



Audit Committee

Date **Friday 28 February 2014**
Time **11.00 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 28 November 2013 (Pages 1 - 8)
3. Declarations of interest, if any
4. Outline of the Council's Financial Procedure Rules - Presentation by the Head of Corporate Finance
5. Outline of the Council's Corporate Procurement Rules - Presentation by the Head of Corporate Finance
6. Agreement of Accounting Policies for Application in the 2013/14 Financial Statements - Report of the Corporate Director, Resources (Pages 9 - 36)
7. Final Accounts Timetable for the year ended 31 March 2014 - Report of the Corporate Director, Resources (Pages 37 - 42)
8. Changes to the Code of Practice for Local Authority Accounting in the UK for 2013/14 - Report of the Corporate Director, Resources (Pages 43 - 50)
9. External Audit Progress Report - Report of the External Auditor (Pages 51 - 62)
10. External Audit Annual Grant Claim Report - Report of the External Auditor (Pages 63 - 72)
11. Strategic Risk Management Progress Report for the Quarter period October to December 2013 - Report of the Corporate Director, Resources (Pages 73 - 84)

12. Internal Audit Charter - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 85 - 114)
13. Internal Audit Progress Report Quarter Ended 31 December 2013 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 115 - 142)
14. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
15. 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)

16. Internal Audit Progress Report Quarter Ended 31 December 2013 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 143 - 154)
17. Overdue Audit Recommendations - Verbal Update of the Chief Internal Auditor and Corporate Fraud Manager
18. Internal Audit Report - Asset Disposals - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 155 - 174)
19. 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
20 February 2014

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

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DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Thursday 28 November 2013 at 9.30 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:

Councillors J Rowlandson (Vice-Chairman), L Armstrong, C Carr, S Forster, J Hillary, O Temple and T Smith

Co-opted Members:

Mr T Hoban and Ms K Larkin-Bramley

The Committee were advised that the Manager of Internal Audit and Risk would be retiring and they thanked her for all of her hard work and support.

1 Apologies for absence

An apology for absence was received from Councillor W Stelling.

2 Minutes of the meeting held on 31 October 2013

The minutes of the meeting held on 31 October 2013 were agreed and signed by the Chairman as a correct record, with the amendment on page 4 point 8 that the Annual Governance Report of the Audit Commission be changed to Annual Governance Report of External Auditors.

Consideration was given to all current items on the Committee's Action Plan (for copy of action plan see file of Minutes) with dates set when these would be reported back to Committee. The Plan would be updated accordingly.

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.

Ms K Larkin-Bramley declared an interest as she had recently been appointed as the Audit Chair of Derwentside Homes.

4 Outline of Council's Performance Management Framework

The Committee received a presentation from the Head of Planning and Performance about Performance Management Framework (for copy of slides see file of Minutes).

The Head of Planning and Performance summarised the following points:-

- The role of the Audit Committee
- Performance Management in Local Government
- Changing the National Framework
- Why manage performance in Durham
- What is Performance Management
- Framework
- The Theory
- Member Role
- Reporting to Members
- Reports to Cabinet & Scrutiny
- Measuring & Monitoring Performance
- Challenges for the Future

Following a question about indicators for Public Health, the Corporate Director, Resources said that a report would be going to Cabinet in January 2014.

The Chairman thanked the Head of Planning and Performance for her very informative presentation.

5 Local Code of Corporate Governance

The Committee considered a report of the Corporate Director, Resources that sought approval of the updated Local Code of Corporate Governance (for copy see file of Minutes).

Members were advised that the Code had been updated in light of the Corporate Governance Statement and was fit for purpose in the current climate. The format had changed slightly and views of External Audit had been sought.

Details of the changes were highlighted and Members thanked the Risk Officer on the way the report was presented.

Following a question from Members about the broadness of the Council's governance arrangements and where assurance comes from that all of the arrangements referred to in the Code are effective, the Manager of Internal Audit and Risk stressed the importance of developing the Council's assurance frameworks. Assurance maps are needed to clarify who provides what assurance and where there are any gaps or assurance unknowns. This work will be progressed in the New Year in consultation with the Corporate Management Team.

Resolved:

That the revised Local Code of Corporate Governance be recommended to the Constitution Working Group for inclusion in the Council's Constitution.

6 Strategic Risk Management Progress Report for the Quarter period July to September 2013

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

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

Councillor Temple asked about the risk 'If Local Authority Schools and other LA services choose not to take Council Services, together with the loss of community buildings both Technical and Building Services could see a loss of business'. Although Cllr Temple could see why there was a risk to Building Services and Technical Services in terms of lost revenue, etc., he was not clear why the risk as defined was a strategic risk to the Council, whose objective is to obtain VfM from work it commissions. The Risk, Insurance and Governance Manager agreed to seek clarification from the action owner. A response from the action owner was circulated to members of the Committee 11 December 2013.

There was also some discussion about the risk of the overall impact on the council of lost income from our schools (not academies) opting out of buying services from the council via SLA's. Members asked if some figures could be provided to show how income from schools was changing.

Resolved:

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

7 Annual Audit Letter

The Committee received the Annual Audit Letter 2011/12 from Mazars summarising the 2012/13 audit of Durham County Council and Durham County Council Pension Fund (for copy see file of Minutes).

Mr Waddell, Mazars highlighted that strength of arrangements that are in place showing value for money, especially in terms of forward planning for the Medium Term Financial Plan.

Members congratulated the team at Mazars and the County Council staff involved with the preparation and signing off of the accounts.

Resolved:

That the contents of the letter are noted.

8 Report to Council on the Work of the Audit Committee

The Committee considered a draft report of the Chair of the Audit Committee (for copy see file of Minutes) of the work of the Audit Committee for the period April to September 2012, for agreement prior to reporting to full Council at its meeting on 8 January 2014.

Resolved:

That the recommendations in the report be agreed.

9 Internal Audit Progress Report Quarter Ended 30 September 2013

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 September 2013 (for copy see file of Minutes).

The Manager of Internal Audit and Risk advised that good progress had been made with planned audit work this year and the service were on track to deliver 90% of the plan.

Members were informed that there had been 1 change to the plan, 37 unplanned reviews and 7 non-investigative service requests. Significant improvements had been made with overdue reports.

Resolved:

- (i) That the amendments made to the 2013/14 Annual Audit Plan be noted.
- (ii) That work undertaken by Internal Audit during the quarter ended September 2013 be noted.
- (iii) That the performance of the service during the period be noted.
- (iv) That progress made by service managers in responding to the work of Internal Audit be noted.

10 Exclusion of the public

That under Section 100 A (4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A to the said Act.

11 Internal Audit Progress Report Quarter Ended 30 September 2013

The Committee considered Appendices 6 and 7 of the report of the Manager of Internal Audit and Risk which informed Members of audits issued in the quarter resulting in a limited assurance opinion and detailed the actions agreed by managers in response to internal audit recommendations that were outstanding (for copy see file of Minutes).

Resolved:

That the report be noted.

12 Overdue Audit Recommendations

The Committee considered a report of the Manager of Internal Audit and Risk about overdue internal audit recommendations (for copy see file of Minutes).

Following discussions with the Chair and Vice Chair it was agreed to invite a number of senior officers to Committee to explain the delay in the implementation of a number of overdue internal audit recommendations.

The appropriate senior officers gave a detailed update to the Committee on the outstanding Audit recommendations including reasons for the delays and timelines for action to be taken.

Resolved:

That any remaining actions outstanding be noted together with the assurance provided from senior officers in attendance that work was planned or in progress to address these within agreed revised target dates.

13 Internal Audit Report - Grants

The Committee noted a report from the Manager of Internal Audit and Risk that presented the Internal Audit Report relating to a review of the grant protocol and grants receivable (for copy see file of Minutes).

The Committee were given assurance on the effectiveness of arrangements in place relating to the risks associated with external funding grants. Members were advised that some of the issues raised in the report were due to the dual responsibility for grant funding between finance officers in Resources and officers in the external funding team within RED.. The Manager of Internal Audit and Risk advised that the need to have a co-ordinated approach to the bidding, management and monitoring of grant funding, financial and non financial performance, was key to improving controls. A shared database would help to resolve the data quality issues identified by the audit review.

Resolved:

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

14 Fraud Update Report 2013/14

The Committee noted a report of the Manager of Internal Audit and Risk which informed action taken by Internal Audit during 2012/13 and further action planned to raise awareness of the risk of fraud and corruption (for copy see file of Minutes).

Cllr Smith asked if figures of the scale of scrap could be provided. These were subsequently circulated to members Dec 2013.

Resolved:-

That the recommendations contained within the report be approved.

Action Plan - Work of Audit Committee - Part A – 28 February 2014

| Ref No. | Date of Meeting | Item No. | Title of Report | Action Required | By Whom | Report to Committee (date)/ implemented |
|---------|-------------------------|----------------|---|--|--|--|
| 1 | 27.6.13 | 4 | Update on Disposal of Land and Buildings by Head of Planning and Asset Management | Internal Audit to review effectiveness of new procedures as part of next year's audit plan (approximately 6 months' time) and outcomes to be reported back to Committee when complete | Chief Internal Auditor and Corporate Fraud Manager | 28 February 2014 |
| 2 | 27.6.13 | 12,13 | Direct Payments | Internal Audit to carry out follow up audit to review effectiveness of revised controls as part of next year's audit plan (approximately 6 months' time) and outcomes to be reported back to Committee when complete | Chief Internal Auditor and Corporate Fraud Manager | 20 May 2014 |
| 3 | 27.6.13 28.11.13 | N/A N/A | Verbal update on review of guidance re Members role on Partner bodies when representing DCC | Outcomes of findings from Head of Legal & Democratic Services be reported back to Committee DM advised that CWG had looked at the existing guidance for members and had concluded that current guidance was sufficient. Training would be given and advise given on a 1-to-1 basis if required. | Head of Legal and Democratic Services | Update 28 Nov 2013 CLOSED |
| 4 | 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 | 28 Nov 2013 – Agenda Item 11 CLOSED |
| 5 | 30/9/13 | 4 | Authorised Signatories | Update on development and utilisation of Oracle | Head of Corporate Finance | 28 Feb 2014 |

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Audit Committee

28 February 2014



Accounting Policies for Application in the 2013 / 2014 Financial Statements

Don McLure, Corporate Director Resources

Purpose of the Report

1. The purpose of this report is to update the Audit Committee on the County Council's accounting policies to be applied in the preparation of the 2013/14 Statement of Accounts and to seek confirmation from the Audit Committee that appropriate policies are being applied.
2. Appendix 2 provides a summary of all changes to be applied in preparing the 2013/14 Statement of Accounts.
3. Objective 2 of the Audit Committee's Terms of Reference requires it to provide *'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 to maintain an understanding of accounting policies and internal and external reporting requirements'*.

Background

4. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2011 for the Statement of Accounts to be produced in accordance with proper accounting practices.
5. Accounting policies are defined in the Code as *"the specific principles bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements"*.
6. Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as it applies to omissions and misstatements:

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

7. The proposed accounting policies are in line with those used in the preparation of the 2012/13 accounts as there have been no changes to the Code necessitating a change for 2013/14.
8. The full list of accounting policies the Council proposes to disclose in its Statement of Accounts notes are detailed in Appendix 2.

New Accounting Policies

9. Two new accounting policies have been included for the first time in relation to the newly created Business Improvement District Scheme and also in respect of the Voluntary Aided / Voluntary Controlled / Foundation Schools. This has been done to reflect the County Council's approach and improve compliance with Code disclosure requirements, and clarify principles being applied. These new policies are shown below in Appendix 2 as policy numbers 3 and 32 respectively.

Recommendations and reasons

10. The Committee is recommended to:
 - review the accounting policies; and
 - approve their use in the preparation of the 2013/14 financial statements.
 - the Corporate Director, Resources be authorised to review the accounting policies as necessary, and report changes to the Audit Committee.

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance -

The report considers the Accounting Policies for the County Council's Statement of Accounts for 2013/14.

Staffing -

None

Risk -

None

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

Appendix 2: Accounting Policies 2013/14

| Accounting Policy | New policy | Amended policy | No change | In line with Code |
|--|-------------------|-----------------------|------------------|--------------------------|
| 1. General Principles | | | ✓ | ✓ |
| 2. Accruals of Income and Expenditure | | | ✓ | ✓ |
| 3. Business Improvement District Schemes | ✓ | | | ✓ |
| 4. Cash and Cash Equivalents | | | ✓ | ✓ |
| 5. Exceptional Items | | | ✓ | ✓ |
| 6. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors | | | ✓ | ✓ |
| 7. Charges to Revenue for Non-Current Assets | | | ✓ | ✓ |
| 8. Employee Benefits | | | ✓ | ✓ |
| 9. Events After the Reporting Period | | | ✓ | ✓ |
| 10. Financial Instruments | | | ✓ | ✓ |
| 11. Foreign Currency Translation | | | ✓ | ✓ |
| 12. Government Grants and Contributions | | | ✓ | ✓ |
| 13. Heritage Assets | | | ✓ | ✓ |
| 14. Intangible Assets | | | ✓ | |
| 15. Interests in Companies and Other Entities | | | ✓ | ✓ |
| 16. Inventories & Long Term Contracts | | | ✓ | ✓ |

| Accounting Policy | New policy | Amended policy | No change | In line with Code |
|--|-------------------|-----------------------|------------------|--------------------------|
| 17. Investment Property | | | ✓ | ✓ |
| 18. Jointly Controlled Operations and Jointly Controlled Assets | | | ✓ | ✓ |
| 19. Leases | | | ✓ | ✓ |
| 20. Overheads & Support Services | | | ✓ | ✓ |
| 21. Property, Plant and Equipment | | | ✓ | ✓ |
| 22. Disposals and Non-current Assets Held for Sale | | | ✓ | ✓ |
| 23. Service Concession Arrangements (Private Finance Initiative (PFI) and Similar Contracts) | | ✓ | | ✓ |
| 24. Provisions | | | ✓ | ✓ |
| 25. Landfill Allowance Schemes | | | ✓ | ✓ |
| 26. Contingent Liabilities | | | ✓ | ✓ |
| 27. Contingent Assets | | | ✓ | ✓ |
| 28. Reserves | | | ✓ | ✓ |
| 29. Revenue Expenditure Funded from Capital under Statute | | | ✓ | ✓ |
| 30. Value Added Tax (VAT) | | | ✓ | ✓ |
| 31. Carbon Reduction Commitment Allowances | | | ✓ | ✓ |
| 32. Other - Schools | ✓ | | | ✓ |

Accounting Policies

1. General Principles

The Statement of Accounts summarises the County Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The County Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices.

Those practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) and the Service Reporting Code of Practice 2013/14 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Code requires that a Local Authority's Statement of Accounts is prepared on a 'going concern' basis, that is, the accounts are based on the assumption that the County Council will continue in operational existence for the foreseeable future.

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the County Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the County Council.
- Revenue from the provision of services is recognised when the County Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the County Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is

recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The County Council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £1,000 other than in exceptional circumstances.

3. Business Improvement District Schemes

A Business Improvement District (BID) scheme was applied across Durham City town centre. The scheme is funded by a BID levy paid by town centre non-domestic ratepayers. The Council acts as the billing authority for the scheme (collecting and distributing the levy income). The BID levy income is revenue due to The Durham BID Company Limited (the BID body) and as such the County Council has nothing to show in its Comprehensive Income and Expenditure Statement since it is collecting the BID levy income as an agent on behalf of the BID body.

4. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the County Council's cash management.

5. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the County Council's financial performance.

6. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the County Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by

adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

7. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The County Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

8. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end.

They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and nonmonetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the County Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the County Council to terminate an officer's employment before the normal

retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the County Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the County Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post Employment Benefits

Employees of the County Council are members of two separate pension schemes:

- The Local Government Pensions Scheme, administered by Durham County Council.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the County Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the County Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Durham County Council pension fund attributable to the County Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of *[x.xx% subject to information from the Fund's Actuary]* (based on the indicative rate of return on high quality corporate bond Aon Hewitt UK Corporate AA Curve – Swaps Extrapolation).

- The assets of Durham County Council pension fund attributable to the County Council are included in the Balance Sheet at their fair value:
 1. quoted securities – current bid price.
 2. unquoted securities – professional estimate.
 3. unitised securities – current bid price.

The change in the net pensions liability is analysed into seven components:

1. Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
2. Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
3. Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
4. Expected return on assets – the expected annual investment return on the fund assets attributable to the County Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
5. gains or losses on settlements and curtailments – the result of actions to relieve the County Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
6. Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.
7. Contributions paid to the Durham County Council pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the County Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the

General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The County Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

9. Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

10. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the County Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and

Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The County Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the County Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the County Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, and amounts are material, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the

loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the County Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written

down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

11. Foreign Currency Translation

Where the County Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

12. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the County Council when there is reasonable assurance that:

- the County Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the County Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

13. Heritage Assets

Tangible and Intangible Heritage Assets

A tangible heritage asset is defined as a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

An intangible heritage asset is defined as an intangible asset with cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events

Recognition and measurement

A key feature of heritage assets is that they have cultural, environmental or historical associations that make their preservation for future generations important. Heritage assets are maintained principally for their contribution to knowledge and culture. Where an asset meets the definition of a heritage asset but is used for operational purposes, it is not classified as a heritage asset. For example, a historic building used as a museum is classified within land and buildings, as this is its primary purpose, but the exhibits within it may be classified as heritage.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the County Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets and the County Council's approach is as follows:

- Heritage assets valuations are based on insurance values, where available, as this is the most appropriate and relevant basis. In some cases, these values are supported by professional valuations, for example by auction houses.
- Insurance values are reviewed regularly and assets will be revalued where a change is deemed to be significant.
- In the absence of insurance values, for example where an asset is either not insured or is self-insured, the asset's most recent valuation before reclassification is used. This is usually historic cost but some buildings and monuments were measured on an existing use value (EUV) basis prior to reclassification.
- Where no appropriate valuation is available, heritage assets are not disclosed on the balance sheet, however they are disclosed in the narrative notes to the financial statements.

Items are recognised on the balance sheet where they are held by the County Council on long-term loan or where the County Council has the risks and rewards of ownership, as evidenced by the need to insure them. Similarly, items that the County Council has lent out long-term are not recognised. Items held on short-term loan, for example for temporary exhibitions, are not recognised.

The County Council is custodian or guardian of a number of monuments or sites. These are recognised as heritage assets; however they do not usually have any appropriate valuation so they are not recognised on the balance sheet.

The County Council's collections of heritage assets are accounted for as follows:

Museum Collections and Artefacts

This includes museum exhibits and items such as books of remembrance and miners banners. They are reported in the balance sheet at insurance value.

Artwork, including Public Art and Sculptures

This includes paintings, sculptures and outdoor public art installations around the county. Some items in this collection are reported at insurance value, others at cost and there are a number for which no value is available so they are not reported on the balance sheet.

The distinction between sculptures, monuments and statues can be subjective, however for the purposes of classification the County Council has determined that sculptures are generally modern, commissioned pieces of art, monuments can be modern or historic and are usually dedicated to people or events and statues are usually historical structures. Monuments and statues are included under the heading "Monuments, Statues and Historic Buildings" below.

Monuments, Statues and Historic Buildings

This includes war and colliery memorials, statues and non-operational historic buildings around the county. Some items in this collection are reported at insurance value, some at existing use value and some at cost. There are a number for which no value is available and are not reported on the balance sheet.

Civic Regalia and Silverware

This includes civic chains, badges of office and silverware used for civic purposes, and are recorded at insurance value.

Geophysical / Archaeological

This includes pit wheel sites and roman archaeological sites. No appropriate or relevant valuations are available for these assets so they are not recognised on the balance sheet.

Depreciation

Depreciation is not charged on heritage assets which have indefinite lives.

Impairment

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the County Council's general policies on impairment.

Disposal

Heritage assets are rarely disposed of. However, in such cases, disposal proceeds are accounted for in accordance with the County Council's general provisions relating to the disposal of property, plant and equipment. Proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

14. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the County Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the County Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the County Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the County Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the County Council can be determined by reference to an active market. In practice, no intangible asset held by the County Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and

losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

15. Interests in Companies and Other Entities

The Code requires local authorities to produce group accounts to reflect significant activities provided to Council taxpayers by other organisations in which an authority has an interest. The County Council has reviewed its interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities against the criteria for group accounts as set out in the Code and has concluded that there are no such material interests that require the preparation of group accounts. In the County Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

16. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

17. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

18. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the County Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The County Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the County Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The County Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

19. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The County Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the County Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation

being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the County Council at the end of the lease period).

The County Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The County Council as Lessor

Finance Leases

Where the County Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the County Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for

the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the County Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

20. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

21. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item

will flow to the County Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The County Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the County Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the County Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH); and
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases

in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer up to a maximum of 50 years.

- Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer, mainly up to a maximum of 10 years, however, some specialised items are depreciated over up to 25 years.
- Infrastructure – straight-line allocation over 40 years.

Where an item of Property, Plant and Equipment has a value greater than £5m and major components greater than 20% of the value of the asset, the components are depreciated separately at rates representative of their useful life.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

22. Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is

payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the County Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

23. Service Concession Arrangements (Private Finance Initiative (PFI) and Similar Contracts)

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the County Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

For the BSF Schools PFI Project, the liability was written down by an initial capital contribution of £0.270m.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the County Council. The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge of 10.15% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

24. Provisions

Provisions are made where an event has taken place that gives the County Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For example, the County Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the County Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the County Council settles the obligation.

25. Landfill Allowance Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

26. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the County Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the County Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

27. Contingent Assets

A contingent asset arises where an event has taken place that gives the County Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the County Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

28. Reserves

The County Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the County Council - these reserves are explained in the relevant policies.

29. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the County Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then

reverses out the amounts charged so that there is no impact on the level of Council Tax.

30. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income.

31. Carbon Reduction Commitment Allowances

The County Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The County Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the County Council is recognised and reported in the costs of the County Council's services and is apportioned to services on the basis of energy consumption.

32. Other (Schools)

The Council does not include Voluntary Aided, Voluntary Controlled or Foundation schools within its financial statements as the County Council does not own the school assets. The issue of which types of school should be included is currently unresolved in the Code and CIPFA are working to produce guidance for local authorities. Until such time a decision has been made, each Council must apply its own interpretation of whether its Voluntary Aided, Voluntary Controlled and Foundation schools should be included or not. In the professional opinion of the Council's Valuer and Accountants, based on the Code as it currently stands, these schools are not a resource controlled by the County Council as a result of past events and from which future economic benefits or service potential are expected to flow to the County Council and as such should not be included.

Audit Committee

28 February 2014

Final Accounts Timetable for the year ended 31 March 2014



Don McLure, Corporate Director Resources

Purpose of the Report

- 1 The purpose of the report is to provide Members with the Final Accounts Timetable for 2013/14. This timetable details the deadlines for key actions to complete the Statement of Accounts in line with statutory deadlines.
- 2 The report is presented in accordance with paragraph 4.2.3 of the Committee's operational terms of reference which requires it **'to maintain an understanding of internal and external reporting requirements'**.
- 3 The key dates taken from the Final Accounts Timetable are attached at Appendix 2.

Background

- 4 The 'Accounts and Audit Regulations 2011' introduced a two stage approval process for the Statement of Accounts; the first stage is in June each year. The Regulations require that the responsible financial officer, by no later than 30 June, signs and certifies that the Statement of Accounts presents a true and fair view of the financial position of the County Council for the year to 31 March previous, subject to the views of the External Auditor.
- 5 The second stage, as set out in the Regulations, requires that on or before the 30 September, approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take into account the views of the External Auditor. This is done so that the Statement of Accounts can then be published.
- 6 In order to ensure that the County Council can meet these statutory deadlines, the process of 'closing the accounts' must be closely managed and monitored.
- 7 The Annual Governance Report (AGR) for 2010/11 produced by External Audit recommended that the County Council

“Ensure closedown arrangements are managed against a close down plan, clearly identifying roles, responsibilities and target dates.”

- 8 The Final Accounts timetable is therefore a combination of the implementation of External Audit’s recommendations and a tool for the effective management and monitoring of the final accounts process.

The Timetable

- 9 Each year the timetable is compiled in Strategic Finance with input from services to ensure that deadlines are achievable and will lead to completion of a Statement of Accounts for signing by the Section 151 Officer by 30 June. New and amended processes are considered for the impact on the achievement of dates, as well as reference to the previous year’s problems and meeting of deadlines.
- 10 Strategic Finance monitors the achievement of the dates in the timetable throughout the period February to September. Although every effort is made to meet every deadline set, there will inevitably be some delays that will lead to some of the deadlines being missed.
- 11 Strategic Finance will follow up all delays and missed deadlines to ensure that the overall timetable will be achieved, and identify improvements that can be made to the next year end process.
- 12 Final Accounts Monitoring Meetings are also held each week during April to May to ensure that practitioners apply accounting procedures consistently; best practice is shared; there is a shared understanding of any difficulties or delays that are happening, and to disseminate updated information quickly and consistently. These meetings are not shown in the timetable, but happen each Thursday.
- 13 This was the process that was in operation for the closedown of the 2011/12 and 2012/13 Accounts, both of which successfully produced the Statement of Accounts in line with the statutory deadline. However, there were still improvements to be made.
- 14 The production of the working papers were of particular concern in the AGR for 2011/12 and the deadline for the production of these has been included in the timetable. The working papers were much improved in 2012/13 and the Balance Sheet items have been reconciled during the current financial year on a monthly basis. The working papers continue to be an area where improvements can be made.
- 15 The main area for improvement is having enough time to complete an effective analytical review of the Statement of Accounts. Being able to do this should reduce the number of errors. Time for undertaking an analytical review has been built into this timetable.

Recommendations and reasons

- 16 Members are asked to note the key dates in the Final Accounts Timetable for 2013/14 detailed in Appendix 2.

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance –

There are no direct financial implications arising for the Council as a result of this report, although by implementing the timetable, we are demonstrating efficient arrangements for the proper administration of the County Council's financial affairs and will meet the statutory deadline for the production of the Statement of Accounts.

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

Appendix 2: Key dates from the Final Accounts Timetable

| Task | Responsibility | Proposed completion date |
|--|--|---------------------------------|
| Final Accounts Timetable and Guidance Notes issued to key personnel | Strategic Finance | Mon 10 Feb 2014 |
| Meet with External Audit to establish the need for Group Accounts | Strategic Finance | Fri 14 Mar 2014 |
| All cash posted up to and including 31 March | Financial Services – Revenues and Benefits | Mon 31 Mar 2014 |
| Final Postings by Benefits Section | Financial Services – Revenues and Benefits | Mon 31 Mar 2014 |
| Last creditors paysheet for 2013/14 | Financial Services – Revenues and Benefits – Creditors | Mon 31 Mar 2014 |
| All stock checks completed at 31 March | Services | Mon 31 Mar 2014 |
| All amounts banked by 31 March to be receipted in Oracle | Services | Mon 31 Mar 2014 |
| Sending out of Related Party Declarations for Members and Senior Officers | Resources – Democratic Services | Tues 01 Apr 2014 |
| Last Monthly Salaries and Wages for 2013/14 information processed into ledger | Payroll / Strategic Finance | Fri 04 Apr 2014 |
| Details of Related Party Declarations for Members and Senior Officers returned to Democratic Services | Members / Senior Officers | Thu 17 Apr 2014 |
| All Bank Reconciliations to 31 March completed | Strategic Finance | Wed 30 Apr 2014 |
| Service Ledgers finalised and final reports produced and net revenue outturn for each Service Grouping notified to Strategic Finance | Financial Services / Strategic Finance | Thu 15 May 2014 |

| Task | Responsibility | Proposed completion date |
|---|--|---------------------------------|
| Draft Statement of Accounts completed | Strategic Finance | Fri 13 June 2014 |
| Analytical Review of service balance sheets and outturn to Strategic Finance | Financial Services | Fri 13 June 2014 |
| Draft Statement of Accounts to External Audit for Technical Review | Strategic Finance | Fri 20 June 2014 |
| Chief Financial Officer to sign the Statement of Accounts | Strategic Finance / Corporate Director Resources | Fri 27 June 2014 |
| Statement of Accounts to External Audit | Strategic Finance | Tue 01 July 2014 |
| Start of Statement of Accounts Audit | External Audit | Tue 01 July 2014 |
| Start of Inspection Period (to be confirmed) | | Mon 07 July 2014 |
| Cabinet – Overall Outturn Report considered | Strategic Finance | Thu 17 July 2014 |
| End of Inspection Period (to be confirmed) | | Fri 25 July 2014 |
| Appointed day for Audit (to be confirmed) | | Mon 28 July 2014 |
| Audit Committee Meeting to consider report on the Statement of Accounts | Audit Committee | Thu 31 July 2014 |
| End of Statement of Accounts Audit – provisional | External Audit | Fri 12 Sept 2014 |
| Audit Committee Meeting – approval of Statement of Accounts – Statutory deadline date | Strategic Finance | Tue 30 Sept 2014 |
| Publication of Accounts – Statutory deadline date | Strategic Finance | Tue 30 Sept 2014 |

Audit Committee

28 February 2014

**Changes to the Code of Practice for
Local Authority Accounting in the UK
for 2013 / 2014**



Don McLure, Corporate Director Resources

Purpose of the Report

- 1 The purpose of the report is to provide the Audit Committee with a summary of the key accounting changes in the latest edition of the **Code of Practice for Local Authority Accounting in the UK** (the Code). These changes apply to 2013/14 accounts.
- 2 The report is presented in accordance with paragraph 4.2.3 of the Committee's operational terms of reference which requires it **'to maintain an understanding of internal and external reporting requirements'**.
- 3 Appendix 2 provides a summary of all changes and their relevance to the Council.

Background

- 4 The Code is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/LASAAC Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.
- 5 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2013. It supersedes the 2012/13 Code.
- 6 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003

- 7 The CIPFA/LASAAC Code Board overseen by the Financial Reporting Advisory Board is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances. The Code is thus intended to provide a comprehensive framework.

Recommendations and reasons

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

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance –

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

Staffing -

None

Risk -

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

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

Appendix 2: Changes to the Code of Practice for Local Authority Accounting in the UK for 2013/14

The table below provides a summary of the changes in the 2013/14 CIPFA Code and their applicability to Durham County Council.

| | Change | Relevant to Durham County Council |
|---|---|--|
| 1 | The 2013/14 Code (following the amendments introduced in the 2012/13 Code Update) includes requirements for the accounting treatment of allowances in respect of the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme in section 2.4. | Yes |
| 2 | The 2013/14 Code (following the amendments introduced in the 2012/13 Code Update) includes minor amendments to the HRA Income and Expenditure Statement. It also includes revisions to reflect the changes in the statutory accounting requirements for property, plant and equipment in relation to the transfers to and from the Major Repairs Reserve under the new self-financing arrangements for housing authorities in England. A number of non-statutory disclosures have also been removed from the 2013/14 Code for the HRA in England, Wales and Scotland. | Yes |
| 3 | The 2013/14 Code (following the amendments introduced in the 2012/13 Code Update) includes amendments in relation to the Local Government Finance Act (Northern Ireland) 2011, its associated regulations and statutory guidance in relation to the introduction of the new prudential capital finance system in Northern Ireland. The amendments include changes to the recommended wording in the Statement of Responsibilities in section 3.2, the statutory accounting requirements in chapter four Non-current Assets and Appendix B Sources and Legislation. | No – applies only to Local Authorities in Northern Ireland |
| 4 | The 2013/14 Code does not include the requirements of IFRS 13 as the adoption of this standard has been deferred until the 2014/15 Code while its adoption is under review by CIPFA/LASAAC. | Yes – for future adoption |
| 5 | The 2013/14 Code includes in section 3.4 amendments to the Comprehensive Income and Expenditure Statement as a result of the June 2011 amendments to IAS 1 <i>Presentation of Financial Statements</i> (where relevant to an authority) and the June 2011 amendments to IAS 19. | Yes |

| | Change | Relevant to Durham County Council |
|---|--|--|
| 6 | The 2013/14 Code has also augmented its provisions on fair presentation in section 3.4 and has included clarification on the treatment of overdrafts within the Balance Sheet and Cash Flow Statement. | Yes |
| 7 | The 2013/14 Code includes augmentation of its provisions on service concession (PFI/PPP) arrangements in section 4.3. It has included new definitions and clarifications of the Code's provisions on assets under construction and intangible assets included in service concession arrangements. It does not include changes to the measurement of the liability or the grant of the right to the operator (third party payment) model included in the consultation proposals. Both these issues are under review by the CIPFA/LASAAC Code Board. | Yes |
| 8 | <p>The 2013/14 Code includes revisions as a result of the June 2011 amendments to IAS 19 <i>Employee Benefits</i>:</p> <ul style="list-style-type: none"> • amendments to the definitions in section 6.1 • updated terminology, amendments to the recognition requirements and clarifications of the disclosure requirements in section 6.2 • amendments to the recognition requirements of section 6.3 Termination Benefits and clarification of the disclosure requirements, and • amendments to the classification, recognition, measurement and disclosure requirements in section 6.4 Post-employment Benefits. | Yes |
| 9 | The 2013/14 Code includes the amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> (Offsetting Financial Assets and Liabilities) issued in December 2011 requiring information that will enable users of an authority's financial statements to evaluate the effect or potential effect of netting arrangements. | Yes |

| | Change | Relevant to Durham County Council |
|----|--|--|
| 10 | The 2013/14 Code has been revised to reflect the amendments to IAS 12 <i>Income Taxes</i> issued in December 2010. | No – not relevant for single entity financial statements |
| 11 | <p>The 2013/14 Code includes a number of clarifications and augmentations of the provisions of the Code as a result of the CIPFA/LASAAC post-implementation review. It:</p> <p>1) includes clarification of the recognition and measurement provisions in relation to accounting for property, plant and equipment</p> <p>2) has enhanced the previous provisions of the Code in relation to leases and lease-type arrangements by adding:</p> <ul style="list-style-type: none"> • a number of definitions • minor clarifications to classifications of leases, and • provisions for leases where no premium is paid but for which lease rentals are charged at a peppercorn or other nominal rate, and <p>3) includes clarification of the recognition requirements for non-current assets held for sale.</p> | Yes |
| 12 | The 2013/14 Code does not include any amendments in relation to accounting for schools in local authorities; following the consultation on this issue the CIPFA/LASAAC Code Board received further responses and therefore further investigation and review is required on this important accounting issue. | Yes – for future adoption |

| | Change | Relevant to Durham County Council |
|----|---|--|
| 13 | The 2013/14 Code includes amendments for the requirements of the localisation of business rates in England and adds new provisions for any business rates schemes where local authorities are permitted to retain an element of business rates growth including the Business Rates Incentivisation Scheme in Scotland (see sections 2.8 and 3.6). Note that the sections of the Code which include these new provisions have been included in sections 2.8 and 3.6 and not moved to sections 2.10 and 3.9 as was set out in the December 2012 consultation. | Yes |

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AUDIT COMMITTEE



28 February 2014

External Audit: Audit Progress 2013/14

Report of the External Auditor

Purpose of the Report

1. This report requests that the Committee note the external auditor's progress report on the external audit of Durham County Council to date.

Background

2. The report sets out an update of the work completed by Mazars (external auditor) in respect of the following: -
 - Summary of Audit Progress
 - Emerging Issues and Developments
3. The external auditor's report is attached at Appendix 2.

Summary of Audit Progress

4. Planning for the 2013/14 audit is substantially complete and the Audit Strategy Memorandum is expected to be issued in March 2014.
5. As part of International Standard on Auditing (ISA) 315 the Key Financial Information Systems have been documented.
6. An IT Risk Assessment has commenced.
7. The work programme for the next period includes:
 - Work to support the Value for Money Conclusion
 - Early substantive testing

Emerging Issues and Developments

8. This section provides an update on other areas that members of the Committee may find useful.

Recommendation

9. The Committee is requested to note the contents of the external auditor's progress report.

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

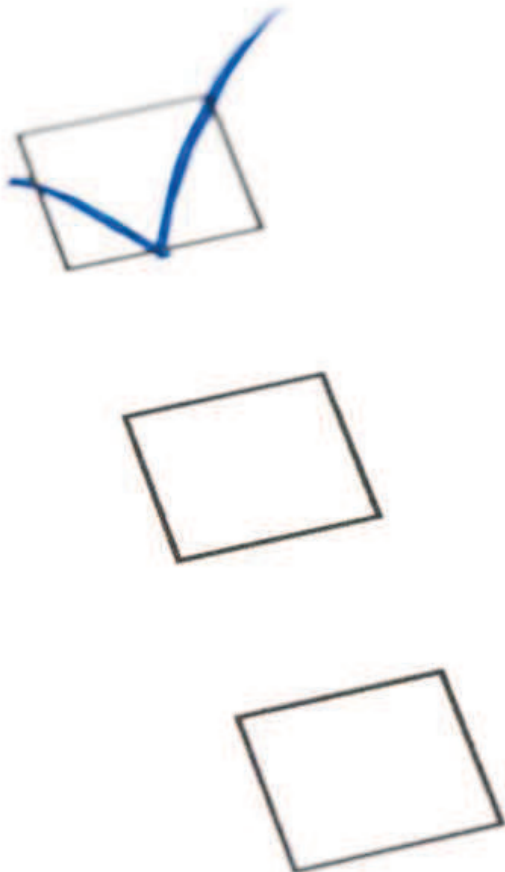
None

Durham County Council



Audit Progress Report

February 2014



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- 02 Summary of audit progress
- 03 Emerging issues and developments
- 04 Contact details

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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01



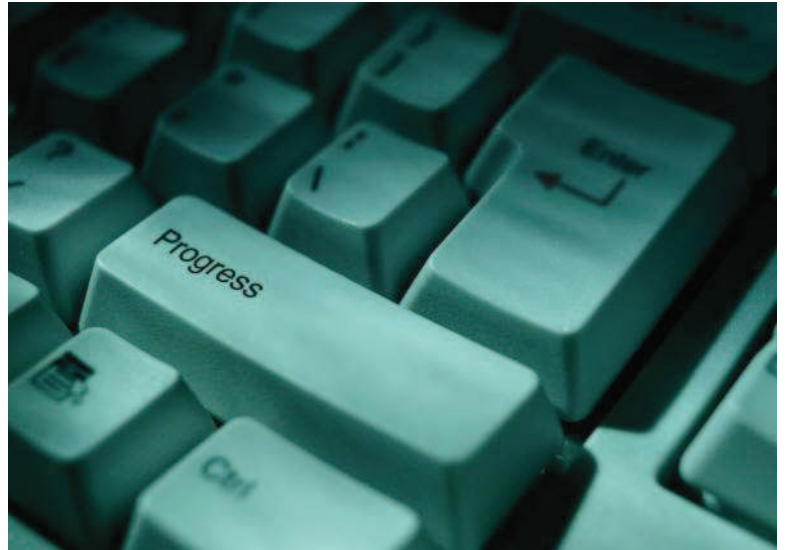
Purpose of this paper

The purpose of this paper is to update the Audit Committee on progress in meeting our responsibilities as your external auditor. We also include in this paper key emerging national issues and developments which may be of interest to members of the Committee.

If you need any additional information please contact Cameron Waddell or Catherine Banks using the contact details at the end of this update.

02

Summary of audit progress



We are planning the 2013/14 audit and expect to issue our Audit Strategy Memorandum in March.

To date we have:

- Documented, as part of our ISA 315 work, the key financial information systems
- Substantially completed our planning of the 2013/14 audit
- Commenced our IT risk assessment

Our work in the next period includes the following:

- carrying out work to support our Value for Money conclusion;
- early substantive testing.

This document will set out the risks we identify for both the opinion on the financial statements and the value for money conclusion, and our overall approach to the audit.

03

Emerging issues and developments



The following pages outline for your attention some significant emerging issues and developments.

| Issue / development | Implications |
|--|---|
| <p>Auditing the Accounts 2012/13, Quality and timeliness of local public bodies' financial reporting</p> <p>This Audit Commission report summarises the financial reporting outcomes for local authorities and other bodies within its regime. Audit opinions were issued at 99% of councils by 30 September 2013. The report names authorities that produced their accounts early and also names those where there were delays or non standard wording to the auditor's reports.</p> | <p>Durham County Council met all of the statutory deadlines and received an unqualified audit opinion on 30 September 2013.</p> <p>The report can be found at http://www.audit-commission.gov.uk/2013/12/commission-highlights-year-on-year-improvement-in-financial-reporting/</p> |
| <p>Financial Statements: A Good Practice Guide for Local Authorities</p> <p>This CIPFA report acknowledges that "local authority financial statements are complex, and readers can find it difficult to identify the information they need." The report highlights the role that councils can themselves play in de-cluttering the financial statements, and in presenting key information in a clear narrative that makes the statements more accessible.</p> | <p>This publication provides some ideas which could be considered in trying to make the published financial statements more informative and accessible to readers of the accounts.</p> |

Emerging issues and developments

| Issue / development | Implications |
|--|--|
| <p>Future of Local Audit: Consultation on Secondary Legislation, DCLG</p> <p>This DCLG consultation was wide ranging, but also includes proposals in relation to the Accounts and Audit Regulations. One important consultation question, of wider interest to authorities, is whether the local authority accounts production timetable should be brought forward.</p> <p>The consultation has now closed and we are awaiting the results of the process.</p> | <p>If the accounts timetable is brought forward this would impact on the Council's accounts production processes.</p> <p>The consultation can be found at: http://localaudit.readandcomment.com/</p> |
| <p>Protecting the Public Purse 2013</p> <p>The Audit Commission published their annual report on fraud in November 2013. The report stated that fraud costs local government over £2 billion a year, money which could be spent on providing services. Local government detected fewer frauds with a lower total value than in 2011/12, except for housing tenancy frauds which have increased. The Commission has now produced briefings for individual authorities based on its research.</p> <p>We will discuss with Internal Audit how best to present these findings and other issues in relation to fraud to a future meeting of the Audit Committee.</p> | <p>The briefing for Durham County Council does not highlight any major issues of concern in respect of the Council's detection of fraud.</p> <p>The national report can be found at http://www.audit-commission.gov.uk/2013/11/councils-find-178m-in-frauds-against-local-government-but-detection-rates-are-patchy/</p> |
| <p>2014/15 Audit scale fees and work programme</p> <p>The Audit Commission is proposing no change to fees and work programmes for 2014/15. This is expected to be confirmed in March 2014, following consultation.</p> | |

Emerging issues and developments

| Issue / development | Implications |
|---|---|
| <p>Value for Money Briefings</p> <p>The Audit Commission has issued a briefing, based on information in its profiles tool, on collection rates and cost of collection of business rates. It found that in 2012/13, councils collected £21.9 billion in business rates of £22.4 billion due. Despite collecting most business rates in the year they fall due, arrears are substantial and currently stand at £1.2 billion. As this local tax remains to be collected, it cannot currently be used to support the delivery of services. In 2012/13, the uncollected in-year amount was £513 million .</p> <p>In April 2013, the government introduced a business rates retention scheme. Councils will now be able to keep up to half of the business rates income they collect, rather than – as previously – paying it all into a ‘national pool’. Therefore, from 2013/14, a council’s income will be directly affected by the business rates it collects.</p> | <p>These new arrangements mean that it has never been more important for the council to understand their local economy and associated business rates, the timeliness of their collection and outstanding arrears, and whether their approach to collection is cost effective.</p> |
| <p>Voluntary Code for a self financed housing revenue account</p> <p>CIPFA and the Chartered Institute of Housing have published a voluntary code aimed at helping housing authorities in ensuring effective governance, finance and business planning, providing transparency to tenants, members and officers on how the housing business is being managed and allow housing authorities to assess where they may need further support and assistance. A further CIPFA publication (Housing Finance Under Self Financing) brings together the latest guidance to help those involved in housing understand the new system.</p> | <p>This is a useful tool for the Council to assess its arrangements.</p> |

Emerging issues and developments

| Issue / development | Implications |
|--|---|
| <p>Tough Times 2013 – councils’ responses to financial challenges from 2010/11 to 2013/14</p> <p>The latest Audit Commission report on the financial resilience of councils covers the three years from 2010/11, with the backdrop of reductions in central government funding and rising demand for services. The Commission concluded that almost all councils have demonstrated a high level of financial resilience. A small minority have found it hard to cope, and are a concern to auditors. Uncertainty over future funding makes it difficult for councils to plan savings or service changes to fill any gap. Auditors are therefore less confident about the medium term financial prospect of a third of councils. Councils have used a variety of strategies so far, and have valuable learning to share.</p> | <p>The council will need to develop new approaches to service delivery, which rely less on funding from government.</p> |
| <p>Financing energy projects</p> <p>CIPFA has published guidance on developing and assessing various energy schemes.</p> | |
| <p>2014/15 provisional finance settlement</p> <p>The government has published its provisional settlement for 2014/15, together with illustrative 2015/16 settlement, for consultation.</p> | <p>The Council can expect further reductions in its grant funding, which will put a further strain on their 2014/15 budget.</p> |
| <p>Financial Reporting Council Audit Quality Thematic Review: Materiality</p> <p>The FRC reported on its review of auditor’s consideration and application of materiality. The review did not refer to the public sector, however the principles are relevant.</p> | <p>Our Audit Strategy Memorandum will provide details of our assessment of materiality for the Council.</p> |

Emerging issues and developments

Other Issue / developments

Open Book Accounting: How to deliver and demonstrate value for money in the public sector

This CIPFA guide explores how open book accounting tools and techniques can provide a platform for successful outsourcing by creating successful business relationships.

Code of practice on transport infrastructure assets

This updates CIPFA's original Code issued in 2010.

Audit Committees: Practical guidance for local authorities and police

This is a fully updated CIPFA guide, taking account of developments in audit committees and legislation since the previous edition.

Service reporting code of practice 2014/15 (SeRCOP)

SeRCOP is prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. It applies to all local authority services throughout the United Kingdom from 1 April 2014 for the preparation of 2014/15 statement of accounts

Financial statements: A good practice guide for local authorities

Local authority financial statements are complex and readers can have difficulty identifying information they need. This CIPFA guide helps to identify issues and identify improvements in the production of accounts.

04

Contact details



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 Durham
 DH1 5TS

AUDIT COMMITTEE



28 February 2014

External Audit: Grant Certification of Claims and Returns

Report of the External Auditor

Purpose of the Report

1. This report requests that the Committee note the external auditor's report on grant certification for 2013/2014.

Background

2. The certification arrangements are comprised by a series of certification instructions which the external auditor must comply with.
3. The certification work required will vary according to the value of the claim or return in terms of the amount claimed or reported and the external auditors assessment of the control environment for the preparation of the claim or return.
4. The report details the four grant claims examined by Mazars and is attached as Appendix 1.

Summary of Certification Work

5. The grant certification work that has been completed includes:
 - Housing and Council Tax Benefit Subsidy
 - Pooling of Housing Capital Receipts Return
 - NNDR
 - Teacher Pensions

Recommendation

6. The Committee is requested to note the contents of the external auditor's Grant report.

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

None

Durham County Council

Certification of claims and returns

Annual Report 2012/13



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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies.’ Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

01

Background

Durham County Council ('the Council') receives more than £1 billion funding from various grant-paying government departments. These departments attach conditions and restrictions to these grants which the Council must meet otherwise funding may be withdrawn or clawed-back.

It is therefore important that the Council can demonstrate that it:

- has put in place adequate arrangements to prepare and authorise each claim and return; and
- can evidence that it has met the terms and conditions put in place by the grant paying body for each claim and return.

The scope of our work

As the Council's appointed auditor, we act as an agent of the Audit Commission to certify specified claims and returns.

The Audit Commission, in consultation with the grant-paying bodies, sets out a programme of work in the form of Certification Instructions ('CIs') that we must follow. It also sets an overall framework under which we carry out our certification work:

- For claims and returns below £125,000 the Audit Commission does not make certification arrangements and as such we are not required to carry out any certification work.
- For claims and returns between £125,000 and £500,000, the Audit Commission requires us to undertake limited tests to ensure that entries on the claim form agree with underlying records.
- For claims and returns over £500,000, we assess the control environment the Council has put in place for preparing the claim to decide whether we can place reliance on these arrangements. Where we can place reliance on the Council's arrangements we undertake limited testing to ensure that entries on the claim form agree with underlying records (as above).

Where we cannot place reliance on the Council's control environment we carry out the full programme of testing in the Audit Commission's CI.

Our certificate

On completion of the specified work we issue a certificate, the wording of which depends on the level of work we have performed on each claim. The certificate states whether the claim has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter.

Where we issue a qualification letter or the claim or return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

02

Findings

The Council's control environment

As required by the Audit Commission's CIs, we have assessed your control environment for the four specified claims and returns:

- Housing and Council Tax Benefit subsidy (BEN01);
- Pooling of housing capital receipts return (CFB06);
- NNDR (LA01); and
- Teachers Pensions (PEN05).

We did not identify any significant weaknesses in your control environment.

Amendments and Qualifications

Appendix A to this report provides an analysis of all four claims and returns on which we carried out certification work.

We certified four claims and returns in 2012/13. One return (Pooling of Housing Capital Receipts Return) was amended but no qualification letter was needed. The remaining three (Housing and Council Tax Benefit Subsidy, NNDR and Teachers Pensions) were all subject to both a qualification letter and amendment.

We are grateful to the officers of the Council who have continued to work closely with us to ensure returns and claims are prepared correctly. In particular, for the Housing and Council Tax Benefit return, officers' continued cooperation and prompt responses to queries is appreciated in what is a complex scheme.

Housing and Council Tax Benefits Subsidy claim and NNDR return

As in previous years, minor errors and minor differences in reconciliations supporting both the Housing and Council Tax Benefits Subsidy claim and NNDR return were identified. Both returns were amended and matters arising were included in qualification letters to the relevant Department. The number and severity of the issues identified and reported continues to decrease significantly for both the Housing Benefit return and the NNDR claim, reflecting ongoing improvements in practices and arrangements for administering these complex schemes.

Pooling of housing capital receipts return

The 2012/13 Return was subject to amendment but no qualification letter was needed. Additional audit work was required this year due to a change in the format of the return from the previous year. We amended the return for a few valuation and archetype errors which increased the quarterly attributable debt by some £7,000 and a minor value transposition error on the cost of improvements.

Teachers Pension Return

The 2012/13 Teachers Pension Return was subject to amendment and qualification, mostly as a result of pension contributions being calculated using an incorrect rate. Most errors were unrelated and limited to one employee, but two errors applied to a number of employees:

- The return included payments made in April 2013 which related to hours worked in March 2013. The employee contributions on these payments have been calculated using the 2011/12 contribution rate, but TP guidance stated that they should have been calculated using the 2012/13 contribution rates.
- For the period from April to June 2013, the employee contribution rate applied to employees in receipt of Statutory Maternity Pay (SMP) was based on the amount of SMP receivable rather than the FTE salary. This was due to a system error whereby people receiving SMP were not attached to a basic pay rate. The system was manually amended on discovery of the error so that the correct rates were applied from July 2013 but no retrospective amendment was made for underpayments from April to June. Officers were unable to quantify the value of the underpayment.

For 2013/14 we have recommended a more thorough review of the claim, including comparison to the monthly uploads to TP.

Progress on 2011/12 recommendations

In 2011/12 it was recommended that claims be subject to evidenced review prior to submission for audit. Improvements are still required in this respect, and this recommendation is therefore carried forward.

03

Certification fees

For 2012/13 the total fees charged for certification work was £50,974. This represents a reduction in overall fees charged in previous years (2011/12 £61,000) as a result of:

- a reduction in the number of claims and returns for which the Audit Commission has made certification arrangements; and
- reduced work on certain claims or returns giving rise to fewer matters arising in previous years.

A breakdown of the fees charged for each claim or return is provided in Appendix A.

Appendix A

Summary of certified claims and returns

| Claim or return | Value | 2011/12 Actual Fee | 2012/13 Scale Fee | 2012/13 Actual Fee | Reasons for significant movement (Note: the actual fee has been kept to the scale fee) | Amended | Qualified |
|---|-------------|--------------------|-------------------|--------------------|--|---------------|---------------|
| BEN01 Housing and Council Tax Benefits Subsidy | 243,250,119 | 47,774 | 36,597 | 36,597 | There has been an ongoing reduction in time spent due to close co-operation and prompt responses to queries. Therefore, the actual fee has been maintained at scale. | Yes | Yes |
| LA01 National Non-Domestic Rates Return | 104,695,679 | 8,130 | 9,950 | 9,950 | The Council has promptly responded to our queries. Therefore, the actual fee has been maintained at scale. | Yes | Yes |
| PEN05 Teachers Pensions Return | 27,153,342 | 3,138 | 1,355 | 1,355 | We have kept our actual fee at the scale fee for this year. However, additional time was taken to certify this claim due to errors on the return. In order to ensure that additional fees are not payable next year it is important the Council implements the recommendations we have made for improvement. | Yes | Yes |
| CFB06 Pooling of housing capital receipts | 1,018,936 | 408 | 3,072 | 3,072 | There have been changes to the 2012/13 return. The actual fee has been maintained at scale. | Yes | No |
| EDU06 School Centered Initial Teacher Training (S-Citt) | n/a | 1,550 | 2,226 | 0 | Scheme removed from Audit Commission certification regime for 2012/13. | Not certified | Not certified |

| | | | | | | |
|--------------|--------------------|---------------|---------------|---------------|--|--|
| Total | 177,158,255 | 61,000 | 53,200 | 50,974 | | |
|--------------|--------------------|---------------|---------------|---------------|--|--|

The original Scale Fee for 2012/13 certification work, set by the Audit Commission, included EDU06 School Centered Initial Teacher Training. Due to the timing of certification work, the 2011/12 EDU06 return was certified by Mazars LLP on behalf of the Audit Commission, and the fee for this was £1,550. This Scheme was withdrawn from the certification regime during the year and has not been charged for. The Council is now required to make its own arrangements for the certification of its Initial Teacher Training return.

Audit Committee

28 February 2014



**Strategic Risk Management
Progress Report for the Quarter period
October to December 2013**

Report of Corporate Management Team

Don McLure, Corporate Director Resources

Purpose of the Report

1. The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period October to December 2013.

Background

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

Current status of the risks to the Council

4. As at 31 December 2013, there were 33 strategic risks, which is a net decrease of four from the previous period ending 30 September 2013. In summary, the key risks to the Council are:
 - If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.
 - Government ongoing funding cuts which now extend to at least 2017/18 will continue to have an increasing major impact on all Council services.
 - If Local Authority Schools and other LA services choose not to take Council Services, together with the loss of community buildings both Technical and Building Services could see a loss of business.
 - Potential restitution of search fees going back to 2005.

- If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria, this would put some of our core business processes at risk, for example, Revenues and Benefits.

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

5. Appendix 4 of this report lists all of the Council's strategic risks as at 31 December 2013.
6. Management has identified and assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.

Recommendations and reasons

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

Contact: David Marshall Tel: 03000 269648

Appendix 1: Implications

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

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

Risk – Not a key decision

Equality and Diversity/Public Sector Equality Duty - None

Accommodation - None

Crime and disorder - None

Human rights - None

Consultation - None

Procurement – None.

Disability issues – None.

Legal Implications – None.

Appendix 2: Background

The Cabinet and the Corporate Management Team have designated the Cabinet Portfolio Holder for Corporate Services and the Corporate Director, Resources as Member and Officer Risk Champions respectively.

Together they jointly take responsibility for embedding risk management throughout the Council, and are supported by the Manager of Internal Audit and Risk, the lead officer responsible for risk management, as well as the Risk and Governance Manager. Each Service Grouping also has a designated Service Risk Manager to lead on risk management at a Service Grouping level, and act as a first point of contact for staff who require any advice or guidance on risk management. Collectively, the Risk Champions, Service Risk Managers and the Risk and Governance Manager meet together as a Corporate Risk Management Group. This group monitor the progress of risk management across the Council, advise on strategic risk issues, identify and monitor corporate cross-cutting risks, and agree arrangements for reporting and awareness training.

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

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

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

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

Appendix 3: Strategic Risks

Risks are assessed at two levels:

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

As at 31 December 2013, there were 33 strategic risks, a net decrease of four from the number of risks at the end of the previous period at 30 September 2013.

The following matrix summarises the total number of strategic risks based on their Net risk assessment as at 31 December 2013. To highlight changes to the number of risks since the last quarter period end, the number of risks as at 30 September 2013 is shown in brackets.

Overall number of Strategic Risks as at 31 December 2013

| Impact | | | | | |
|---------------|--------|----------|----------|----------|-----------------|
| Critical | 2 (2) | 1 (1) | 2 (3) | | 1 (0) |
| Major | | 3 (3) | 4 (3) | 1 (3) | |
| Moderate | | 0 (1) | 9 (10) | 4 (6) | 1 (3) |
| Minor | | | | 2 (2) | 2 (0) |
| Insignificant | | | | | 1 (0) |
| Likelihood | Remote | Unlikely | Possible | Probable | Highly Probable |

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

1 Significant New and Increased Risks

One new risk has been identified this quarter:

- *‘Following the proposed transfer of Housing Stock to an external organisation, the potential savings from downsizing / reduced costs of Services currently recharged to the Housing Revenue Account under a Service Level Agreement (SLA) may be less than the corresponding loss of income from the SLA, resulting in a budget shortfall’ (RES).* This risk has been identified following the decision on Stock Options transfer following the recent consultation.

2 Removed and Reduced Risks

Due to effective management by the Services, and the completion of all mitigating actions to reduce them to a level where management now consider existing controls to be adequate, the following risks have been removed from the register:

- *'New funding reforms implementation may result in Council having a major funding shortfall for Post 16 High Needs Placements'* (**CAS**). Following a review of allocations by the Education Funding Agency, this risk has been **removed**. Funding has been increased and the anticipated shortfall is now more than covered.
- *'Online payment collection system not in place in time to meet demand for payment of Garden Waste recycling charges'* (**NS**). This risk has been **removed** because ICT have implemented the online charging system which has been tested ready for the implementation.
- *'Lack of asbestos management plans in the former District Council Buildings'* (**NS**) has been **removed** as the majority of buildings have been inspected and have plans in place.
- *'Medium Term Financial Plan forecasts relating to the impact of the Local Council Tax Support Scheme and the Business Rate Retention on the Council's budget prove to be detrimentally inaccurate'* (**RES**). This risk has been **removed** because all mitigating actions have been completed reducing the net likelihood of the risk which will now be monitored at operational level.
- *'Contamination of material collected from kerbside from Alternate Weekly Collection scheme is having a negative impact on income (MTFP implications) and may reduce availability of recycling outlets.'* (**NS**). This risk has been **removed** because the risk is now occurring and will be monitored at operational level.
- *'School funding reforms & Dedicated Schools Grant reductions threaten viability of some centrally managed services for children and young people'* (**CAS**). The net impact has been **reduced** from Moderate to Minor to reflect the latest position on school funding.
- *'Failure to identify and effectively regulate Contaminated Land'* (**NS**). The net impact has been **reduced** from Critical to Major due to the evaluation of the top 10 sites now being completed. Eight of these 10 sites requires further consideration and at least two of these will require further investigation but once complete this risk should be managed at an operational level.
- *'Failure to substantially deliver the Community Buildings Strategy by March 2014, leading to continuation of current issues'* (**ACE**). The net impact has been reduced from Moderate to Insignificant and the net likelihood has increased from Possible to Highly Probable, leading to an overall **reduced** risk exposure. Although the planned delivery date will not be achieved for all buildings, the majority of social housing providers have been transferred and this has resulted in significant financial savings. The majority of remaining centres have received formal approval to progress

with asset transfer and the overall viability and sustainability of centres has been enhanced.

3 Key Risks

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

| Impact | | | | | |
|-------------------|--------|----------|------------------|---------------|-----------------|
| Critical | | | Risk 1, 5 | | Risk 2 |
| Major | | | | Risk 3 | |
| Moderate | | | | | Risk 4 |
| Minor | | | | | |
| Insignificant | | | | | |
| Likelihood | Remote | Unlikely | Possible | Probable | Highly Probable |

| Ref | Service owning the risk | Corporate Theme | Risk | Net Impact | Net Likelihood | Proposed Key Actions | Direction of Travel | Anticipated date when risk will be at an acceptable level |
|-----|--------------------------------------|---------------------------|--|------------|-----------------|--|---------------------|---|
| 1 | RES Risk Owner: Don McLure | Altogether Better Council | If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses. | Critical | Possible | The Delivery plan implementation will be monitored by CMT and Cabinet. | | This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage. |
| 2 | RES Risk Owner: Don McLure | Altogether Better Council | Government ongoing funding cuts which now extend to at least 2017/18 will continue to have an increasing major impact on all Council services. | Critical | Highly Probable | Sound financial forecasting is in place based on thorough examination of the Government's "red book" plans. A further report on the spending round will be made to Cabinet in October 2013. | | This will be a significant risk for at least the next 4 years. |
| 3 | NS Risk Owner: Oliver Sherratt | Altogether Better Council | If Local Authority Schools and other LA services choose not to take Council Services, together with the loss of community buildings both Technical and Building Services could see a loss of business. | Major | Probable | A draft booklet will be produced to promote Building Services ready for distribution throughout Council Services by the end of 2013. | | |

| Ref | Service owning the risk | Corporate Theme | Risk | Net Impact | Net Likelihood | Proposed Key Actions | Direction of Travel | Anticipated date when risk will be at an acceptable level |
|-----|---|---------------------------------|--|------------|-----------------|--|---------------------|---|
| 4 | RES Risk Owner: Colette Longbottom | Altogether Better Council | Potential restitution of search fees going back to 2005. | Moderate | Highly Probable | The Council has signed up to a class action defence by LGA appointed solicitors | | Dependent upon the outcome of the negotiations/ litigation currently being defended by lawyers instructed in group litigation |
| 5 | RES Risk Owner: Phil Jackman | Altogether Better Council | If the Council is not fully compliant with the Government's Public Services Network Code of Connection criteria then this would put some of our core business processes at risk. | Critical | Possible | Servers that cannot be made compliant or effectively relocated will be switched off. | | May 2014 |

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

Based on the **Net** risk assessment as at 31 December 2013, the following tables highlight the risks for each Corporate Theme.

Corporate Theme – Altogether Better Council

| Ref | Service | Risk |
|------------|----------------|---|
| 1 | RES | If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses. |
| 2 | RES | Government ongoing funding cuts which now extend to at least 2017/18 will continue to have an increasing major impact on all Council services. |
| 3 | NS | If Local Authority Schools and other LA services choose not to take Council Services, together with the loss of community buildings both Technical and Building Services could see a loss of business. |
| 4 | RES | Potential restitution of search fees going back to 2005 |
| 5 | RES | If the Council is not fully compliant with the Government's Public Services Network Code of Connection criteria then this would put some of our core business processes at risk. |
| 6 | RED | Increased demand for Housing Solution Service beyond current staffing capacity due to changes in Government Welfare legislation. |
| 7 | RED | Adverse impact on Durham City Homes revenue, capacity and resources and tenants due to changes in Government legislation. |
| 8 | NS | The Council will not be able to maintain its non-educational and non-housing buildings to current repairs standards. |
| 9 | RES | Following the proposed transfer of Housing Stock to an external organisation, the potential savings from downsizing / reduced costs of Services currently recharged to the Housing Revenue Account under a Service Level Agreement (SLA) may be less than the corresponding loss of income from the SLA, resulting in a budget shortfall. |
| 10 | ACE | Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO |
| 11 | RES | Business Rates and Council Tax collection rates do not reach target set for 2013/ 14 |
| 12 | RES | Inconsistent approach to managing funding bids by Services could expose the Council to financial losses and reputational damage. |

| Ref | Service | Risk |
|-----|---------|---|
| 13 | ACE | Risk that the Council does not respond to the Government's changes to Welfare Reform |
| 14 | RES | Major Interruption to IT Service Delivery |
| 15 | RES | Serious breach of Health and Safety Legislation |
| 16 | ACE | Failure to substantially deliver the Community Buildings Strategy by March 2014, leading to continuation of current issues |
| 17 | RES | Due to the amount of change occurring across the Council, the potential for fraud and error is increasing. |
| 18 | ACE | Failure to consult with communities on major service & policy changes leading to legal challenge and delays in implementation |
| 19 | ACE | Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation |

Altogether Better for Children and Young People

| | Service | Risk |
|----|---------|--|
| 20 | CAS | School funding reforms & Dedicated Schools Grant reductions threaten viability of some centrally managed services for children and young people. |
| 21 | CAS | Children/families experience a lack of interface between services for children & adults as a result of failure to work together |
| 22 | RED | Employment Services for young people (18-24 year olds) are uncoordinated between service groups. |

Altogether Safer

| | Service | Risk |
|----|----------------|--|
| 23 | RED | Disused unmaintained Coal Authority mine workings on DCC land may lead to serious injury or financial claims against the Council |
| 24 | CAS | Failure to protect child from death or serious harm (where service failure is a factor or issue) |
| 25 | CAS | Unauthorised encampment |
| 26 | CAS | A service failure of Adult Safeguarding leads to death or serious harm to a service user. |
| 27 | ACE | Failure to prepare for, respond to and recover from a major incident or interruption, and to provide essential services. |
| 28 | NS | Damage to Highways assets as a result of a severe weather event. |
| 29 | RED | Serious injury or loss of life due to Safeguarding failure (Transport Service) |

Altogether Wealthier

| | Service | Risk |
|----|----------------|---|
| 30 | RED | Diminishing Capital Resources, continuing depressed land values and slow growth in the private sector will impact on the ability to deliver major projects and Town initiatives within proposed timescales. |
| 31 | RED | Private housing stock condition worsens with adverse implications for local economy, health & neighbourhood sustainability. |
| 32 | NS | Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier isn't undertaken |

Altogether Greener

| | Service | Risk |
|----|----------------|--|
| 33 | NS | Failure to identify and effectively regulate Contaminated Land |

Altogether Healthier

There are no strategic risks to achieving the objectives of the Altogether Healthier corporate theme.

AUDIT COMMITTEE



28 February 2014

Internal Audit Charter

Report of the Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

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

Background

2. The purpose of an Internal Charter is to define the role, authority and responsibility of the Internal Audit Service.
3. The Charter was last reviewed by the Audit Committee in 2011.
4. The Charter has been updated to reflect the requirements of Public Sector Internal Audit Standards (PSIAS) that came into effect 1 April 2013, and CIPFA's accompanying Local Government Application Note, which are now the proper practices that underpin the requirements of the Accounts and Audit Regulations (England) 2011, which require relevant public bodies to undertake an adequate and effective internal audit of its accounting records and its system of internal control.
5. The organisations to which CIPFA's Application Note applies are identified in the PSIAS as local authorities, the offices of the police and crime commissioners, constabularies, fire authorities, national park authorities, joint committees and joint boards in the UK.
6. All principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations (England) 2011 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards as well as CIPFA's Local Government Application Note.
7. Within the PSIAS, the terms 'board' and 'senior management' must be interpreted in the context of the governance arrangements within each individual organisation, as these arrangements vary in structure and terminology between sectors and from one organisation to the next within the same sector.

8. It is expected that the audit committee, where one exists, will fulfil the role of the board in the majority of instances, but it is still the responsibility of each individual organisation and their Chief Audit Executive (Head of Internal Audit) to consider every occurrence of the term 'board' and 'senior management' within the PSIAS and decide which committee or other such group best fits the role in that situation, bearing in mind the need to preserve the independence and objectivity of the internal audit function.
9. A mapping exercise has therefore been carried out to determine who the most appropriate body is to fulfil these roles in relation to the provision of audit services to the County Council.
10. The PSIAS and the Local Government Application Note require that decisions relating to who is to fulfil the role of the board and senior management for the purpose of internal audit activities be documented in the Internal Audit Charter. The proposed Internal Audit Charter therefore reflects the outcomes of the mapping exercise (Appendix C of Charter).

Recommendation

11. Audit Committee approve the Internal Audit Charter attached at Appendix 2.

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

None

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INTERNAL AUDIT CHARTER

**January
2014**

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1. Introduction

- 1.1 The purpose of this Charter is to establish the terms of reference for the Durham County Council Internal Audit Service and outline how the service will be delivered and developed through its Audit Strategy. It sets out the purpose, authority and responsibility of Internal Audit.

2. Statutory Basis

- 2.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations (England) 2011, which state that:

“A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices”.

- 2.2 The Public Sector Internal Audit Standards (PSIAS) and CIPFA’s Local Government Application Note (LGAN), which came into effect April 2013, constitute proper practices to satisfy the requirements for larger relevant local government bodies as set out in the Accounts and Audit Regulations 2011.
- 2.3 Section 151 of the Local Government Act 1972 states that every local authority should make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs (The Chief Financial Officer (CFO)). CIPFA has defined proper administration in that it should include, ‘compliance with the statutory requirements for accounts and internal audit’.
- 2.4 The CIPFA Statement on the Role of the Chief Financial Officer states that the CFO must:
- Ensure an effective internal audit function is resourced and maintained
 - Ensure that the authority has but in place effective arrangements for internal audit of the control environment
 - Support internal audit arrangements and
 - Ensure the audit committee receives the necessary advice and information so that both functions can operate effectively
- 2.4 This Internal Audit Charter recognises the mandatory nature of the PSIAS including the definition of Internal Auditing, the Code of Ethics and the Standards themselves.
- 2.5 As required by the PSIAS, this Charter defines the group or body determined to fulfil the roles and responsibilities of the ‘board ‘and ‘senior management’ for the purpose of internal audit activity, as referred to in the individual standards. These definitions are set out in Appendix C.

3. Definition

- 3.1 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.

4. Code of Ethics

- 4.1 Internal Auditors in the UK public sector organisations must conform to the Code of Ethics (the Code) as set out in the PSIAS. The Code applies to both individuals and entities that provide internal auditing services.
- 4.2 The Code consists of 4 principles that are relevant to the profession and practice of internal auditing and set out the rules of conduct that describe behaviour norms expected of internal auditors to guide their ethical conduct. The 4 principles are integrity, objectivity, confidentiality and competency.
- 4.3 Internal auditors must also have regard to the Committee on Standards in Public Life, "Seven Principles of Public Life".

5. Strategic Aims

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

6. Objectives of Internal Audit

- 6.1 Our primary objective is the provision of reasonable, not absolute, evidenced based assurance on the effectiveness of the whole of the Council's risk management, control and governance environment to the Corporate Management Team and the Audit Committee.

6.2 The provision of our annual assurance opinion will be in compliance with professional guidelines and in accordance with the Accounts and Audit regulations 2011. Our annual opinion will be included in the Council's Annual Governance Statement which forms part of the Council's published annual Statement of Accounts.

6.3 To determine the audit opinion the internal audit service will review, appraise and report upon:

- The adequacy of risk identification, assessment and mitigation
- The adequacy and application of controls to mitigate identified risk
- The adequacy and extent of compliance with the Council's corporate governance framework
- The extent of compliance with relevant legislation
- The extent to which the organisation's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money
- The quality and integrity of financial and other management information utilised within the organisation

6.4 When presenting the annual audit opinion the Head of Internal Audit will:

- Disclose any qualification to that opinion, together with the reasons for that qualification
- Present a summary of the audit work undertaken from which the opinion is derived, including reliance placed on the work of others
- Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement
- Compare the work actually undertaken to the work that was planned and summarise the performance of the internal audit service
- Present a statement on conformance with the PSIAS and the results of a Quality Assurance and Improvement Programme (QAIP) required by the PSIAS.

6.5 Other objectives include:

- Supporting the Section 151 Officer (Chief Finance Officer) in discharging his statutory duties for ensuring proper administration of the Council's financial affairs.
- Championing good governance by helping to improve the Council's risk management, control and governance processes by providing management with timely advice and guidance.
- Supporting the Audit Committee in fulfilling its governance responsibilities as detailed in the Committee's terms of reference set out in the Council's Constitution.
- Supporting Officers and Members in identifying and understanding exposure to risk and providing advice on control design, techniques and strategies.

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

7. Outcomes of Internal Audit

- 7.1 Our main outcome is the provision of independent assurance to “those charged with governance”, which within Durham County Council is the Audit Committee, on the effectiveness or otherwise of the Council's risk management, control and governance arrangements and in so doing we contribute to:
- Improved identification and management of risks contributing to improved performance management and the successful achievement of the Council's vision and priorities.
 - Improved corporate governance through helping to support compliance with relevant legislation, the Council's policies, plans and procedures.
 - Improved accountability, safeguarding of Council assets and interests and use of public resources
 - Improved quality and reliability of financial and other management information used to support informed decisions

8. Independence, Objectivity and Authority

- 8.1 To be effective Internal Audit must operate independently and in an unbiased manner and have unrestricted access to all information deemed necessary in the course of its work.
- 8.2 The Head of Internal Audit has direct and unrestricted access to any employee or elected member including the Chief Executive, the Leader of the Council, Corporate Management Team and the Audit Committee.
- 8.3 For day to day operational activities the Head of Internal Audit reports to the Corporate Director of Resources but maintains independence by reporting in her/his own name on functionality of the audit service direct to the Audit Committee.

- 8.4 Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to all records, assets, elected members, personnel and premises, including those of partner organisations or external contractors conducting business on behalf of or in partnership with the Council, in order to obtain such information and explanations as it considers necessary to fulfil its responsibilities.
- 8.5 Internal Audit will remain free from interference by any element in the organisation including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of the necessary independent and objective standards.
- 8.6 Objectivity is maintained by ensuring that all internal auditors are free from any conflicts of interest and being free from direct management responsibility for the development, implementation or operations of any of activities audited.
- 8.7 Internal auditors will not be allocated to assurance reviews in areas where they have had a responsibility for, or have undertaken any significant advice and consultancy work, within the previous 2 years.
- 8.8 As the Head of Internal Audit also has responsibility for corporate risk management strategy and policy and insurance services, arrangements will be made for any audit work to be carried out in these areas by an independent third party.

9. Scope of Audit Work

- 9.1 Internal Audit's role applies to all functions and services for which the Council is responsible, including those delivered by its partners where appropriate.
- 9.2 In addition to the regular review of all key systems of internal control which forms the bulk of our assurance work, Internal Audit will:
- Respond to requests for support, advice and guidance on implementing and/or improving best practice control procedures for current and new systems.
 - Promote the development and effective implementation of Control and Risk Self Assessments (CRSA) as outlined within the Audit Approach Section of this Charter.
 - Provide support, advice and guidance on risk and controls to staff involved in the design and implementation of new systems and processes.

- Provide assistance on key projects, including attendance on project boards, and conduct specialist consultancy and value for money reviews. The scope of this work is agreed with management and is subject to having the necessary resources, skills and ensuring suitable assurance over our independence and objectivity. Any significant advice and consultancy work that may be considered to impact on the independence of the Internal Audit Service will be reported to the Audit Committee for approval.
- Be alert in all its work to risks and exposure that could allow fraud or corruption to occur and to any indications that a fraudulent or corrupt practice may have been occurring
- Review controls where a potential fraud has been detected/reported to provide assurance that the alleged fraudulent activity is unable to continue and to prevent a reoccurrence.
- Determine the most appropriate course of action by which fraud and irregularities should be investigated in accordance with the Council's Counter Fraud and Corruption Policy.

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

10. Strategic Audit Planning

10.1 The level of internal audit resources required to examine all of the Council's activities exceeds those available each year. It is, therefore, essential that the work of internal audit is properly planned to ensure that sufficient work is undertaken each year to draw reasonable conclusion and assurance on the effectiveness of the Council's risk management, control and governance arrangements.

10.2 Strategic planning processes aim to provide a reasonable level of independent review of the Council's risk management, control and governance systems through periodic audit plans in a way which affords suitable priority to the Council's objectives and risks.

10.3 The starting point for strategic planning is maintaining an understanding of the Council's strategic aims and objectives, its corporate governance arrangements and the assurance framework in place by which those charged with governance gain confidence that any risks which may impact on the achievement of those aims and objectives are effectively identified, assessed and managed.

10.4 In consultation with service managers internal audit will

- Consider the Council's risk across two categories:
 - a. **Strategic Risks** - these are the business risks that may arise both internally and externally from the Council and should be included in Corporate and Service Strategic Risk Registers
 - b. **Operational Risks** - these are the risks that arise directly from the core activities of delivering services that may not always be documented
- Identify key service delivery activities, and their objectives in supporting the delivery of Council's strategic aims and objectives, on which assurance is required by those charged with governance (the Audit Universe)
- Review the Council's assurance arrangements in place to clearly map out an integrated assurance framework of all known sources of assurance, independent or otherwise, and identify any gaps and duplication
- Assess the reliability of other assurance sources
- Regularly carry out risk assessments of each key service activity, and key systems that support the delivery of service objectives, to determine our priorities for reviewing operational risks.

10.5 Strategic risk registers will inform but not drive the internal planning process and internal audit will audit those risks where controls have been identified as the means of managing the risk. Priority will be given to those risks which have a high gross score and a low net score, where the effective management of the risk is heavily dependent on the identified controls, and there is little or no other source of assurance.

10.6 Assurance on the strategic risk of fraud and corruption will be provided each year with some specific targeted fraud prevention and detection reviews as part of a risk assessed counter fraud programme of work.

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

11. Annual Audit Plans

- 11.1 Annual audit plans will be developed to provide a reasonable level of independent assurance on both strategic and operational risks to enable an annual opinion on the entire control environment to be given.
- 11.2 The preparation of the annual plan will also consider any strategic objectives of the service in relation to delivering any commitments under Service Level Agreements or undertaking certain reviews at particular frequencies to fulfil statutory requirements.
- 11.3 In addition to our risk based assurance reviews, our annual audit plans will also include provision for our advice and consultancy role. This provision covers time set aside for reactive and proactive value added work and includes:
- Proactive, responsive and innovative solutions to problems and opportunities to help the organisation achieve its business objectives
 - Timely response to ad hoc requests for advice on the identification, assessment and mitigation of risks through effective controls
 - Timely response to ad hoc requests for advice on the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks
 - Planned involvement in new initiatives or working groups established to help identify and assess risk and design suitable controls
 - Undertaking VFM reviews.
 - Investigation of irregularities and suspected fraud and corruption
 - Grant certification work requiring independent assurance that grant terms and conditions have been met.
- 11.4 The level of audit resources required to deliver, at the very least, both a minimum level of independent assurance and adequate provision for advice and consultancy will be considered by the Head of Internal Audit. Minimum assurance levels will be informed by the maturity of the Council's risk management arrangements and the reliance that can be placed on other assurance sources. Any concerns the Head of Internal Audit has over the quantity and quality of skills available to deliver the required level of assurance, or to add value through its advice and consultancy work, will be referred to the Section 151 Officer (Chief Financial Officer) and the Audit Committee for consideration.
- 11.5 Strategic and annual plans will be considered by the Corporate Management Team and approved and monitored by the Audit Committee.

12. Audit Approach

12.1 Internal Audit will adopt a risk based approach to all our assurance work as outlined below:

Strategic Risk

12.2 Reviews of strategic risks will provide assurance that:

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

Operational Risk

12.3 Reviews of key service delivery activities and key systems will provide assurance on the effectiveness of

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

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

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

12.6 Internal Audit will agree the objectives and risks associated with each key system or service delivery area to be reviewed with the relevant service manager/key contact prior to the start of any audit to ensure that the scope and objectives of each review are focused on providing assurance on the high or significant risks identified through the CRA. Terms of reference will be issued to key contacts to formally agree the scope of each review, identified key risks, potential impact and expected key controls.

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

13. Audit Reporting

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

- 13.10 Management responses to recommendations made in draft reports will be incorporated into audit reports that will then be reissued as finals. Copies of all final reports are shared with the Council's External Auditor on request.
- 13.11 The CRA will be updated with any further expected controls identified through the audit process and details of actual controls in place, and issued to key contacts as part of the reporting process. If controls are considered to be inadequate, recommended action to improve controls will also be entered to provide services managers with a form of operational risk register that, in the absence of a more formal approach to operational risk management, can then be used by service managers to regularly review identified risks and the control framework put in place to mitigate those risks, i.e. provide a basis for regular Control Risk Self-Assessment (CRSA). It is recommended that the CRSA is reviewed by service managers at least annually.
- 13.12 Wherever possible the circulation of audit reports will be agreed at the outset and will have due regard to confidentiality and legal requirements. Any information gained in the course of audit work remains confidential without limiting or preventing internal audit from meeting its reporting responsibilities to the wider organisation.
- 13.13 Internal Audit will follow-up progress made by managers in responding to draft reports and on the implementation of all high and medium priority recommendations agreed in final reports.
- 13.14 Progress on the response to draft reports issued and the implementation of agreed recommendations will be reported to Audit Committee. Any significant recommendations overdue will be reported to Committee on an exception basis each quarter. In accordance with the Committee's request, where any significant recommendations remain overdue the following quarter the responsible manager will be asked to attend Audit Committee to provide an explanation for the delay.
- 13.15 Management is required to provide a response to draft reports issued with 20 working days. If a response has not been received within this timescale the following escalation process will then be invoked:
- A reminder will be sent to the key contact, and copied into the relevant head of service, requesting a response within the next 10 days
 - If a response is still not forthcoming, a second reminder will be issued direct to the head of service, advising that if a response is not received within the next 5 days the matter will be reported to the relevant Corporate Director
 - All draft reports remaining outstanding at the end of each quarter will be reported to the Audit Committee.
- 13.16 Audit managers will report quarterly to Service Groupings Management Teams on progress made on delivering the agreed annual plan, unplanned work carried out and any proposed amendments to the plan, overdue responses to draft reports, any significant issues arising from audit work and progress made by managers in implementing audit recommendations.

- 13.17 To help focus attention on areas of significant risk, quarterly progress reports will include by exception details of all audits resulting in a limited or no assurance opinion.
- 13.18 In accordance with the PSIAS, to maintain organisational independence, Internal Audit will report on the functionality of the audit service to Audit Committee by:

Reporting a draft annual risk based audit plan for approval

Presenting Quarterly Internal Audit Progress reports:

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

Presenting an Annual Audit Report to:

- Compare actual activity with planned work and performance targets
- Provide an overall opinion on the control environment
- Provide a summary of work undertaken to formulate the annual opinion on the entire control environment, including reliance placed on work by other assurance bodies
- Demonstrate the extent of compliance with the PSIAS and the results of the Quality Assurance and Improvement Programme, including internal and any external assessments carried out.
- Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement.

14. Responsibilities of Managers

- 14.1 Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence.
- 14.2 Internal Audit will strive to build effective working relationships with all our stakeholders, internal and external, by encouraging an environment of mutual trust, confidence and understanding.
- 14.3 A key relationship is with managers. Managers at all levels need complete confidence in the integrity, independence and capability of internal audit.

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

15. Relationship with the Audit Committee

- 15.1 The Council has adopted best practice in implementing an Audit Committee. This committee is independent of both the Executive and Scrutiny function, and reports directly to the Council on matters it feels are relevant. Terms of Reference, reflecting best practice, have been agreed.
- 15.2 The existence of an independent and effective Audit Committee helps to convey to staff and the public the importance Members and Officers attach to risk management, corporate governance and internal control.
- 15.3 The Audit Committee is not just the concern of auditors as it has responsibility for ensuring that the Council has good corporate governance arrangements in place to help deliver the best services to support the Council's priorities, aims and objectives and ensure excellent use of resources.
- 15.4 Internal audit is one of a number of assurance providers that contribute to the Council's corporate assurance framework. It does this by providing an opinion on the level of assurance the Council can place upon the entire internal control environment and by making recommendations to improve it. This includes Internal Audit's evaluation of the effectiveness of the Council's risk management and corporate governance arrangements.
- 15.5 It is important that the Council seeks independent assurance about the mechanisms underpinning the various aspects of governance and one of the responsibilities of the Audit Committee is to review the functionality and effectiveness of Internal Audit.

16. Audit Resources, Skills and Service Quality

- 16.1 In order for Internal Audit to demonstrate high standards of professional conduct, the Internal Auditor must be impartial in discharging all responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity.
- 16.2 The service is required to operate in accordance with compliance with both the PSIAS and the LGAN. Policies and standard working practices have been put in place to ensure all audit staff understand and comply with the PSIAS/LGAN.
- 16.3 An important element of the PSIAS is the requirement to undertake regular quality assurance assessments and maintain a quality assurance and improvement programme.
- 16.4 A quality assurance framework, detailing the policies, procedures and working practices under which the service operates has been defined and documented in an Audit Manual.

- 16.5 The Head of Internal Audit is responsible for providing periodically a self-assessment on the effectiveness of the internal audit service and compliance with agreed procedures to ensure professional standards are maintained. Any areas of non-compliance with the standards and or the LGAN will be reported as part of the Annual Audit Report to Corporate Management Team and the Audit Committee.
- 16.6 In accordance with the PSIAS, an external assessment will be carried out at least every five years. The results of this external assessment will also be reported to the Corporate Management Team and the Audit Committee.
- 16.7 The service is provided by Durham County Council's in house internal audit team, supported in specialist areas as and when considered necessary by a third party partner. The staffing structure will, as far as possible, be comprised of a suitable mix of qualifications, experience and skills.
- 16.8 The Head of Internal Audit ensures internal audit resources are sufficient to meet its responsibilities and achieve its objectives. Resource requirements are reviewed annually in relation to draft annual audit plans. Resources will be considered in terms of available days and the skills and experience of audit staff. Any concerns that the Head of Internal Audit has regarding resources available to deliver the service in accordance with the PSIAS will be reported to the Corporate Director Resources and the Audit Committee.
- 16.9 Individual training needs are identified in accordance with the Council's Performance Appraisal Scheme and supplemented by regular audit skills assessments and post audit reviews. As well as basic training in audit techniques and the development of specialist skills, the service is committed to coaching and mentoring its staff and to providing opportunities for continuous professional development to all staff.
- 16.10 Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Technical Information Service, "TIS online", the Finance Advisory Network (FAN), and through liaison with external audit.
- 16.11 The service will keep abreast of best audit practice by adhering to CIPFA's and the IIA's practice advisories and practice guides, where applicable, as well as networking with other internal audit service providers.
- 16.12 A suite of performance indicators (PIs) and targets has been developed to measure and monitor the performance and effectiveness of the service. The current PI's are detailed in Appendix B. PIs and targets will be reviewed annually.

16.13 In accordance with the requirements of the Accounts and Audit Regulations 2011, an annual review of the effectiveness of the internal audit service is undertaken by the Audit Committee. This will be informed by a review of the service carried out by the Corporate Director Resources and from consideration of the Quality Assurance and Improvement Programme and any internal or external assessments required by the PSIAs. By reviewing the service the Audit Committee is able to gain assurance that the service maintains its independence and objectivity, that it is effective and conforms to the expected professional quality standards so that it can place reliance on its work and the annual audit opinion.

16.14 The outcome from the annual effectiveness review is reported to the Corporate Management Team and Audit Committee as part of the Annual Internal Audit Report.

17. Approval and Review

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

18. Key Contact

Head of Internal Audit

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DH1 5UE

19. Other Related Documents

Other related documents that should be read in conjunction with this Charter are:

- Public Sector Internal Audit Standards
- CIPFA's Local Government Application Note
- The Council's Risk Management Strategy
- The Council's Constitution – Financial Procedure Rules
- The Council's Constitution – Local Code of Corporate Governance
- The Council's Constitution – Codes of Conduct
- The Council's Counter Fraud and Corruption Strategy and Fraud Response Plan
- The Council's Confidential Reporting Code (Whistle Blowing Policy)

ASSESSMENT OF AUDIT FINDINGS, RECOMMENDATIONS AND AUDIT OPINIONS

APPENDIX A

Findings

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

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

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

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

Priority of our recommendations

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

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

Overall Assurance Opinion

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

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

PERFORMANCE INDICATORS

APPENDIX B

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| Efficiency | | |
|---|--|---|
| Objective: To provide maximum assurance to inform the annual audit opinion | | |
| KPI | Measure of Assessment | Target & (Frequency of Measurement) |
| Planned audits completed | % of planned assurance work from original approved plan complete to draft report stage as at 31 st | 90% (Quarterly) |
| Timeliness of Draft Reports | % of draft reports issued within 30 Calendar days of end of fieldwork/closure interview Average time taken is also reported for information | 90% (Quarterly) |
| Timeliness of Final Reports | % of final reports issued within 14 calendar days of receipt of management response Average time taken is also reported for information | 95% (Quarterly) |
| Quarterly Progress Reports | Quarterly progress reports issued to Corporate Directors within one month of end of period | 100% (Quarterly) |
| Terms of Reference | % of TOR's agreed with key contact in advance of fieldwork commencing | 95% (Quarterly) |
| Quality | | |
| Objective: To ensure that the service is effective and adding value | | |
| KPI | Measure of Assessment | Target & (Frequency of Measurement) |
| Recommendations agreed | % of Recommendations made compared with recommendations accepted | 95% (Quarterly) 100% |
| Post Audit Customer Satisfaction Survey Feedback | % of customers scoring audit service good or above (4 out of 5) where 1 is poor and 5 is very good | 100% (Quarterly) 100% Overall average score 4.50 |
| Customers providing feedback Response | % of Customer returning satisfaction returns | 70% (Quarterly) 60% |
| Cost | | |
| Objective: To ensure that the service is cost effective | | |
| KPI | Measure of Assessment | Target & (Frequency of Measurement) |
| Cost per chargeable audit day | CIPFA Benchmarking Club – Comparator Group (Unitary) | Lower than average (Annually) |

Public Sector Internal Audit Standards

Definition of the terms ‘ Board’ and ‘Senior Management’ for the purpose of Internal Audit Activity

| Standard | | Reference to board or senior management | Proposed body/group to fulfil role | |
|----------|---------------------------------------|--|------------------------------------|--|
| Ref | Title | | Senior Management | Board |
| 1000 | Purpose, authority and responsibility | Senior Management and the board must approve the Internal Audit Charter | Corporate Management Team (CMT) | The Audit Committee |
| 1110 | Organisational Independence | <p>The Chief Audit Executive (CAE) must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The CAE must confirm the board at least annually the organisational independence if the Internal Audit activity.</p> <p>The CAE must report functionality to the board. The CAE must also establish effective communication with, and have free and unfettered access to the Chief Executive and the Chair of the Audit Committee.</p> <p>Functionality includes:</p> <ul style="list-style-type: none"> • Approving the Internal Audit Charter • Approving the Risk Based Internal Audit Plan • *Approving the internal audit budget and resource plan • Receiving communications for the CAE on the internal audit activity’s performance relative to its plan and | | <p>The Audit Committee</p> <p>The Audit Committee with the exception of those functions marked with an* which are the responsibility of the Corporate Director Resources who has delegated authority from Council to maintain an effective internal service.</p> |

DEFINITIONS UNDER PSIAS

APPENDIX C

| | | | | |
|-------------|--|--|--|---|
| | | <p>other matters</p> <ul style="list-style-type: none"> • *Approving decisions regarding the appointment and removal of the CAE • *Approving the remuneration of the CAE and • Making appropriate enquiries of management and the CAE to determine whether there are inappropriate enquires of management and CAE to determine whether there are inappropriate scope or resources limitations | | <p>Note</p> <p>The public sector interpretation with the PSIAS acknowledges that in the UK public sector the board would not generally approve the CAE's remuneration.</p> <p><i>“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 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 “</i></p> |
| 1130. C2 | Impairment to Independence or Objectivity | 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 | | The Audit Committee |
| 1312 | Quality Assurance and Improvement Programme (QAIP) | <p>External Assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team form outside the organisation. The CAE must discuss with the board:</p> <ul style="list-style-type: none"> • The form of external assessments • The qualifications and independence of the external assessor or assessment, | | The Audit Committee |

DEFINITIONS UNDER PSIAS

APPENDIX C

| | | | | |
|------|---------------------------------|--|-----|---------------------|
| | | <p>including any potential conflict of interests</p> <p>NB The Public Sector requirement of this standard states,</p> <p>“The CAE must agree the scope of external assessments with an appropriate sponsor e.g the Accounting/Accountable Officer or Chair of the audit committee as well as with the external assessor or assessment team”</p> | | |
| 1320 | Reporting the results of QAIP | The CAE must communicate the results of the quality assurance and improvement programme to senior management and the board . | CMT | The Audit Committee |
| 1322 | Disclosure of Non - Conformance | Instances of 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, must be reported to the board by the CAE. More significant deviations must be considered for inclusion in the annual governance statement | | The Audit Committee |
| 2020 | Communications and Approval | <p>The CAE 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.</p> <p>Where the CAE 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.</p> | CMT | The Audit Committee |

DEFINITIONS UNDER PSIAS**APPENDIX C**

| | | | | |
|------|--|---|-----|---------------------|
| 2060 | Reporting to Senior Management and the Board | The CAE 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 include significant risk exposures and control issues, including fraud risks governance issues and other matters needed or requested by senior management and the board. | CMT | The Audit Committee |
| 2600 | Communicating the Acceptance of Risk | When the CAE concludes that management has accepted a low level of risk that may be unacceptable to the organisation, the CAE must discuss the matter with senior management . If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the board . | CMT | The Audit Committee |

NB. The role of Chief Audit Executive referred to in the Standards is that undertaken by the Chief Internal Auditor and Corporate Fraud Manager as Durham County Council's Head of Internal Audit.

Audit Committee

28 February 2014

**Internal Audit Progress Report
Quarter Ended 31 December 2013**



Report of the Chief Internal Auditor and Corporate Fraud Manager

PURPOSE OF THE REPORT

1 The purpose of this report is to inform Members of work carried out by Internal Audit during the period October to December 2013.

2 The report aims to:

- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit
- Advise you of issues where controls need to improve to effectively manage risks
- Advise you of any other types of audit work carried out such as grant certification or consultancy reviews where an assurance opinion on the control environment may not be applicable
- Advise you of amendments to planned work
- Advise you of unplanned work carried out or to be carried out
- Track progress on the response to audit reports and the implementation of agreed audit recommendations
- Advise you of any changes to the audit process
- Provide an update on our performance indicators comparing actual performance against planned

3 Appendices attached to this report are summarised below. Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3.)

- | | |
|------------|---|
| Appendix 1 | Report Implications |
| Appendix 2 | Audit methodology |
| Appendix 3 | Progress on plan |
| Appendix 4 | Final reports issued this quarter |
| Appendix 5 | High and medium priority actions raised and implemented |
| Appendix 6 | *Overdue actions |
| Appendix 7 | *Limited Assurance Audit Opinions |
| Appendix 8 | Performance Indicators |

BACKGROUND

- 4 Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve the organisation's operations.
- 5 The audit strategy and annual audit plan covering the period July 2013 to June 2014 was approved by Audit Committee at its meeting on the 27 June 2013.
- 6 The audit methodology used to determine the risk priority for addressing audit findings and how we arrive at our assurance opinion on each review is given in Appendix 2.

PROGRESS AGAINST PLANNED WORK

- 7 A summary of the approved annual plan for each service grouping, updated to reflect work in progress and/or brought forward from last year's plan, is attached at Appendix 3. The status of each audit as at 31 December is indicated.
- 8 The status of each type of audit, including work in progress carried forward from the 2012/13 plan and as shown in Appendix 3, is summarised below:

| Status | Assurance | Advice & Consultancy | Proactive Fraud |
|----------------------------------|------------------|---------------------------------|------------------------|
| Not Started | 29 | 3 | 4 |
| Planning & Preparation | 10 | 2 | |
| Terms Of Reference Agreed | 8 | 2 | 3 |
| Fieldwork In Progress | 19 | 11 | 2 |
| Complete (Draft or Final Report) | 35 | 6 | 10 |
| Agreed Defer/Cancelled | 3 | 3 | 0 |
| Total | 104 | 27 | 19 |

- 9 Where work is finalised the resultant assurance opinion, if applicable, is also shown in Appendix 3.
- 10 A summary of final audit reports issued this quarter is given in Appendix 4.

AUDIT ACTIVITY THIS QUARTER

Amendments to the approved 2013/14 Audit Plan

- 11 The following amendment to the approved plan have been agreed with Corporate Directors this quarter:

| Service Grouping | Audit | Audit Type | Type of Amendment | Reason |
|---|---|--|-------------------------|---|
| Children and Adult Services (CAS) | Health and Well Being Board (Partnership Governance Framework Review) | Service Request - Advice & Consultancy | Cancelled | Agreed with Management Team as Health and Wellbeing Board is no longer subject to previous Governance Arrangements. Now reports as a Committee of the Council. |
| Neighbourhood Services | Markets | Assurance Review | Deferred to 2014 / 2015 | The Head of Service requested that the intended review be deferred until the service has completed its review of market management arrangements in line with the Market Strategy. |
| Regeneration and Economic Development (RED) | Mystery Shopping | Service Request – Advice & Consultancy | Cancelled | Originally a service request but it is considered that it is no longer required |
| Regeneration and Economic Development (RED) | Planning System | Advice & Consultancy | Deferred to 2014 / 2015 | Delays in the new system implementation. Considered more appropriate to defer the review to November 2014. |

- 12 19 unplanned reviews have been added to the plan this quarter. Of these 15 relate to potential fraud or irregularity investigations. Details of the progress on all investigations will be included in the next fraud and irregularity update report which will be considered by the Committee at its meeting in July.
- 13 The 4 non-investigative reviews, which are to be resourced from the contingency provision within the plan, are detailed below:

| Service Grouping | Audit | Audit Type | Reason |
|---|---|----------------------|---|
| Neighbourhood Services (NS) | Gala Theatre | Assurance | Request from the Corporate Procurement Manager and Strategic Manager – Culture and Heritage |
| Regeneration and Economic Development (RED) | Empty Homes Loan Fund | Assurance | Assurance review of the arrangements in place for managing and monitoring the Empty Homes Loan Fund. |
| Resources | Bank Automated Clearance System (BACS) | Advice & Consultancy | Advice and Consultancy following an error in processing a creditor payment file. |
| Resources | Electoral Services – Verification of Expenses | Advice & Consultancy | Due to timing it has been necessary to verify the expenses as a piece of advice and consultancy work. |

Outstanding Management Responses to Draft Reports

- 14 There are no responses to draft reports remain overdue at the time of writing.

Response to audit findings and recommendations

- 15 Details of the numbers of High and Medium priority ranking recommendations raised and overdue, by Service Grouping and Audit Year, are given in Appendix 5.
- 16 A summary of progress on actions due by the 31 December 2013 is given below:

| Service Grouping | Number of Actions Due to be Implemented | Number of Actions Implemented | Actions Overdue by Original Target Date | Actions with Agreed Revised Target Date | Actions Overdue by Revised Target Date |
|---|---|-------------------------------|---|---|--|
| Assistant Chief Executive (ACE) | 16 | 9 | 7 | 7 | 0 |
| Children and Adult Services (CAS) | 33 | 31 | 2 | 2 | 0 |
| Neighbourhood Services (NS) | 149 | 130 | 19 | 19 | 0 |
| Regeneration and Economic Development (RED) | 27 | 24 | 3 | 3 | 0 |
| Resources | 328 | 305 | 23 | 23 | 0 |
| TOTAL | 553 | 499 | 54 | 54 | 0 |

* For some service groupings these figures include actions raised in previous financial years. Once all actions for a year have been cleared they are no longer reported.

It is encouraging to note of the 553 actions due to be implemented that 499 (90%) have been implemented. The Chartered Institute of Public Finance and Accountancy (CIPFA), benchmarking exercise indicates that average performance in this area is 70 to 80%. At present the Council is delivering in excess of this target.

Limited Assurance Opinion Audits

- 17 There have been four audits finalised in this quarter which resulted in a 'limited assurance' opinion. A brief summary of the key findings are provided in Appendix 7.

Performance Indicators

- 18 A summary of our actual performance at the end of December 2013 compared to agreed target performance indicators is given in Appendix 8.
- 19 Your attention is drawn to our primary PI, which is an important measure of the ability to provide an annual audit opinion and is the % of planned assurance reviews complete. Actual performance stands at 41% at present against the full year target of 90%. Due to the timing of audit reviews and the Christmas period this has fallen below where we would expect to be at the half year stage, however plans are place to address this and at present there are no concerns about achieving the overall 90% target.

RECOMMENDATIONS

- 20 Members are asked to note,:
- The amendments made to the 2013/14 Annual Audit Plan
 - Work undertaken by Internal Audit during the quarter ended 31 December 2013 and the assurance on the control environments provided
 - The performance of the service during the period
 - Progress made by service managers in responding to the work of Internal Audit

Contact: Paul Bradley 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

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

None

Findings

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

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

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

ASSURANCE OPINION METHODOLOGY

Overall Finding Rating

This grid is used to determine the overall finding rating.

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

Priority of our recommendations

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

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

Overall Assurance Opinion

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

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

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 1 JULY 2013 TO 30 JUNE 2014

| AUDIT TITLE | CORPORATE DIRECTION | SERVICE | TYPE | STATUS | OPINION |
|--|---|--------------------------------|----------------------|--------------|-----------------------|
| AUDITS BROUGHT FORWARD FROM 2012 / 2013 AS WORK IN PROGRESS | | | | | |
| AAP Information Governance | Assistant Chief Executive (ACE) | Parts and Comm Eng. | Assurance Review | Final Report | Moderate Assurance |
| Data Quality - Rolling Programme of Pls | Assistant Chief Executive (ACE) | Planning & Perf | Assurance Review | Draft Report | |
| Development of Intranet | Assistant Chief Executive (ACE) | Policy & Comms | Assurance Review | In Progress | |
| Internet Development (Corporate Comms) | Assistant Chief Executive (ACE) | Policy & Comms | Advice & Consultancy | In Progress | |
| Business Continuity Project Support | Assistant Chief Executive (ACE) | Policy & Comms | Advice & Consultancy | In Progress | |
| Looked After Children - to perform follow-up on VFM study undertaken by Service | Children and Adult Services (CAS) | Children's Care | Advice & Consultancy | In Progress | |
| Educational Support Services | Children and Adult Services (CAS) | Education | Assurance Review | Final Report | Moderate Assurance |
| Galdicott Compliance | Children and Adult Services (CAS) | Planning & Service | Assurance Review | Final Report | Moderate Assurance |
| One Point - Arrangements with the Health Service | Children and Adult Services (CAS) | Early Intervention & Education | Assurance Review | Final Report | Moderate Assurance |
| Control Risk Self Assessment in Schools | Children and Adult Services (CAS) | Education | Advice & Consultancy | Complete | N/A |
| Pollution Control | Neighbourhood Services (NS) | EHCP - Environmental | Assurance Review | Final Report | Moderate Assurance |
| Enforcement & Education | Neighbourhood Services (NS) | Direct Services - | Assurance Review | Final Report | Moderate Assurance |
| Construction Services and Planned Maintenance Programme | Neighbourhood Services (NS) | Direct Services - | Assurance Review | Draft Report | Moderate Assurance |
| Trade Waste - Systems testing | Neighbourhood Services (NS) | Direct Services - | Assurance Review | Final Report | Limited Assurance |
| Highways Maintenance Self Assessment | Neighbourhood Services (NS) | Technical Services - | Assurance Review | Complete | |
| MTFP Savings - Use of Council vehicles for home to work journey | Neighbourhood Services (NS) | Direct Services - | Advice & Consultancy | In Progress | |
| Business Durham | Regeneration & Economic Development (RED) | Econ. Dev. & Housing | Assurance Review | Final Report | Moderate Assurance |
| Private Sector Housing | Regeneration & Economic Development (RED) | Econ. Dev. & Housing | Assurance Review | In Progress | |
| Housing Tenancies/Lettings | Regeneration & Economic Development (RED) | Econ. Dev. & Housing | Assurance Review | Final Report | Substantial Assurance |
| Project Genesis | Regeneration & Economic Development (RED) | Strat. Progs & Perf. | Advice & Consultancy | Draft Report | |
| Taxi contracts follow up | Regeneration & Economic Development (RED) | Transport & Contract | Advice & Consultancy | Draft Report | |
| Income & Debt Recovery | Resources | Finance Services | Assurance Review | Final Report | Moderate Assurance |
| Procurement Cards | Resources | Finance Services | Assurance Review | Final Report | Moderate Assurance |
| Flexible working and contract variations | Resources | Human Resources | Assurance Review | Final Report | N/A |
| Internet Security | Resources | ICT | Assurance Review | Final Report | Limited Assurance |
| Income and Expenditure Project | Resources | ICT | Assurance Review | Final Report | Moderate Assurance |
| Petty Cash Usage | Resources | Corporate Finance | Assurance Review | Final Report | Moderate Assurance |
| Corporate Governance - Litigation Database | Resources | Legal & Democratic | Assurance Review | Final Report | Moderate Assurance |
| Unix review | Resources | ICT | Assurance Review | Final Report | Moderate Assurance |
| Invoice scanning and indexing | Resources | Finance Services | Advice & Consultancy | Complete | N/A |
| ICON v11 project | Resources | Finance Services | Advice & Consultancy | In Progress | |
| Cash Security | All Directorates | All Services | Proactive Fraud | Final Report | N/A |
| Payroll IDEA | All Directorates | All Services | Proactive Fraud | Final Report | N/A |
| Payroll timesheets | All Directorates | All Services | Proactive Fraud | Draft Report | |
| Payroll overtime | All Directorates | All Services | Proactive Fraud | Draft Report | |
| Payroll starters & leavers | All Directorates | All Services | Proactive Fraud | Final Report | N/A |
| Payroll expenses & allowances | All Directorates | All Services | Proactive Fraud | Draft Report | |
| Award of Contracts | All Directorates | All Services | Proactive Fraud | Final Report | N/A |
| AUDITS THAT WERE DEFERRED FROM 2012 / 2013 AUDIT PLAN | | | | | |
| Data Protection - Data Access | Assistant Chief Executive (ACE) | Planning & Perf | Assurance Review | Not Started | |
| Specialist Services - to focus upon Prevention and Early Intervention | Children and Adult Services (CAS) | Children's Care | Assurance Review | Preparation | |
| Safeguarding of Children in Schools - consideration will be given to other third party | Children and Adult Services (CAS) | Education / Children's | Assurance Review | Preparation | |

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 1 JULY 2013 TO 30 JUNE 2014

| AUDIT TITLE | CORPORATE DIRECTION | SERVICE | TYPE | STATUS | OPINION |
|---|--|--|--|--|---|
| 124 County Durham Children and Families Trust POPPIE system review Adult Learning and Skills Service Markets Visit County Durham Mystery Shopping (Planning applications) PCI Compliance | Children and Adult Services (CAS) Children and Adult Services (CAS) Children and Adult Services (CAS) Neighbourhood Services (NS) Regeneration & Economic Development (RED) Regeneration & Economic Development (RED) Resources | Early Intervention & Planning & Service Education EHCP - Consumer Econ. Dev. & Housing Planning & Assets Finance Services | Assurance Review Assurance Review Assurance Review Assurance Review Assurance Review Advice & Consultancy Assurance Review | Not Started In Progress Not Started Deferred TOR Issued Cancelled Final Report | |
| AUDITS SCHEDULED FROM THE STRATEGIC AUDIT PLAN 2013 / 2014 | | | | | |
| Development of Joint Working Methodology on Corporate Programmes (Trans Change) Data Quality - Rolling programme of PIs Data Protection - Rolling programme of reviews Information Governance Group Partnerships - Rolling programme of reviews Secure Services - Contract with Youth Justice Board SEN Placement and Provision Schools Organisations and Capital Programme Schools SLA funded Audit Programme 5 Nursery Schools 37 Primary Schools 3 Secondary Schools 5 Special Schools | Assistant Chief Executive (ACE) Assistant Chief Executive (ACE) Assistant Chief Executive (ACE) Assistant Chief Executive (ACE) Assistant Chief Executive (ACE) Children and Adult Services (CAS) Children and Adult Services (CAS) Children and Adult Services (CAS) | Policy & Comms Planning & Perf Planning & Perf Planning & Perf Parts and Comm Eng. Children's Care Education Education | Advice & Consultancy Assurance Review Assurance Review Advice & Consultancy Assurance Review Assurance Review Assurance Review | In Progress Not Started Not Started In Progress Preparation Not Started Not Started Not Started | |
| Troubled Families Programme Quarter 1 Quarter 2 Quarter 3 Quarter 4 | Children and Adult Services (CAS) | Children's Care | Assurance Review | Preparation | |
| Caldicot Compliance Health and Well Being Board | Children and Adult Services (CAS) | Children's Care | Grant Certification | Complete Complete Not Started Not Started | 10 Substantial Assurance 6 Moderate Assurance 1 Limited Assurance |
| Strategic Waste Management Clean and Green Services - Housing Association Contracts Building Compliance Assurance Inspection of Licensing - Taxis Inspection of Licensing - Premises Requiring Alcohol License Private Sector Housing Winter Maintenance Gala - Stage School Gala - Box Office Stanley Bowls | Neighbourhood Services (NS) Neighbourhood Services (NS) Neighbourhood Services (NS) Neighbourhood Services (NS) Neighbourhood Services (NS) Neighbourhood Services (NS) Neighbourhood Services (NS) Neighbourhood Services (NS) Neighbourhood Services (NS) | Projects and Business Direct Services - Direct Services - EHCP - Public Safety EHCP - Public Safety EHCP - Environmental Technical Services - Sport and Leisure Sport and Leisure Sport and Leisure | Assurance Review Assurance Review Assurance Review Assurance Review Assurance Review Assurance Review Assurance Review Assurance Review Advice & Consultancy | In Progress Preparation Not Started In Progress Preparation Not Started Final Report In Progress Not Started | Moderate Assurance |
| Ad hoc grant certification work Planning System (Attendance at Steering Group) Planning System Building Control (Potential focus on 'Safety at Sports Grounds') Asset Management (Focus on disposal arrangements) Durham City Homes - Housing Rents | Regeneration & Economic Development (RED) Regeneration & Economic Development (RED) Regeneration & Economic Development (RED) Regeneration & Economic Development (RED) Regeneration & Economic Development (RED) | Strat. Progs & Perf. Planning & Assets Planning & Assets Planning & Assets Econ. Dev. & Housing | Grant Certification Advice & Consultancy Assurance Review Assurance Review Assurance Review | In Progress In Progress Deferred In Progress Draft Report Draft Report | |

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 1 JULY 2013 TO 30 JUNE 2014

| AUDIT TITLE | CORPORATE DIRECTION | SERVICE | TYPE | STATUS | OPINION |
|---|---|----------------------|----------------------|--------------|-----------------------|
| ALMOs Housing Rents | Regeneration & Economic Development (RED) | Econ. Dev. & Housing | Assurance Review | Not Started | |
| Civil Parking, Park and Ride, Off Street Parking (Potentially to focus on income) | Regeneration & Economic Development (RED) | Transport & Contract | Assurance Review | TOR Issued | |
| Sustainable Transport | Regeneration & Economic Development (RED) | Transport & Contract | Assurance Review | Not Started | |
| Supported Housing - CCTV | Regeneration & Economic Development (RED) | Transport & Contract | Assurance Review | Not Started | |
| Electoral Services | Resources | Legal & Democratic | Assurance Review | Not Started | |
| Electoral Services - verification of expenses | Resources | Legal & Democratic | Advice & Consultancy | In Progress | |
| Homeworking | Resources | HR&OD | Assurance Review | Not Started | |
| Payroll - Governance and Key controls | Resources | HR&OD | Assurance Review | Not Started | |
| GL - Key controls and reconciliations | Resources | Corporate Finance | Assurance Review | Not Started | |
| MTPF (also need to liaise with ACE) | Resources | Corporate Finance | Assurance Review | Final Report | Substantial Assurance |
| Journal Transfers | Resources | Corporate Finance | Assurance Review | TOR Issued | |
| Bank Reconciliations | Resources | Corporate Finance | Assurance Review | Draft Report | |
| Short Term Investments | Resources | Corporate Finance | Assurance Review | Draft Report | |
| Quotation System | Resources | Corporate Finance | Assurance Review | Not Started | |
| Tendering System | Resources | Corporate Finance | Assurance Review | Not Started | |
| Capital Accounting | Resources | Corporate Finance | Assurance Review | Not Started | |
| Central Establishment Recharges | Resources | Finance Services | Assurance Review | In Progress | |
| Revs & Bens reconciliations | Resources | Finance Services | Assurance Review | Draft Report | |
| P2P Key Controls (include procurement cards) | Resources | Finance Services | Assurance Review | Not Started | |
| Housing Benefit (HB) and Council Tax Reduction (CTR) admin (incl. HB Subsidy and DHP) | Resources | Finance Services | Assurance Review | In Progress | |
| Welfare Assistance Scheme | Resources | Finance Services | Assurance Review | Draft Report | |
| NNDR | Resources | Finance Services | Assurance Review | In Progress | |
| Council Tax | Resources | Finance Services | Assurance Review | In Progress | |
| Cash Collection | Resources | Finance Services | Assurance Review | Not Started | |
| Debtors | Resources | Finance Services | Assurance Review | Not Started | |
| Information Security Policies - Part 1 | Resources | ICT | Assurance Review | TOR Issued | |
| Information Security Policies - Part 2 | Resources | ICT | Assurance Review | TOR Issued | |
| Information Security Policies - Part 3 | Resources | ICT | Assurance Review | TOR Issued | |
| Infrastructure/Networks | Resources | ICT | Assurance Review | Not Started | |
| Mobile Computing | Resources | ICT | Assurance Review | In Progress | |
| SQL Server | Resources | ICT | Assurance Review | Not Started | |
| Software Licenses | Resources | ICT | Assurance Review | TOR Issued | |
| ICT Purchasing | Resources | ICT | Assurance Review | TOR Issued | |
| RIPA Working Group | Resources | Legal & Democratic | Advice & Consultancy | In Progress | |
| Strategic Procurement Network | Resources | Corporate Finance | Advice & Consultancy | Not Started | |
| Digital Durham | Resources | ICT | Advice & Consultancy | In Progress | |
| Declarations of Interest - Members | All Directorates | All Services | Proactive Fraud | Draft Report | |
| Declarations of Interest - Schools | All Directorates | All Services | Proactive Fraud | In Progress | |
| Declarations of Interest - Employees | All Directorates | All Services | Proactive Fraud | TOR Issued | |
| Grants Payable | All Directorates | All Services | Proactive Fraud | Not Started | |
| Housing Tenancy | All Directorates | All Services | Proactive Fraud | Not Started | |
| Creditor Payments (IDEA) - Q1 | All Directorates | All Services | Proactive Fraud | Draft Report | |
| Creditor Payments (IDEA) - Q2 | All Directorates | All Services | Proactive Fraud | Draft Report | |
| Creditor Payments (IDEA) - Q3 | All Directorates | All Services | Proactive Fraud | TOR Issued | |
| Creditor Payments (IDEA) - Q4 | All Directorates | All Services | Proactive Fraud | TOR Issued | |

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 1 JULY 2013 TO 30 JUNE 2014

| AUDIT TITLE | CORPORATE DIRECTION | SERVICE | TYPE | STATUS | OPINION |
|--|---|---|----------------------|--------------|-----------------------|
| Personal Budgets Procurement | All Directorates | All Services | Proactive Fraud | Not Started | |
| NFI | All Directorates | All Services | Proactive Fraud | Not Started | |
| Ethical Culture | All Directorates | All Services | Corporate Governance | In Progress | |
| | | | | Not Started | |
| AUDITS / REVIEWS COMPLETED AT SERVICE REQUEST | | | | | |
| AAFs - Performance Management Framework | Assistant Chief Executive (ACE) | Parts and Comm Eng. | Advice & Consultancy | Preparation | |
| Participatory Budgets Model | Assistant Chief Executive (ACE) | Parts and Comm Eng. | Advice & Consultancy | ToR Issued | |
| Community Buildings | Assistant Chief Executive (ACE) | Parts and Comm Eng. | Advice & Consultancy | ToR Issued | |
| Review of Supported Housing linked to Staff Houses | Children and Adult Services (CAS) | Adult Care | Assurance Review | Preparation | |
| School Benevolent Fund - Annual Audit of Financial Statements | Children and Adult Services (CAS) | Children's Care | Advice & Consultancy | Cancelled | |
| Gypsies & Travellers Un-authorised Encampments | Children and Adult Services (CAS) | Early Intervention & | Advice & Consultancy | Cancelled | |
| Youth Offending Service Financial Management arrangements | Children and Adult Services (CAS) | Early Intervention & | Advice & Consultancy | Draft Report | |
| Domestic Abuse Forum Executive Group (Partnership Governance Framework Review) | Children and Adult Services (CAS) | Early Intervention & | Assurance Review | In Progress | |
| High Needs Students | Children and Adult Services (CAS) | Education | Advice & Consultancy | Complete | N/A |
| Capita One | Children and Adult Services (CAS) | Planning and Service | Assurance Review | Preparation | |
| Tees, Esk & Wear Valley (TEWV) NHS Trusts Partnerships | Children and Adult Services (CAS) | Planning and Service | Assurance Review | Draft Report | Moderate Assurance |
| Stop Smoking Service - Nicotine Replacement Therapy Voucher Scheme | Children and Adult Services (CAS) | Planning and Service | Assurance Review | Complete | N/A |
| Support to the Director of Public Health on providing assurance on Health Protection | Children and Adult Services (CAS) | Public Health | Assurance Review | Final Report | Limited Assurance |
| Environment Partnership (Support in developing the Performance Management Framework) | Children and Adult Services (CAS) | Public Health | Assurance Review | Not Started | |
| QMS (Quarterly Visit) | Neighbourhood Services (NS) | Customer Relations, Policy & Performance | Advice & Consultancy | Not Started | |
| Quarter 1 | | | | | |
| Quarter 2 | Neighbourhood Services (NS) | Direct Services - Building and Facilities Maintenance | Assurance Review | Draft Report | N/A |
| Quarter 3 | | | | Draft Report | |
| Quarter 4 | | | | Not Started | |
| Integrated Leisure Management System | Neighbourhood Services (NS) | Sport and Leisure | Advice & Consultancy | Preparation | |
| CLUK Income Share Agreement | Neighbourhood Services (NS) | Sport and Leisure | Assurance Review | Complete | |
| County Durham Sport | Neighbourhood Services (NS) | Sport and Leisure | Grant Certification | Complete | |
| Carbon Reduction Commitment | Regeneration & Economic Development (RED) | Planning & Assets | Assurance Review | Final Report | Substantial Assurance |
| Appraisals | Resources | HR&OD | Assurance Review | Not Started | |
| Attendance Management Framework | Resources | HR&OD | Assurance Review | Not Started | |
| Comensura (request from CAS) | Resources | HR&OD | Assurance Review | In Progress | |
| S17 payments - Safeguarding welfare of children | Resources | Finance Services | Assurance Review | Draft Report | |
| Public Health (Financial arrangements) | Resources | Finance Services | Assurance Review | Preparation | |
| School Financial Performance Management (Part 1 & 2) | Resources | Finance Services | Assurance Review | In Progress | |
| | | | | Not Started | |
| UNPLANNED WORK | | | | | |
| Direct Payments | Children and Adult Services (CAS) | Commissioning | Assurance Review | Preparation | |
| Out of Hours Safeguarding arrangements in Secure Services | Children and Adult Services (CAS) | Children's Care | Assurance Review | In Progress | |
| Mobile Box Office Grant | Neighbourhood Services (NS) | Sport and Leisure | Advice & Consultancy | In Progress | |

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 1 JULY 2013 TO 30 JUNE 2014

| AUDIT TITLE | CORPORATE DIRECTION | SERVICE | TYPE | STATUS | OPINION |
|---|---|---|------------------------|--------------|---------|
| Events Management | Neighbourhood Services (NS) | EHCP/Sport and | Assurance Review | Preparation | |
| Gala - Variation Order | Neighbourhood Services (NS) | Sport and Leisure | Assurance Review | Preparation | |
| Empty Homes Loans Fund | Regeneration & Economic Development (RED) | Econ Dev & Housing | Assurance Review | Not Started | |
| Proposal to merge Durham and Sunderland ICT Resources | Resources | ICT | Advice & Consultancy | Not Started | |
| Cost of transactions | Resources | Finance Services | Advice & Consultancy | Draft Report | |
| BACS | Resources | Finance Services | Advice & Consultancy | Not Started | |
| Employees Paid via Accounts Payable | All Directorates | All Services | Proactive Fraud | In Progress | |
| FRAUD / INVESTIGATIONS | | | | | |
| Procurement Rules | Children and Adult Services (CAS) | Education - Schools | Fraud / Investigations | Closed | |
| Procurement of Adult Learning Contracts | Children and Adult Services (CAS) | Education | Fraud / Investigations | Final Report | |
| School Admission Application | Children and Adult Services (CAS) | Education | Fraud / Investigations | Closed | |
| School Admission Application | Children and Adult Services (CAS) | Education | Fraud / Investigations | Closed | |
| School Admission Application | Children and Adult Services (CAS) | Education | Fraud / Investigations | Closed | |
| School Admission Application | Children and Adult Services (CAS) | Education | Fraud / Investigations | Closed | |
| Data control and disposal of equipment. | Children and Adult Services (CAS) | Children's Care | Fraud / Investigations | Closed | |
| School Admission Application | Children and Adult Services (CAS) | Education | Fraud / Investigations | Closed | |
| Theft of money | Children and Adult Services (CAS) | Adult Care | Fraud / Investigations | In Progress | |
| Missing money | Children and Adult Services (CAS) | Education | Fraud / Investigations | Closed | |
| Missing money | Children and Adult Services (CAS) | Education | Fraud / Investigations | Closed | |
| Cash discrepancies | Children and Adult Services (CAS) | Education - Schools | Fraud / Investigations | Closed | |
| Internet Misuse | Children and Adult Services (CAS) | Education | Fraud / Investigations | Closed | |
| Home to School Transport Application | Children and Adult Services (CAS) | Adult Care | Fraud / Investigations | Closed | |
| Car Mileage | Children and Adult Services (CAS) | Education | Fraud / Investigations | Closed | |
| Missing monies | Children and Adult Services (CAS) | Children's Care | Fraud / Investigations | Closed | |
| Alleged income discrepancy | Children and Adult Services (CAS) | Adult Care | Fraud / Investigations | Closed | |
| False invoices | Children and Adult Services (CAS) | Education - Schools | Fraud / Investigations | Closed | |
| School banking discrepancy | Children and Adult Services (CAS) | Education - Schools | Fraud / Investigations | In Progress | |
| Employment | Children and Adult Services (CAS) | Education - Schools | Fraud / Investigations | Closed | |
| Employee Timesheet | Children and Adult Services (CAS) | Commissioning | Fraud / Investigations | In Progress | |
| Missing money | Children and Adult Services (CAS) | Education - Schools | Fraud / Investigations | In Progress | |
| Theft of money | Children and Adult Services (CAS) | Education - Schools | Fraud / Investigations | In Progress | |
| Service Users Property | Children and Adult Services (CAS) | Adult Care | Fraud / Investigations | Closed | |
| Missing money | Children and Adult Services (CAS) | Adult Care | Fraud / Investigations | In Progress | |
| Private school fund money irregularity | Children and Adult Services (CAS) | Children's Care | Fraud / Investigations | Closed | |
| Private school fund money irregularity | Children and Adult Services (CAS) | Education - Schools | Fraud / Investigations | In Progress | |
| Procurement Rules | Neighbourhood Services (NS) | Education - Schools | Fraud / Investigations | In Progress | |
| Internet Misuse | Neighbourhood Services (NS) | Direct Services | Fraud / Investigations | In Progress | |
| Theft of materials | Neighbourhood Services (NS) | Projects & Business | Fraud / Investigations | Closed | |
| Theft of materials | Neighbourhood Services (NS) | Technical Services - Strategic Highways | Fraud / Investigations | Closed | |
| Claims | Neighbourhood Services (NS) | Direct Services | Fraud / Investigations | In Progress | |
| Employee Conduct | Neighbourhood Services (NS) | Direct Services | Fraud / Investigations | Closed | |
| Employee Conduct | Neighbourhood Services (NS) | EHCP - Consumer | Fraud / Investigations | Closed | |
| Employee Timesheets | Neighbourhood Services (NS) | EHCP - Consumer | Fraud / Investigations | Closed | |

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DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 1 JULY 2013 TO 30 JUNE 2014
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| AUDIT TITLE | CORPORATE DIRECTION | SERVICE | TYPE | STATUS | OPINION |
|---|---|----------------------|------------------------|-------------|---------|
| Breach of Procurement Rules | Neighbourhood Services (NS) | Direct Services | Fraud / Investigations | Closed | |
| Theft of materials | Neighbourhood Services (NS) | Direct Services | Fraud / Investigations | Closed | |
| Theft of materials | Neighbourhood Services (NS) | Direct Services | Fraud / Investigations | Closed | |
| Misuse of Work Mobile Phone | Neighbourhood Services (NS) | Direct Services | Fraud / Investigations | Closed | |
| Breach of Confidentiality | Neighbourhood Services (NS) | Projects & Business | Fraud / Investigations | Closed | |
| Missing Money | Neighbourhood Services (NS) | Projects & Business | Fraud / Investigations | In Progress | |
| Employee Timesheets | Neighbourhood Services (NS) | Direct Services | Fraud / Investigations | In Progress | |
| Employee Timesheets | Neighbourhood Services (NS) | Direct Services | Fraud / Investigations | In Progress | |
| Complaint - Provision of Leisure Services | Neighbourhood Services (NS) | Sport and Leisure | Fraud / Investigations | Complete | |
| Income Irregularity | Regeneration & Economic Development (RED) | Trans. & Cont. Serv. | Fraud / Investigations | Complete | |
| Access to Documents | Regeneration & Economic Development (RED) | Econ Dev & Housing | Fraud / Investigations | Complete | |
| Data Investigation | Regeneration & Economic Development (RED) | Planning & Assets | Fraud / Investigations | Complete | |
| Taxi contracts | Regeneration & Economic Development (RED) | Trans. & Cont. Serv. | Fraud / Investigations | In Progress | |
| Caravan Park | Regeneration & Economic Development (RED) | Planning & Assets | Fraud / Investigations | Complete | |
| Employee Timesheets | Regeneration & Economic Development (RED) | Planning & Assets | Fraud / Investigations | In Progress | |
| Theft of Mobile Phone | Resources | Legal Services | Fraud / Investigations | Complete | |
| Unauthorised Direct Debits | Resources | Corporate Finance | Fraud / Investigations | Complete | |
| Access to Records (1) | Resources | Finance Services | Fraud / Investigations | In Progress | |
| Unauthorised Direct Debit | Resources | Corporate Finance | Fraud / Investigations | Complete | |
| Supplier Bank Details | Resources | Finance Services | Fraud / Investigations | In Progress | |
| Access to Records (2) | Resources | Finance Services | Fraud / Investigations | In Progress | |

FINAL REPORTS ISSUED IN QUARTER ENDING 31 DECEMBER 2013

| AUDIT AREA | BRIEF DESCRIPTION OF SCOPE OF THE AUDIT | FINAL OPINION |
|---|--|-----------------------|
| ASSISTANT CHIEF EXECUTIVE (ACE) | | |
| Partnership Governance | Assurance review of the arrangements in place to mitigate the risk of the Partnership Governance Framework being ineffective. | Moderate Assurance |
| AAP Information Governance | Assurance review of the arrangements in place to mitigate the risk of Area Action Partnerships (AAPs) not complying with information legislation, standards and codes of practice. | Moderate Assurance |
| CHILDREN AND ADULT SERVICES (CAS) | | |
| Educational Support Services | An assurance review that evaluated the management of risks associated with the Educational Support Service. | Moderate Assurance |
| Caldicott | An assurance review that evaluated the management of risks associated with the Services Caldicott arrangements. Areas covered included mobile working and Document Image Processing (DIP) back up. | Moderate Assurance |
| Nicotine Replacement Therapy Voucher Scheme | An assurance review that evaluated the management of risks associated with the Stop Smoking Service's Nicotine Replacement Therapy Voucher Scheme. Audit testing involved the review of a sample of records maintained by six Pharmacies with the highest claims during April to July 2013. | Limited Assurance |
| Adult Learning & Skills Service | An investigation that considered the appropriateness of Adult Learning Contract procurement practices. | N/A |
| NEIGHBOURHOOD SERVICES (NS) | | |
| Pollution Control | This report relates to the evaluation of the control framework in place to provide assurance on the management of the risks associated with Pollution Control. | Moderate Assurance |
| Enforcement & Education (follow up from 2011/12) | This report relates to the evaluation of the control framework in place to provide assurance on the management of the risks associated with the Neighbourhood Wardens – Enforcement and Education service. | Moderate Assurance |
| REGENERATION AND ECONOMIC DEVELOPMENT (RED) | | |
| Carbon Reduction Commitment | Assurance review of the arrangements in place to mitigate the risk of data which is submitted to the Environment Agency being inaccurate, late, and not in adherence to guidelines. | Substantial Assurance |
| Joint review of Grants Protocol and Grants Receivable | Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> - Funding is being applied for which bypasses corporate arrangements - Funding is not aligned with Corporate Priorities or Service Plan - Services compete for funding and are deemed ineligible or the application is void - Services fail to apply for funding due to a lack of awareness of the Corporate Grants process - DCC and other sources of match funding are not accounted for in the budget setting process - Evidence requirements are not met in line with Grant | Limited Assurance |

| AUDIT AREA | BRIEF DESCRIPTION OF SCOPE OF THE AUDIT | FINAL OPINION |
|------------|---|---------------|
| | conditions - Funding is not being applied appropriately to the approved purpose - Funding is not monitored from inception to completion and into archive - Auditing requirements have not been diarised and agreed with the appropriate auditing bodies - Authorised signatories have not signed all claims | |

| RESOURCES | | |
|--|--|-----------------------|
| Counter Fraud - Award of Contracts | Planned counter fraud review which focussed on validating that evidence is in place to confirm that corporate procurement rules are being adhered to in respect of the award of contracts and hence that systems and controls in operation are effective in preventing / reducing the potential for fraud. | N/A |
| Counter Fraud - Payroll IDEA | Planned counter fraud review to identify; <ul style="list-style-type: none"> - Potential duplicate / ghost employees - Duplicate bank accounts - Employees paid higher than their grade range - Unauthorised high gross and net pays | N/A |
| Counter Fraud - Payroll starters & leavers | Planned counter fraud review of starters and leavers which focussed on verifying the legitimacy of new starters, changes in post and final payments to leavers. | N/A |
| Review of SLAs | Advice and consultancy review to evaluate the SLAs between Resources Service Grouping and external bodies including: <ul style="list-style-type: none"> - Confirmation of the existence of SLAs with each identified external body - An evaluation of each SLA to confirm that the charge being levied is correct, justifiable and adequately recovers the costs involved in providing the service - A review of procedures regarding how potential conversions and commercial discussions / negotiations with 3rd parties are handled | N/A |
| MTEP | Assurance review of the arrangements in place to mitigate against the risk of the Council not achieving the requisite savings. | Substantial Assurance |
| Income & Debt Recovery | Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> - Invoices not being raised following the provision of service - Inability for the Council to take any necessary recovery action - Customers are unaware what they are being charged for - Inefficient use of resources (only those controls identified in the CRA as in scope) - Mispostings / fraudulent activity go undetected - Appropriate recovery action is not taken (only those controls identified in the CRA as in scope) - Information and data are not protected from loss, damage or unauthorised disclosure - Loss of service/transaction records due to ICT Systems failure - Debts are inappropriately cancelled through the use of credit notes - The direct debit guarantee is breached - Inadequate performance of the service | Moderate Assurance |

| AUDIT AREA | BRIEF DESCRIPTION OF SCOPE OF THE AUDIT | FINAL OPINION |
|--|---|--------------------|
| Unix review | Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> - The inability of the authority to execute critical processes - Unauthorised access to data - The loss of key personnel - The migration of data to a new platform fails | Moderate Assurance |
| Income and Expenditure Project | Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> - ICT is unable to fulfil the requirements of SLAs - ICT fails to collect income due - Costs relating to the provision of external services are not recovered | Moderate Assurance |
| Corporate Governance - Litigation Database | Assurance review of the arrangements in place to mitigate the risk of non-compliance with International Standards on Audit (ISA) 501, i.e. potential litigation or claims that would affect the financial statements. | Moderate Assurance |
| Income & Debt Recovery | Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> - Invoices not being raised following the provision of service - Inability for the Council to take any necessary recovery action - Customers are unaware what they are being charged for - Inefficient use of resources (only those controls identified in the CRA as in scope) - Posting errors / fraudulent activity go undetected - Appropriate recovery action is not taken (only those controls identified in the CRA as in scope) - Information and data are not protected from loss, damage or unauthorised disclosure - Loss of service/transaction records due to ICT Systems failure - Debts are inappropriately cancelled through the use of credit notes - The direct debit guarantee is breached - Inadequate performance of the service | Moderate Assurance |
| Unix review | Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> - The inability of the authority to execute critical processes - Unauthorised access to data - The loss of key personnel - The migration of data to a new platform fails | Moderate Assurance |
| Income and Expenditure Project | Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> - ICT is unable to fulfil the requirements of SLAs - ICT fails to collect income due - Costs relating to the provision of external services are not recovered | Moderate Assurance |

| AUDIT AREA | BRIEF DESCRIPTION OF SCOPE OF THE AUDIT | FINAL OPINION |
|--|---|--------------------|
| Corporate Governance - Litigation Database | Assurance review of the arrangements in place to mitigate the risk of non-compliance with International Standards on Audit (ISA) 501, i.e. potential litigation or claims that would affect the financial statements. | Moderate Assurance |
| Payroll | <p>Assurance review of the arrangements in place to mitigate against the risks of:</p> <ul style="list-style-type: none"> - Staff are unaware of the procedures to follow - Amounts paid are not reflected in the financial management system - Inadequate performance of the service - Potential new business not identified - Staff do not act appropriately - There is no documentary evidence to support transactions / deductions - Payments are calculated incorrectly - Transactions are not initiated and recorded promptly - Salaries / Wages payments not made - Overpayments are made (only those controls identified in the CRA as in scope) - Pay awards / amendments to tax / NI / Increments / etc. implemented incorrectly - Unaffordable overtime is paid beyond the budget available - Information and data are not protected from loss, damage or unauthorised disclosure | Moderate Assurance |
| Information Security Policies – Forensic Readiness and Systems Development & Maintenance | <p>Assurance review of the arrangements in place to mitigate against the risks of:</p> <ul style="list-style-type: none"> - The Authority not having the knowledge and/or capability to respond to incidents which arise relating to forensic readiness - The Authority not having the knowledge and or capability to effectively develop and maintain systems | Moderate Assurance |
| Windows security | <p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> - Group Policies are not configured to be in compliance with the Council's policies/procedures or industry good practices - Confidentiality, integrity and availability of systems and data may be compromised due to the configuration of Group Policies | Moderate Assurance |
| Joint review of Grants Protocol and Grants Receivable | <p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> - Funding is being applied for which bypasses corporate arrangements - Funding is not aligned with Corporate Priorities or Service Plan - Services compete for funding and are deemed ineligible or the application is void - Services fail to apply for funding due to a lack of awareness of the Corporate Grants process - DCC and other sources of match funding are not accounted for in the budget setting process - Evidence requirements are not met in line with Grant conditions - Funding is not being applied appropriately to the approved purpose - Funding is not monitored from inception to completion and into archive - Auditing requirements have not been diarised and agreed with the appropriate auditing bodies - Authorised signatories have not signed all claims | Limited Assurance |

| AUDIT AREA | BRIEF DESCRIPTION OF SCOPE OF THE AUDIT | FINAL OPINION |
|-------------------|--|-------------------|
| PCI Compliance | <p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> - Non-compliance with regulations - Lack of corporate understanding, and/or buy in, of PCI requirements - Loss/theft of card data | Limited Assurance |
| Internet Security | <p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> - Information assets/data are not adequately protected from corruption, loss, or theft - Equipment/software become obsolete and are no longer supported - Loss/unavailability of appropriately skilled staff - Remote access is not secure - Sensitive data (as defined by the Data Protection Act) is accessed by unauthorised persons - Access to the network from non DCC equipment e.g. Bring Your Own Device (BYOD) | Limited Assurance |

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Progress on the Implementation of Audit Recommendations

| Risk Category | Number of Actions Raised | Actions Due | Actions Implemented | | | Overdue Actions by original target date | Number of Actions where the original target has been revised | Overdue Actions following a revised target date | Total Revised Actions Due | Revised Total Recommendations Overdue |
|--|--------------------------|-------------|---------------------|-------------|------------|---|--|---|---------------------------|---------------------------------------|
| | | | Due | Not Yet Due | Total | | | | | |
| ASSISTANT CHIEF EXECUTIVE (ACE) | | | | | | | | | | |
| 2012 / 2013 | | | | | | | | | | |
| High | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Medium | 11 | 11 | 4 | 0 | 4 | 7 | 7 | 0 | 0 | 0 |
| Total | 11 | 11 | 4 | 0 | 4 | 7 | 7 | 0 | 0 | 0 |
| 2013 / 2014 | | | | | | | | | | |
| High | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Medium | 6 | 5 | 5 | 0 | 5 | 0 | 0 | 0 | 0 | 0 |
| Total | 6 | 5 | 5 | 0 | 5 | 0 | 0 | 0 | 0 | 0 |
| Overall Total | 17 | 16 | 9 | 0 | 9 | 7 | 7 | 0 | 0 | 0 |
| CHILDREN AND ADULT SERVICES (CAS) | | | | | | | | | | |
| 2012 / 2013 | | | | | | | | | | |
| High | 10 | 10 | 10 | 0 | 10 | 0 | 0 | 0 | 0 | 0 |
| Medium | 21 | 21 | 21 | 0 | 21 | 0 | 0 | 0 | 0 | 0 |
| Total | 31 | 31 | 31 | 0 | 31 | 0 | 0 | 0 | 0 | 0 |
| 2013 / 2014 | | | | | | | | | | |
| High | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Medium | 12 | 2 | 0 | 0 | 0 | 2 | 2 | 0 | 0 | 0 |
| Total | 14 | 2 | 0 | 0 | 0 | 2 | 2 | 0 | 0 | 0 |
| Overall Total | 45 | 33 | 31 | 0 | 31 | 2 | 2 | 0 | 0 | 0 |
| NEIGHBOURHOOD SERVICES (NS) | | | | | | | | | | |
| 2011 / 2012 | | | | | | | | | | |
| High | 7 | 7 | 6 | 0 | 6 | 1 | 1 | 0 | 0 | 0 |
| Medium | 56 | 56 | 49 | 0 | 49 | 7 | 7 | 0 | 0 | 0 |
| Total | 63 | 63 | 55 | 0 | 55 | 8 | 8 | 0 | 0 | 0 |
| 2012 / 2013 | | | | | | | | | | |
| High | 9 | 9 | 8 | 0 | 8 | 1 | 1 | 0 | 0 | 0 |
| Medium | 79 | 69 | 60 | 0 | 60 | 9 | 9 | 0 | 0 | 0 |
| Total | 88 | 78 | 68 | 0 | 68 | 10 | 10 | 0 | 0 | 0 |
| 2013 / 2014 | | | | | | | | | | |
| High | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Medium | 19 | 8 | 7 | 0 | 7 | 1 | 1 | 0 | 0 | 0 |
| Total | 20 | 8 | 7 | 0 | 7 | 1 | 1 | 0 | 0 | 0 |
| Overall Total | 171 | 149 | 130 | 0 | 130 | 19 | 19 | 0 | 0 | 0 |
| REGENERATION AND ECONOMIC DEVELOPMENT (RED) | | | | | | | | | | |
| 2012 / 2013 | | | | | | | | | | |
| High | 9 | 9 | 9 | 0 | 9 | 0 | 0 | 0 | 0 | 0 |
| Medium | 12 | 9 | 9 | 0 | 9 | 0 | 0 | 0 | 0 | 0 |
| Total | 21 | 18 | 18 | 0 | 18 | 0 | 0 | 0 | 0 | 0 |
| 2013 / 2014 | | | | | | | | | | |
| High | 1 | 1 | 0 | 0 | 0 | 1 | 1 | 0 | 0 | 0 |
| Medium | 10 | 8 | 6 | 0 | 6 | 2 | 2 | 0 | 0 | 0 |
| Total | 11 | 9 | 6 | 0 | 6 | 3 | 3 | 0 | 0 | 0 |
| Overall Total | 32 | 27 | 24 | 0 | 24 | 3 | 3 | 0 | 0 | 0 |
| RESOURCES | | | | | | | | | | |
| 2011 / 2012 | | | | | | | | | | |
| High | 25 | 25 | 25 | 0 | 25 | 0 | 0 | 0 | 0 | 0 |
| Medium | 86 | 86 | 84 | 0 | 84 | 2 | 2 | 0 | 0 | 0 |
| Total | 111 | 111 | 109 | 0 | 109 | 2 | 2 | 0 | 0 | 0 |
| 2012 / 2013 | | | | | | | | | | |
| High | 32 | 31 | 28 | 0 | 28 | 3 | 3 | 0 | 0 | 0 |
| Medium | 135 | 126 | 118 | 0 | 118 | 8 | 8 | 0 | 0 | 0 |
| Total | 167 | 157 | 146 | 0 | 146 | 11 | 11 | 0 | 0 | 0 |
| 2013 / 2014 | | | | | | | | | | |
| High | 13 | 11 | 9 | 0 | 9 | 2 | 2 | 0 | 0 | 0 |
| Medium | 65 | 49 | 41 | 0 | 41 | 8 | 8 | 0 | 0 | 0 |
| Total | 78 | 60 | 50 | 0 | 50 | 10 | 10 | 0 | 0 | 0 |
| Overall Total | 356 | 328 | 305 | 0 | 305 | 23 | 23 | 0 | 0 | 0 |
| TOTAL COUNCIL | | | | | | | | | | |
| 2011 / 2012 | | | | | | | | | | |
| High | 32 | 32 | 31 | 0 | 31 | 1 | 1 | 0 | 0 | 0 |
| Medium | 142 | 142 | 133 | 0 | 133 | 9 | 9 | 0 | 0 | 0 |
| Total | 174 | 174 | 164 | 0 | 164 | 10 | 10 | 0 | 0 | 0 |
| 2012 / 2013 | | | | | | | | | | |
| High | 60 | 59 | 55 | 0 | 55 | 4 | 4 | 0 | 0 | 0 |
| Medium | 258 | 236 | 212 | 0 | 212 | 24 | 24 | 0 | 0 | 0 |
| Total | 318 | 295 | 267 | 0 | 267 | 28 | 28 | 0 | 0 | 0 |
| 2013 / 2014 | | | | | | | | | | |
| High | 17 | 12 | 9 | 0 | 9 | 3 | 3 | 0 | 0 | 0 |
| Medium | 112 | 72 | 59 | 0 | 59 | 13 | 13 | 0 | 0 | 0 |
| Total | 129 | 84 | 68 | 0 | 68 | 16 | 16 | 0 | 0 | 0 |
| OVERALL TOTAL | 621 | 553 | 499 | 0 | 499 | 54 | 54 | 0 | 0 | 0 |

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APPENDIX 6

**PLEASE SEE ITEM NO. 16
AS APPENDIX EXEMPT**

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APPENDIX 7

**PLEASE SEE ITEM NO. 16
AS APPENDIX EXEMPT**

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Performance Indicators as at Dec 2013

| Objective: To provide maximum assurance to inform the annual audit opinion | | | |
|---|--|--|--|
| Efficiency | Measure of Assessment | Target & (Frequency of Measurement) | Actual |
| KPI | | | |
| Planned audits completed | % of planned assurance work from original approved plan complete to draft report stage | 90% Annually | 41% 35 out of 85 estimated to be complete (including EIP) |
| Timeliness of Draft Reports | % of draft reports issued within 30 Calendar days of end of fieldwork/closure interview | 90% (Quarterly) | 87% - 15 days on average |
| Timeliness of Final Reports | % of final reports issued within 14 calendar days of receipt of management response | 95% (Quarterly) | 92% - 5 days on average |
| Quarterly Progress Reports | Quarterly progress reports issued to Corporate Directors within one month of end of period | 100% (Quarterly) | 100% |
| Terms of Reference | % of TOR's agreed with key contact in advance of fieldwork commencing | 95% (Quarterly) | 96% |
| Quality | Objective: To ensure that the service is effective and adding value | | |
| KPI | Measure of Assessment | Target & (Frequency of Measurement) | |
| Recommendations agreed | % of Recommendations made compared with recommendations accepted | 95% (Annually) | 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) | 89% - Average score 4.28 |
| Customers providing feedback Response | % of Customer returning satisfaction returns | 70% (Quarterly) | 21% |
| Cost | Objective: To ensure that the service is cost effective | | |
| KPI | Measure of Assessment | Target & (Frequency of Measurement) | |
| Cost per chargeable audit day | CIPFA Benchmarking Club – Comparator Group (Unitary) | Lower than average (Annually) | Yes (2012-13) |

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Agenda Item 18

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