrangements	Finance Services	ABC8	Council assets are optimised and information effectively managed	Operational Risk Management	Assurance	Sept 2013	20
School Funding (Joint request with CAS)	Finance Services	ABC9	Efficient and effective services	Review of allocation mechanism to distribute dedicated schools grant following school funding reforms	Assurance	Jul-13	10

SERVICE ACTIVITY/RISK AREA	SERVICE	LINKS TO COUNCIL OBJECTIVES & PRIORITIES	OUTLINE SCOPE	AUDIT TYPE	TIMING	DAYS	SUB T
		ABC9 Efficient and effective services	Review of school financial management performance incorporating arrangement in place within the school funding team and Education Development Partners within CAS to effectively support schools manage their budgets effectively	Assurance	June 2014	15	658
SUMMARY							
Planning, reporting, service development and follow up							605
Counter Fraud							340
Corporate Governance							38
Grant Certification							40
Service Based Activity							1428
Contingency							900
							3351

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Audit Committee

27 June 2013

Forward Plan of Audit Committee Business



Report of Manager of Internal Audit and Risk

Don McLure, Corporate Director Resources

Purpose of the Report

1. The purpose of this report is to present a forward plan of Audit Committee Business for the next 12 months for approval.

Background

2. To help the Audit Committee fulfil its functions as set out in the Council's Constitution, the Committee approved a more detailed operational terms of reference (TOR) in November 2011. A copy is attached at Appendix 2.
3. In accordance with paragraph 6.1 of the TOR an annual programme of work, cross referenced to the relevant paragraph within the TOR, has been prepared for the next 12 months. This is attached at Appendix 3 and 4. Appendix 3 details each relevant TOR and the date of the meeting when an item is scheduled to fulfil that specific requirement and Appendix 4 provides a provisional draft agenda for each scheduled meeting.

Recommendation

4. Members approve the proposed forward plan for Committee business as detailed in Appendices 3 and 4 attached.
5. Any amendments to the plan are reported as a standard item on the agenda of each meeting of the Committee.

Contact: Avril Wallage Tel: 03000 269645

Appendix 1: Implications

Finance

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

Staffing

None

Risk

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

Equality and Diversity / Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability issues

None

Legal Implications

None

Audit Committee Operational Terms of Reference

1 Objectives

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

2 Authority

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

3 Composition

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

4 Terms of Reference

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

Governance Arrangements – General

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

Risk Management

- 4.1.9 To review and endorse the Council's risk management strategy and policy prior to approval by Cabinet.
- 4.1.10 To maintain an understanding of the risk management process and the key risks facing the Council.
- 4.1.11 To review regular reports from the Corporate Risk Management Group to gain assurance that the Council is monitoring and managing its risks effectively.
- 4.1.12 To seek further assurance from service managers that risks are being effectively managed as considered necessary.

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

Control Environment

- 4.1.14 To maintain an understanding of key council policies and procedures which seek to provide effective control over the conduct of Council business, the safeguarding of assets and the timely production of accurate and complete financial information and to seek assurance that there are adequate arrangements in place to ensure that these are being adhered to. This should include procedures set out in the Council's Constitution in respect of Contract Procedure Rules, Financial Procedures Rules, (and supporting Financial Management Standards), Scheme of Delegation, and Codes of Conduct for Members and Officers.
- 4.1.15 To maintain an understanding of the Council's performance management framework.
- 4.1.16 To review the effectiveness of the Council's Counter Fraud and Corruption Strategy and recommend any material changes required to the Strategy to Cabinet.
- 4.1.17 To review the effectiveness of the Council's Anti Money Laundering Policy and recommend any material changes required to the policy to Cabinet.
- 4.1.18 To review the effectiveness of the Council's Whistle-Blowing Policy and recommend any material changes required to the policy to Cabinet.
- 4.1.19 To approve the Council's Internal Audit Charter setting out the Internal Audit Strategy and Terms of Reference.
- 4.1.20 To maintain an understanding of the Internal Audit process and how this relates to risk management.
- 4.1.21 To endorse and provide challenge to proposed Annual Internal Plans ensuring that Internal Audit work is planned with due regard to risk, materiality and coverage.
- 4.1.22 To review the effectiveness of Internal Audit by reviewing and monitoring regular progress reports on its work and performance.
- 4.1.23 To review the effectiveness of External Audit, including consideration of any potential conflicts of interest.
- 4.1.24 To review the Head of Internal Audit's annual report, summary of Internal Audit work and the overall assurance opinion that the service can provide on the effectiveness of the Council's internal control environment that will inform the annual governance statement.

- 4.1.25 To maintain an understanding of the role of External Audit and its relationship with Internal Audit.
- 4.1.26 To maintain an understanding of the role of other key providers of assurance identified in the Council's assurance framework, both external and internal and ensure adequate arrangements are in place for reviewing the reliability and effectiveness of those assurance providers and for addressing any control weaknesses or improvements that they may identify.
- 4.1.27 To review External Audit reports and the Annual Audit Letter and ensure that there are appropriate arrangements in place to address any areas of improvement identified and to inform the operation of Council's current or future audit requirements.
- 4.1.28 To monitor progress made by management in response to both internal and external audit findings and recommendations.
- 4.1.29 To review the scope and depth of External Audit work as set out in their annual plans.
- 4.1.30 Within available resources, to be able to request specific pieces of work from Internal and External Audit.

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

- 4.2.1 To maintain an understanding of the Budget and Policy Framework as set out in the Council's Constitution.
- 4.2.2 To maintain an understanding of the budget procedures as set out in Finance Procedure Rules and Financial Management Standards.
- 4.2.3 To maintain an understanding of internal and external reporting requirements.
- 4.2.4 To approve accounting policies, the approach to accounting estimates and the 'going concern' assertion
- 4.2.5 To review the draft un-audited statements of accounts as certified by the S151 Officer. This review should include ensuring that issues raised in previous financial years have been addressed.
- 4.2.6 To review the Annual Outturn Report and consider how this might impact on the draft accounts.

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

5 Meetings

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

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

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

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

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

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

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

6 Programme of Work

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

7 Performance and Review

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

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Durham County Council Audit Committee - Reporting Forward Plan 2013-14

	Agenda Items linked to Terms of Reference	Ref	Induction Training 30 May 2013	31 May	27 June	29 July	30 Sept	28 Nov	28 Feb	May 2014
Authority										
1	To report on its work to Full Council	2.1		X				X		
Governance Arrangements										
2	To review and endorse the Council's Code of Corporate Governance	4.1.1						X		
3	To review how the AC's work integrates with the wider performance management framework and standards compliance by consideration of the Council's assurance framework	4.1.2	X							X
4	To understand the role of overview and scrutiny committee in relation to the review of performance and the assurance it provides on the effectiveness of the councils governance arrangements	4.1.3	X							
5	To approve proposals for the production of the Annual Governance Statement	4.1.4.							X	
6	To review the effectiveness of the Internal Audit Service	4.1.5			X					
7	To approve the draft annual governance statement	4.1.6			X					
8	To approve the final annual governance statement	4.1.7.					X			
9	To approve and monitor the AGS Action Plan	4.1.8					X			
10	To approve and monitor the AGS Action Plan	4.1.8						X	X	X
11	To review and endorse the Council's risk management strategy and policy	4.1.9								X
12	To maintain an understanding of the risk management process and the key risks facing the Council	4.1.10		X		X		X	X	X
13	To review regular reports from CRMG to gain assurance that the Council is monitoring and managing its risks effectively	4.1.11		X		X		X	X	X
14	To seek further assurance from service managers that risks are being effectively managed as considered necessary	4.1.12			X					
15	To seek assurance on the effectiveness of the operation of the risk management framework	4.1.13		X		X		X	X	X
Control Environment										
16	To maintain an understanding of key council policies and procedures which seek to provide effective control over the conduct of council business, the safeguarding of assets and the timely production of accurate and complete financial information and to seek assurance that there are adequate arrangements in place to ensure that these are being adhered to. These should include: Contract procedures rules Financial Procedure Rules Scheme of delegation Codes of Conduct for officers and members	4.1.14			X				X	
17	To maintain an understanding of the Council's performance management framework	4.1.15					X			
18	To review the effectiveness of the Councils' Counter Fraud and Corruption Strategy	4.1.16			X			X		
19	To review the effectiveness of the Council's Anti Money laundering policy	4.1.17								X

	Agenda Items linked to Terms of Reference	Ref	Induction Training 30 May 2013	31 May	27 June	29 July	30 Sept	28 Nov	28 Feb	May 2014
20	To review the effectiveness of the Council's Whistle Blowing Policy	4.1.18						X		
21	To approve the Internal Audit Charter (Audit Strategy and Terms of Reference)	4.1.19						X		
22	To maintain an understanding of the Internal Audit Process and how this relates to risk management	4.1.20						X		
23	To endorse and provide challenge to proposed Annual Internal Audit Plans	4.1.21			X					
24	To review the effectiveness of Internal Audit by reviewing regular progress reports on its work and performance	4.1.22					X	X	X	X
25	To review the effectiveness of external audit, including consideration of any potential conflicts of interest	4.1.23								X
26	To review the HIA's annual report	4.1.24			X					
27	To maintain an understanding of the role of external audit and its relationship with Internal Audit	4.1.25	X							
28	To maintain an understanding of the role of other key providers of assurance identified in the Council's assurance framework and ensure adequate arrangements are in place for reviewing the reliability and effectiveness of those assurance providers and for addressing any control weakness or improvements that they may identify	4.1.26					X	X	X	X
29	To review external audit reports and the Annual Audit Letter	4.1.27		X			X	X	X	X
30	To monitor progress made by management in response to both internal and external audit findings and recommendations	4.1.28		X			X	X	X	X
31	To review the scope and depth of external audit work as set out in their annual plans	4.1.29		X					X	
32	Within available resources, to be able to request specific pieces of work from Internal and External Audit	4.1.30								
STATEMENT OF ACCOUNTS										
33	To maintain an understanding of the Budget and Policy Framework as set out in the Council's Constitution	4.2.1					X			
34	To maintain an understanding of the budget procedures as set out in Finance Procedure Rules and Financial Management Standards	4.2.2					X			
35	To maintain an understanding of internal and external reporting requirements	4.2.3	X			X	X			
36	To approve accounting policies, the approach to accounting estimates and the 'going concern assertion'	4.2.4								X
37	Review of un-audited accounts	4.2.5				X				
38	Review of Annual Outturn Report and consider how this might impact on the draft accounts	4.2.6				X				
39	To approve final audited statement of accounts	4.2.7					X			
Programme of Work										
40	Annual Programme of work to be agreed cross referenced to TOR	6.1			X					
Performance and Review										
41	Annual self-assessment of effectiveness	7.1							X	

Audit Committee Forward Plan 2013-14

Date of Meeting	No	Agenda Item	TOR Ref
31 May 2013	1	Q4 Risk Management Report - March 2013	4.1.9
	2	Internal Audit Progress Report as at 31/3/2013	4.1.24
	3	Compliance with International Auditing Standards	4.2.3
	4	Partnership Governance	4.1.26
	5	External Funding Claw Back	4.1.13
	6	External Audit Progress Report	4.1.27
	7	Action Plan 2011/12 Accounts	4.1.28
	8	Half yearly report from Committee to Full Council	2.1
27 June 2013	1	Draft Annual Governance Statement 2011/12	4.1.6
	2	Annual Internal Audit Report 2012/13	4.1.24
	3	Annual Fraud and Irregularity Report 2012/13	4.1.6
	4	Annual review of the effectiveness of Internal Audit	4.1.5
	5	Annual Internal Audit Plan 2013/14	4.1.21
	6	Disposal of Land and buildings	4.1.12/13/14
	7	Direct Payments	4.1.12/13/14
29 July 2013	1	Q1 Risk Management Report	4.1.10/11/13
	2	2012/13 Outturn Report	4.2.6
	3	2012/13 Draft Accounts	4.2.3/5
30 Sept 2013	1	Final Accounts 2012/13	4.2.3/7
	2	Final Annual Governance Statement 2012/13 and AGS Action Plan	4.1.7/8.
	3	Durham County Council Annual Governance Report of EA	4.1.27
	4	Pension Fund Annual Governance Report of EA	4.1.27
	5	Internal Audit Progress Report (Up to 31/8)	4.1.22
	6	Outline of Budget and MTFP Setting Process	4.2.1/4.2.2
28 Nov 2013	1	Q2 Risk Management Report	4.1.10/11/13
	2	Q2 Internal Audit Progress Report	4.1.22
	3	Half yearly report from Audit Committee to Full Council	2.1
	4	Half yearly report on F & I	4.1.16
	5	AGS Action Plan Update	4.1.8
	6	Review the Local Code of Corporate Governance	4.1.1
	7	Outline of the Council's performance framework	4.1.15
	8	Review of Whistleblowing Blowing Policy	4.1.18
	9	Review of Internal Audit Charter	4.1.19/20
	10	Annual Audit Letter	4.1.27
	11	Review proposals for the production of the AGS & Update on Council's assurance framework	4.1.2/3/4 4.1.26
28 Feb 2014	1	Q3 Risk Management Report	4.1.10/11/13
	2	Q3 Internal Audit Progress Report	4.1.22
	3	External Auditor's Annual Grant Claims Report	4.1.27
	4	AGS Action Plan Update	4.1.8
	5	Approval of accounting policies	4.2.4
	6	Review of the effectiveness of external audit	4.1.23
	7	Final Accounts Timetable	4.2.3
	8	SORP - Changes to the Code	4.2.3
	9	External Audit -Audit Strategy Memorandum (Audit Plan)	4.1.29
	10	Financial Procedure Rules	4.1.14
	11	Contract Procedure Rules	4.1.14
May 2014	1	Consideration of going- concern	4.2.4
	2	AGS Action Plan Update	4.1.8
	3	Compliance with IAS	4.2.3
	4	Review of Money Laundering Policy	4.1.17
	5	Q4 Risk Management Report	4.1.10/11/13
	6	Review of Risk Management strategy & policy	4.1.9
	7	Internal Audit Progress Report	4.1.22
	8	External Audit Progress Report	4.1.29
	9	Half- Yearly Report from Committee to Full Council	2.1
	10	Update on Council's Assurance Framework	4.1.2/4.1.26

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