



## **Audit Committee**

**Date**        **Friday 31 May 2013**  
**Time**        **9.30 am**  
**Venue**       **Committee Room 1A, County Hall, Durham**

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### **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 4 April 2013 (Pages 1 - 8)
3. Declarations of interest, if any
4. Bi-Annual Report to Council - Work of the Audit Committee (November 2012 - April 2013) - Report of the Chair of Audit Committee (Pages 9 - 18)
5. Compliance with International Auditing Standards - Report of the Chair of Audit Committee (Pages 19 - 38)
6. Action Plan 2011/12 Audit of Accounts - Update - Report of Corporate Director, Resources (Pages 39 - 50)
7. Update on the Final Accounts Timetable 2012/13 - verbal report of Assistant Finance Manager, Strategic Finance
8. External Audit Progress Report - Report of Mazars (Pages 51 - 60)
9. Strategic Risk Management - Progress Report for the Quarter period January to March 2013- Report of Corporate Director, Resources (Pages 61 - 74)
10. Partnership Governance - Report of Corporate Director, Resources (Pages 75 - 94)
11. External Funding - Grant Clawback - Report of Corporate Director, Resources (Pages 95 - 98)
12. Internal Audit Progress Report - Quarter Ended 31 March 2013 - Report of Manager of Internal Audit and Risk (Pages 99 - 132)
13. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration

14. 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)**

15. Internal Audit Progress Report - Quarter Ended 31 March 2013 - Report of Manager of Internal Audit and Risk (Pages 133 - 142)
16. 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  
22 May 2013

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

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

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

**Co-opted Members:**

T Hoban and K Larkin-Bramley

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**Contact: Jackie Graham**

**Tel: 03000269704**

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**DURHAM COUNTY COUNCIL**

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Thursday 4 April 2013 at 10.00 am**

**Present:**

**Councillor E Bell (Chairman)**

**Members of the Committee:**

Councillors O Temple (Vice-Chairman), B Harrison, R Ord and D J Southwell

**Co-opted Members:**

Mr T Hoban

**Apologies:**

Apologies for absence were received from Councillor Colin Carr, Councillor Brian Myers and Kathryn Larkin-Bramley

**1 Apologies for Absence**

Apologies for absence were received from Councillors C Carr, B Myers and K Larkin-Bramley.

**2 Minutes of the meeting held on 21 February 2013**

The Minutes of the Meeting held on 21 February 2013 were confirmed as a correct record and signed by the Chairman.

**3 Declarations of interest, if any**

Declarations of interest were provided by Members of the Committee. A generic declaration of interest would be recorded given that Members were school governors, members of various Committees of the Council, former District Councillor's and bodies such as the Probation Board and Fire Authority.

**4 Exemptions to the P2P Process - Report of Corporate Director, Resources**

The Committee received a report of the Corporate Director of Resources that presented an overview of the approved exemptions to the standard Procure to Pay (P2P) Process (for copy see file of Minutes).

Mr Chris Jones, Transaction Accounts team explained to Members about the approval process in place for the payment of invoices, the guidance used and exceptions to the process. In February 2013 14% of invoices were classed as an exemption, equating to 23% value of all invoices paid. Approximately 29,000 invoices are paid each month. Mr Jones informed the Committee that the P2P board would continue to monitor and make improvements to the process.

The Corporate Director, Resources commended the team for the improvements made as the Committee had previously raised concerns. He added that as many invoices as possible were automated and Oracle was performing well. However it was recognised that there will always be exceptions to the process.

Councillor Ord welcomed the report and asked if Oracle was beneficial. Mr Jones confirmed that the system was working very well.

Mr Hoban asked how often signatory lists are checked and what size were the payment batches referred to in Appendix 2. Mr Jones confirmed that the batching of invoices no longer happens as invoiced are scanned on receipt and that each service is responsible for ensuring signatory lists are kept up to date. Councillor Harrison added that reviewing signatories was an HR issue and processes should be in place to remove leavers from lists. The Manager of Internal Audit and Risk advised that the current audit of the P2P process should provide assurance on the effectiveness of controls relating to exempt payments, including how robust the maintenance of authorised signatory lists are in practice.

The report was generally well received by the Committee who acknowledged the improved performance of the service in relation to the payment of invoices within 30 days. Some discussion followed on the impact of exemptions on overall performance and on whether separate targets were applicable for manual and automated processes and whether or not targets should be set to reduce the number of manual certification of invoices. This will be considered by the service.

**Resolved:-**

That the report be noted.

**5 Changes to the Code of Practice for Local Authority Accounting in the U.K for 2012/13 - Report of Corporate Director, Resources**

The Committee considered a report of the Corporate Director of Resources that provided 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), applied to the 2012/13 accounts (for copy see file of Minutes).

The Assistant Finance Manager, Strategic Finance highlighted changes and their relevance to the Council. He added that further changes would be made next year that would affect the County Council.

**Resolved:-**

That the report be noted.

**6 Consideration of "Going Concern Status" for the Statement of Accounts for the year ended 31 March 2013 - Report of Corporate Director, Resources**

The Committee considered a report of the Corporate Director of Resources that assessed whether Durham County Council should be considered a 'going concern', and whether the accounts should be prepared on that basis (for copy see file of Minutes).

In relation to a question from Councillor Southwell, details of the timetable for the preparation of the statements of accounts were provided. The two stage process ensures that the Accounts are with the External Auditors by 30 June 2013 with formal approval in September. Assurance was provided that processes are in place to monitor progress with regular weekly meetings being held to evaluate performance and ensure completion in accordance with statutory requirements..

Mr Hoban asked for clarification on the agreed tri-borough collaboration arrangements detailed in the report and was assured that feedback would be given following the meeting.

It was subsequently disclosed this reference was an error.

**Resolved:-**

That the recommendations contained within the report be agreed.

**7 Agreement of Accounting Policies for Application in the 2012/13 Financial Statements - Report of Corporate Director, Resources**

The Committee received an update from the Corporate Director of Resources on the County Council's accounting policies to be applied in the preparation of the 2012/13 Statement of Accounts and to seek confirmation that appropriate policies are being applied (for copy see file of Minutes).

The Assistant Finance Manager, Strategic Finance highlighted the changes to be applied in preparing the 2012/13 Statement of Accounts and asked that delegated authority be approved for the Corporate Director, Resources to amend the policies as and when required and report back to Committee.

Councillor Southwell asked if there was a policy regarding the costs to the County Council for making discretionary housing benefit payments .The Corporate Director, Resources said that all costs would be shown in the budget statement. He explained that discretionary housing benefit payment had been in place for many years to help support vulnerable families. The new bedroom tax was expected to increase demand for such payments and it was not known if the current level of government grant of £880K would be enough to help support such families.

**Resolved:-**

That the recommendations contained within the report be agreed.

**8 Final Accounts Timetable for the year ended 31 March 2013 - Report of Corporate Director, Resources**

The Committee considered a report of the Corporate Director of Resources that provided Members with the Final Accounts Timetable for 2012/13 detailing the deadlines for key actions to complete the Statement of Accounts in line with statutory deadlines (for copy see file of Minutes).

The Assistant Finance Manager, Strategic Finance gave an update on progress made so far with the preparation to complete the Statement of Accounts. In 2012/13 there were 69 tasks in the timetable, 47 on time, 13 late, 6 on target, 1 cross-service cutting and 2 n/a. Details of the 13 overdue actions were provided and it was noted that no concerns have been raised regarding any impact this may have on completing the accounts on time. In 2011/12 there were 76 tasks, 54 on time, 19 late and 3 n/a. Ongoing discussions were taking place with the auditors with more robust challenges and roles being clarified. It was noted that one of the challenges this year is some staff carrying our tasks for the first time but the good practice of working together has improved progress.

**Resolved:-**

That the report be noted.

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

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

The Assistant Finance Manager, Strategic Finance informed Members that the Action Plan continues to be monitored through the Performance Framework and progress was very positive. Members were advised the migration of housing dwellings for Durham City is now included in the live system at CIPFA and it is expected to sign off the single asset register at an early stage this year. Assurance was provided that the Accounts could be closed as the risks associated with asset register had now been removed.

**Resolved:-**

That the report be noted.

**10 Durham County Council - Audit Strategy Memorandum 2012/13 - Report of the External Auditor**

The Committee received a report from the External Auditor explaining the scope of the audit, the risks identified and the procedures that will be performed to deliver the audit for Durham County Council (for copy see file of Minutes).

Mr Hoban enquired about how serious issues highlighted relating to bank reconciliation were. The Corporate Director, Resources explained that it had been a historical issue but that following improvements the system was robust and performing well. He gave an assurance that it would be as up to date as possible.

**Resolved:-**

That the report be noted.

**11 Durham County Council Pension Fund - Audit Strategy Memorandum 2012/13 - Report of the External Auditor**

The Committee received a report from the External Auditor explaining the scope of the audit, the risks identified and the procedures that will be performed to deliver the audit for Durham County Council Pension Fund (for copy see file of Minutes).

**Resolved:-**

That the report be noted.

**12 Pension Fund Committee - Terms of Reference - Report of Corporate Director, Resources**

The Committee received a report of the Corporate Director of Resources about the operational terms of reference for the Pension Fund Committee (for copy see file of Minutes).

**Resolved:-**

That the report be noted.

**13 Action Plan for Corporate Governance Improvements - Report of Corporate Director, Resources**

The Committee considered a report of the Corporate Director of Resources summarising progress in implementing the agreed governance action plan, highlighting areas of improvement arising from the 2011/12 annual review of the effectiveness of corporate governance arrangements (for copy see file of Minutes).

**Resolved:-**

That the report be noted.

## **14 Financial Management Standards - Report of Corporate Director, Resources**

The Committee considered a report of the Corporate Director of Resources giving an update on the development and implementation of Financial Management Standards (for copy see file of Minutes).

The Corporate Director, Resources stated that the implementation of the Standards will provide further assurance to the Committee on the effectiveness of key financial systems and that a more detailed financial framework is now in place. Members were advised senior service managers had a responsibility to ensure compliance with the Standards and to report details of any concerns.

### **Resolved:-**

That the report be noted.

## **15 Any Other Business**

The Chairman agreed that the following items of business were of sufficient urgency to warrant consideration:-

**1. Partnership working** – The Committee requested information to be brought back to committee to provide some assurance on the effectiveness of partnership working, following an example referred to by Councillor Temple on the closure of Derwentside Citizens Advice Bureau. .

**2. Guidance for elected members on becoming Trustees and their involvement with partnerships** – The Committee asked to ensure that support is provided to Member who are nominated to act as Trustees or representative to a third party external organisation as the Council's representative. This is to be addressed through Member Induction Training.

**3. Grants and loans paid** to third parties. Councillor Harrison asked about risks when an organisation changes and the risk identified with clawback of external grants and funds. .(Previously raised at the meeting of the Audit Committee on 21st February 2013). Councillor Ord referred to the long term loan to DCC Cricket Club. The Committee were advised that internal Audits are planned to review processes in place relating to grant funding (grants payable and receivable) and the outcomes of these will be reported to Committee in due course.



Action Plan - Work of Audit Committee - Part A – 31 May 2013

Ref No.	Date of Meeting	Item No.	Title of Report	Action Required	By Whom	Report to Committee (date)/ implemented
	22.11.12	14	Fraud & Irregularity	Further assurance on work carried out with partners.  To be incorporated into the Annual Fraud & Irregularity Report	Manager of Internal Audit & Risk	27/6/13
9.	21.2.13	11	Windlestone Hall	Update to Committee on actions taken to improve systems and processes relating to disposals.  Process map of example to illustrate the process  Internal Audit to review effectiveness of controls as part of next year's audit plan ( approximately 6 months' time ) and outcomes to be reported back to Committee when complete	Head of Planning and Assets    Manager of Internal Audit and Risk	27/6/13    28/11/13
10	21.2.13	10	Direct Payments	Directs payment audit with limited assurance - Full Audit report to be brought back and service managers to attend meeting to provide further information	Manager of Internal Audit and Risk/ Personalisation Development Manager	27/6/13
12	4.4.13	15	Assurance on Partnership Working	Prepare a paper to illustrate how assurance is provided on the effectiveness of partnership working ( links to current and planned internal audit work)	Manager of Internal Audit and Risk	31/5/13  Item 7 on agenda
13	4.4.13	15	Grants and Loans Paid to Third Parties	The outcomes of planned internal audit work in this area to be reported to committee on completion	Manager of Internal Audit and Risk	TBA

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**Audit Committee**

**31 May 2013**

**Bi- Annual Report to Council**

**Work of the Audit Committee**

**(November 2012- April 2013)**



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**Report of Councillor Edward Bell, Chair of the Audit Committee**

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**Purpose of the Report**

1. The purpose of this report is to present the bi-annual report on the work of the Audit Committee, covering the period November 2012 to April 2013, for approval prior to its presentation to full Council at its June meeting.

**Recommendations and reasons**

2. The Committee approve the report attached.

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

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**Appendix 1: Implications**

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**Finance -**

None

**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

## County Council

19 June 2013

### Bi Annual Report of the Audit Committee



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## Report of Councillor Edward Bell, Chair of the Audit Committee

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### Purpose of the Report

1. To inform the Council of the work of the Audit Committee during the period November 2012 to April 2013 and to demonstrate how this committee has been successful in improving governance across the Council.
2. The Committee has requested that bi-annual reports be made to Full Council. The last report covering the period April 2012 to September 2012 was presented to the Council on 5<sup>th</sup> December 2012.

### Background

3. The Audit Committee of the County Council has been in place since 2007.
4. The role and membership of the committee is set out in its terms of reference within the Constitution approved by Council.
5. The key functions of the Audit Committee, as set out in the Constitution, are to approve the Council's Annual Financial Statements of Accounts and to act as an advisory committee to the Council and the Executive on audit and governance issues. The Audit Committee also has delegated authority to approve the Council's Annual Governance Statement.
6. Good corporate governance requires independent and effective assurance processes to be in place to ensure effective risk management and reliable financial reporting in order to achieve the Council's corporate and service objectives. It is the responsibility of the Audit Committee to undertake these aspects of governance on behalf of the Council.
7. The membership of the Committee during the period covered by this report was as follows:

- Chair: Cllr Edward Bell
- Vice Chair: Cllr Owen Temple
- Members: Cllr Reg Ord  
Cllr Colin Carr  
Cllr Brian Myers  
Cllr Dennis Southwell  
Cllr Barbara Harrison  
Cllr Michele Hodgson  
Cllr Linda Marshall
- Co-optees: Ms Katherine Larkin Bramley  
Mr Thomas Hoban

## **Summary of Meetings**

### **22 November 2012**

#### 8. The Committee considered:

- (i) A report of the Corporate Director, Resources that provided an update on the second phase of the development of the Single Asset Register to ensure the correct basis for the valuation of assets within the Council's Financial Statements. Phase 2 covers all assets not covered in phase 1 namely, Council Dwellings, Vehicles Plant and Equipment, Intangible Assets and Infrastructure. The work plan submitted with the report provided a means by which the Committee can monitor progress, risks and issues.
- (ii) A report of the Corporate Director, Resources which gave an overview of in year Council Tax collection performance for 2012/13 and an update on the collection rate for 2010/11 and 2011/12, together with an update on the Council Tax provision for bad and doubtful debts. Members were assured that risks associated with income collection to achieve budget projections were being effectively managed and processes were in place in place to collect £250m in 2012/13, based on a collection rate of 98.5%.
- (iii) A briefing note of the Corporate Director, Resources that informed the Committee of the amounts held in the accounts for earmarked and general reserves. This had been requested by the Committee, following consideration of the 2011/12 Financial Statement of Accounts at the previous meeting, to gain further assurance that reserve levels within the accounts were appropriate.
- (iv) A report of the Manager of Internal Audit and Risk which informed members of the work carried out by Internal Audit during the period June to September 2012 and progress made by management on the implementation of audit recommendations.

- (v) A report of the Corporate Director, Resources consolidating all agreed recommendations for improving control weaknesses incorporated in the External Auditor's 2011/12 Interim and Final Governance Reports. Members noted that a robust monitoring framework had been introduced and the Committee would be updated on progress at each subsequent meeting.
- (vi) A report of the Chair of the Audit Committee summarising the work of the Audit Committee for the period April to September 2012. The approved report was subsequently presented to full Council at its meeting on 5 December 2012.
- (vii) The Annual Audit Letter 2011/12 from the Audit Commission summarising the 2011/12 audit of Durham County Council, including the Pension Fund that it administers. The letter confirmed an unqualified opinion on both the accounts and the Value for Money (VFM) opinion. It was pleasing to note that the external auditor had reported that the quality of the financial statements had improved with fewer errors identified than in previous years. The VFM opinion concluded that the Council understands the financial challenges and risks it faces and has worked hard to deliver a sustainable medium term financial plan for 2012/13 and beyond.
- (viii) A report of the Corporate Director, Resources highlighting the current strategic risks facing the Council and a summary of the work carried out by the Corporate Risk Management Group during July to September 2012.
- (ix) A report of the Corporate Director, Resources that sought approval of proposed amendments to the Local Code of Corporate Governance. The Code was approved prior to consideration by the Constitution Working Group.
- (x) A report of the Corporate Director, Resources covering the period April 2012 to September 2012 which provided an update on proactive work being taken to manage the strategic risk of fraud and corruption. Details of reactive work undertaken or in progress to investigate cases of alleged fraud and irregularity were also provided.

### **21 February 2013**

9. The Committee considered:

- (i) A report of the Corporate Director of Resources which highlighted the current strategic risks facing the Council and provided an insight into the work carried out by the Corporate Risk Management Group during the period October to December 2012.

- (ii) An update relating to the strategic risk associated with the funding of the One Point Service, reported at a previous meeting, to gain further assurance that the risk had been effectively managed.
- (iii) A report of the Corporate Director of Resources which provided an update on progress in implementing the agreed corporate governance action plan. The action plan highlighted areas of improvement arising from the annual review of the effectiveness of corporate governance arrangements as reflected in the 2011/12 Annual Governance Statement.
- (iv) A report of the Corporate Director of Resources which provided an update on progress on the implementation of the Action Plan from the agreed recommendations for improving control weaknesses incorporated in the External Auditors 2011/12 Interim and Final Governance Reports.
- (v) The annual report of the External Auditor on the outcomes of the audit of the Council's 2011/12 grant claims and returns. Overall, the report provided assurance on a much improved position from previous years. Whilst some errors and amendments were noted, no significant weaknesses in the control environment were disclosed.
- (vi) A report of the Corporate Director of Resources regarding the appointment of co-opted Members to the Committee. The Committee discussed various options for the appointment of co-opted Members and their length of tenure. It was agreed that the contracts of the current co-opted Members be extended for a period of 3 years from May 2013.
- (vii) A report of the Manager of Internal Audit and Risk which informed members of the work carried out by Internal Audit during the period October to December 2012.
- (viii) A joint report of the External Auditor and the Manager of Internal Audit and Risk Management regarding an investigation carried out in relation to the sale of Windlestone Hall. This review had been carried out following the receipt of a letter of complaint alleging that the Hall had been sold substantially under value. Whilst the review concluded that there was no evidence that this was the case, the Committee noted the weakness in controls in the disposal process highlighted in the report and asked for a management update on agreed actions to be taken in response to be brought back to Committee. The Committee also requested Internal Audit carry out a follow up audit as part of the 2013/14 Audit Plan to gain further assurance that improvements made are effective in managing identified risks.
- (x) Explanations provided by a selection of service managers as to why the implementation of agreed internal audit recommendations, previously highlighted in Internal Audit quarterly progress reports were considerably overdue.



#### **4 April 2013**

10. The Committee considered the following reports in preparation for consideration of the 2012/13 financial statement of accounts:

- (ii) A report of the Corporate Director of Resources that provided a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK.
- (iii) A report of the Corporate Director of Resources that assessed whether Durham County Council should be considered a 'going concern', and whether the accounts should be prepared on that basis.
- (iv) Details of the timetable for the preparation of the statements of accounts and the performance management arrangements in place to provide assurance that they will be completed in accordance with statutory requirements.
- (iv) An update from the Corporate Director of Resources on the County Council's accounting policies to be applied in the preparation of the 2012/13 Statement of Accounts to gain assurance that appropriate policies are being applied. The Committee approved the delegation of authority to the Corporate Director, Resources to amend the policies as and when required.
- (v) A progress update from the Corporate Director of Resources on the implementation of the Action Plan from the agreed recommendations for improving control weaknesses incorporated in the External Auditor's 2011/12 Interim and Final Governance Reports.
- (vii) Reports from the External Auditor explaining the scope of the 2012/13 audit of accounts for both the County Council Accounts and Durham County Pension Fund, the risks identified and the procedures that will be performed to deliver the audit.

11. The Committee also considered:

- (i) A report of the Corporate Director of Resources that presented an overview of the approved exemptions to the standard Procure to Pay (P2P) to gain assurance that exemptions were kept to a minimum and adequate alternative controls to automated authorisation are in place.
- (ii) A report of the Corporate Director of Resources relating to the recently agreed operational terms of reference for the Pension Fund Committee which clarified the respective roles and responsibilities of the Pensions Fund Committee and the Audit Committee in relation to governance issues and the pension fund accounts.
- (iii) An update report of the Corporate Director of Resources summarising progress in implementing the agreed governance action plan, highlighting

areas of improvement arising from the 2011/12 annual review of the effectiveness of corporate governance arrangements.

- (iv) A report of the Corporate Director of Resources giving an update on the development and implementation of Financial Management Standards. The Committee noted that the implementation of the standards would further improve the effectiveness of the Council's financial management framework.

### **How the Audit Committee has made a difference**

12. The Committee made a significant difference to the Council's governance, control and risk framework during the period November 2012 to April 2013 by :

- Striving to help support the Council deliver its objectives and priorities by being a proactive and reactive body encouraging the early reporting of any risk and control issues to ensure that appropriate and timely action is taken to address them
- Continuing to raise the profile of the Internal Audit and Risk Management Service through the Service's reports to Audit Committee
- Independent questioning and contributing to the development and control of internal audit plans
- Seeking assurance on the effectiveness of corporate risk management arrangements.
- Seeking assurance on the effectiveness of the Council's corporate governance arrangements from a number of different assurance sources
- Seeking assurance on the timely production of the year end financial statements of accounts
- Improving the accountability of service managers to respond to outstanding internal audit reports and the implementation of agreed internal audit recommendations thereby helping to drive improvement in controls to manage risks effectively
- Continuing to provide regular challenge and demanding accountability on the effectiveness of the operation of key financial systems
- Challenging the level of internal audit resources and their work to ensure that the service is effective and a reliable assurance opinion on the Council's controls framework is provided
- Challenging amendments required to the Council's Local Code of Corporate Governance and monitoring progress on the implementation of actions where improvements in governance arrangements have been identified.

### **Future Work**

13. An initial induction training session for new Audit Committee elected members, appointed following the May County Council election, has been

scheduled to take place prior to the next scheduled meeting of the Audit Committee on the 31 May 2013.

14. A training programme will be developed to support new elected members in accordance with the Audit Committee's forward business plan to be developed and agreed for 2013/14.
15. In accordance with best practice, a review of the effectiveness of the Audit Committee will be undertaken, building on the previous exercise undertaken in May 2011 and incorporating any feedback from new members.

**Recommendations and reasons**

16. Members note the report and the work undertaken by the Audit Committee during the last six months.

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**Contact: Avril Wallage, Manager of Internal Audit & Risk, Tel 03000 269645**

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## **Appendix 1: Implications**

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

**Staffing** - None.

**Risk** – Not a key decision

**Equality and Diversity/ Public Sector Equality Duty** - None

**Accommodation** - None

**Crime and disorder** - The Audit Committee provide independent assurance that the Council's arrangements to combat the risk of loss through fraud are effective and all reported potential fraudulent acts are appropriately investigated and reported to the police where it is appropriate to do so.

**Human rights** - None

**Consultation** - None

**Procurement** – None.

**Disability issues** – None.

**Legal Implications** – None.

## AUDIT COMMITTEE

31 MAY 2013



### Compliance with International Auditing Standards

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## Report of Councillor Edward Bell, Chair of the Audit Committee

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### Purpose of the Report

1. The purpose of this report is to advise Members of a response provided by the Chair of the Audit Committee relating to a letter sent from Mazars, the Council's external auditor, regarding compliance with International Auditing Standards.

### Background

2. As part of the 2012/13 final accounts audit process, the external auditor is required to comply with a number of International Standards on Auditing and needs to obtain an understanding from, 'those charged with governance', of the processes regarding fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements. This covers the opinion on the Council's 2012/13 accounts including the pension fund accounts.
3. A copy of the letter from Mazars and a copy of the response provided by the Corporate Director Resources, in relation to a similar request, are attached for information as Appendices 2 and 3.
4. The response provided by the Chair on behalf of the Audit Committee, requested by the 30 April 2013, is attached at Appendix 4.

### Recommendation

5. Members are requested to note the response provided by the Corporate Director Resources and that provided by the Chair of the Audit Committee.

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**Contact: Avril Wallage, Manager of Internal Audit & Risk, Tel 03000 269645**

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**Appendix 1: Implications**

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**Finance**

None

**Staffing**

None

**Equality and Diversity**

None

**Accommodation**

None

**Crime and disorder**

None

**Human Rights**

None

**Consultation**

None

**Procurement**

None

**Disability Discrimination**

None

**Legal Implications**

None

Councillor Bell  
Chair of the Audit Committee  
Durham County Council  
County Hall  
Durham  
DH1 5UE

Our ref      DURH98479  
  
Direct line    +44 (0) 191 383 6410  
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11 March 2013

## **Durham County Council (including the Pension Fund) 2012/13**

### **Audit Committee letter: ISA+240 (Fraud), ISA+250 (laws and regulations), ISA+501 (litigation and claims) & ISA+570 (going concern)**

#### **Introduction**

This letter aims to summarise for the Audit Committee the requirements under International Auditing Standards (UK and Ireland), also referred to as ISA+, in respect of preventing fraud in the annual accounts, and compliance with laws and regulations, litigation and claims and going concern. It sets out the information we will require from the Audit Committee before we give our opinion on the Durham County Council's 2012/13 accounts including the Pension Fund accounts.

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

#### **Background**

Under the ISA, the primary responsibility for preventing and detecting fraud rests with both management and 'those charged with governance', which for the Council is the Audit Committee. This includes fraud that could impact on the accuracy of the annual accounts. The ISA requires us, as external auditors, to obtain an understanding of how the Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

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

The ISA views fraud as either:

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

Mazars LLP – The Rivergreen Centre - Aykley Heads - Durham - DH1 5TS  
Tel: +44 (0) 191 383 6300 – Fax: +44 (0) 191 383 6350 – [www.mazars.co.uk](http://www.mazars.co.uk)

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

Registered by the Institute of Chartered Accountants in England and Wales to carry out audit work.



INVESTOR IN PEOPLE



Page 21

GLOBAL ALLIANCE OF INDEPENDENT FIRMS

### What are we required to do?

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

- 1) How does the Audit Committee, in its role as those charged with governance, exercise oversight of management's processes in relation to:
  - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
  - identifying and responding to risks of fraud in the organisation, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
  - communicating to employees of views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the organisation's code of conduct); and
  - communicating to those charged with governance the processes for identifying and responding to fraud or error
- 2) How does the Audit Committee oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control? Is the Audit Committee aware of any breaches of internal control during 2012/13?
- 3) Has the Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2012 – 31 March 2013?
- 4) Has the Audit Committee any suspicion that fraud may be occurring within the organisation?
  - Has the Audit Committee identified any specific fraud risks within the organisation?
  - Does the Audit Committee have any concerns that there are areas within the organisation that are at risk of fraud?
  - Are there particular locations within the organisation where fraud is more likely to occur?
- 5) Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively?
  - If not, where are the risk areas?
  - What other controls are in place to help prevent, deter or detect fraud?
- 6) Is the Audit Committee satisfied that staff are encouraged to report their concerns about fraud, and the types of concerns they are expected to report?
- 7) From a fraud and corruption perspective, what are considered by the Audit Committee to be high risk posts within the organisation?
  - How are the risks relating to these posts identified, assessed and managed?



- 8) Is the Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud?
- How are the risks associated with fraud related to such relationships and transactions mitigated?
- 9) Is the Audit Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?
- Are there particular balances where fraud is more likely to occur?
  - Is the Audit Committee aware of any assets, liabilities or transactions that it believes were improperly included or omitted from the accounts of the organisation?
  - Could a false accounting entry escape detection? If so, how?
  - Are there any external fraud risk factors which are high risk of fraud?
- 10) Is the Audit Committee aware of any organisational, or management pressure to meet financial or operating targets?
- Is the Audit Committee aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?

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

### **Background**

Under the ISA, in the UK and Ireland, the primary responsibility for ensuring that the entity's operations are conducted in accordance with laws and regulations and the responsibility for the prevention and detection of non compliance rests with management and 'those charged with governance', which for the Council is the Audit Committee. The ISA requires us, as external auditors, to obtain an understanding of how the Committee gains assurance that all relevant laws and regulations have been complied with.

### **What are we required to do?**

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

- 11) How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with. For example:
- Is the Committee aware of the process management has in place for identifying and responding to changes in laws and regulations?
  - What arrangements are in place for the Committee to oversee this process?
  - Is the Committee aware of the arrangements management have in place, for communicating with employees, non-executive directors, partners and stakeholders regarding the relevant laws and regulations that need to be followed?
  - Does the Committee have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with, and if so is it aware of what actions management is taking to address it?

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

### **Background**

This ISA deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence, in this instance with respect to the completeness of litigation and claims involving the entity. The ISA requires us, as external auditors, to design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement.

### **What are we required to do?**

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

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

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

### **Background**

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

### **What are we required to do?**

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

- 13) How has the Audit Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?
- 14) Has the Audit Committee identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?

## **The way forward**

The information you provide will inform our understanding of the Council and its business processes, and to enable an opinion to be given on your 2012/13 financial statements.

I would be grateful for your responses, which should be formally considered and communicated to us on the Committee's behalf, by 30 April 2013. In the meantime, if you have any queries, please do not hesitate to contact me.

Catherine Banks  
Senior Manager  
11 March 2013

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Catherine Banks  
Senior Auditor  
Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
DH1 5TS

30 April 2013

Dear Catherine,

**Audit of Durham County Council's Financial Statements (including Pension Fund Accounts) - Compliance with International Auditing Standards**

Thank you for your letter dated 11 March 2013. I would like to make the following comments:

**ISA + 240 - Management processes in place in relation to fraud**

1. ***We seek an understanding of management's assessment of the risk that the financial statements may be misstated due to fraud.***
  - a). ***Does management undertake its assessment of the risk of that the financial statements may be materially misstated due to fraud and error (including the nature extent and frequency of these assessments?)***

Management's assessment of the risk that the financial statements may be misstated due to fraud or error is informed by consideration of various sources of assurance on the adequacy of the control environment relating to key financial systems.

Sources of assurance include front line service managers supervisory controls, corporate risk management arrangements and performance management arrangements.

Internal Audit (IA) review key financial systems on an annual basis, using a risk based approach, to provide independent assurance that expected controls are effective in reducing the likelihood of material fraud or error. IA will also consider financial risks as part of planned assurance reviews of key service activities agreed in annual audit plans. The risk based approach used by IA involves working with services managers to agree and assess key risks, key controls and other assurance sources using a Control Risk Assessment (CRA) methodology. This enables audit resources to be targeted to high risk areas where there is little or no assurance. At the end of the audit, the CRA is updated with details of actual controls in place which provides a basis for responsible officers to carry out Control Risk Self Assessments (CRSA).

Assurance is also provided by the external auditor and other external review agencies e.g HM Revenues and Customs. Any agreed actions to improve the control environment are regularly monitored to ensure they are implemented in a timely manner.

Ongoing consideration of the various sources of assurance allow for continuous assessment of the risk of material misstatement. Risks will also be assessed as part of the planning and preparation of annual internal audit plans..

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

Managers are responsible for the implementation of controls to reduce the likelihood and / or impact of fraud occurring in their service areas.

The risk of fraud and corruption is recognised as a strategic risk and monitored through the Corporate Risk Management process.

The Head of Internal Audit is responsible for the development and effective implementation of the Council's Counter Fraud and Corruption Strategy and leads on a number of initiatives to help combat fraud through raising awareness of the risks, supported through a dedicated Counter Fraud Officer. Fraud and corruption risks will be considered in consultation with service managers as part of the CRA process outlined above.

The Council has a Benefits Fraud and Error Team that raises awareness of the risk of benefit fraud and investigates suspected cases.

IA assess the fraud risks to which the Council may be exposed on an annual basis as part of the annual audit planning process and make provision within annual audit plans for conducting a number of specific counter fraud reviews aimed to prevent and detect fraud in high risk areas. This annual assessment will consider risks identified externally such as those highlighted in the Audit Commission's publication "Protecting the Public Purse and the National Fraud Authority's, "Fighting Fraud Locally", the National Anti Fraud Network (NAFN) and various audit/counter fraud networking groups.

The Council's Counter Fraud Strategy is supported by a Fraud Response Plan that sets out the process to be followed if fraud is suspected.

All cases of suspected corporate fraud must be reported to the Head of Internal Audit, who will then agree, with the appropriate officers, how the matter will be investigated.

The Counter Fraud Officer keeps a register of all suspected cases of corporate fraud and monitors and reports upon counter fraud activities.

The Council has a 'zero tolerance' approach to fraud and proven cases will be dealt with under the appropriate disciplinary procedures and, if considered appropriate, a referral to the Police will be made. Wherever possible sums lost will be recovered through whatever means are available to the Council.

The investigation and outcomes of all cases of corporate fraud are monitored and reported as part of Internal Audit's quarterly progress reporting to Corporate Directors. In addition a bi annual fraud report is prepared for consideration of the Corporate Management team summarising counter fraud initiatives, new and emerging risks, reported cases and outcomes.

Control weaknesses identified as a result of reported, suspected cases will be reviewed in consultation with service managers to reduce the impact or likelihood of the risk of reoccurrence. Any recommendations made to improve the control environment will be monitored by Internal Audit.

***C) What arrangements does management have in place to communicate to employees regarding its views on business practices and ethical behaviour (for example by updating, communicating and monitoring against the Council's Code of Conduct).***

The Employee Code of Conduct is part of the induction package for all new starters and is easily accessible on the Council's Website and intranet. It is reviewed annually and employees are regularly reminded of their responsibilities under the Code through various means of communication e.g Employee Updates. There is also a link to the Code of Conduct in the Counter Fraud Strategy that is also widely communicated to employees. Support is also provided for Schools and Governors in raising fraud awareness.

More counter fraud work is planned to help embed and maintain a strong counter fraud culture across the whole Council. Improvements made during 2012/13 include the role out of e-learning counter fraud awareness training to all managers. Further training will be developed during 2013/14 to target all employees and new starters on induction.

The monitoring of ethical behaviour will also be considered through the on-going day to day operational supervision and management of employees. The Council also has a performance management framework that includes a staff performance appraisal scheme that provides a more formal structured approach to consideration of ethical behaviour.

***. d) How does management communicate the processes for identifying and responding to fraud or error to the Audit committee?***

Bi-annual reports are made to the Audit Committee on counter fraud activity, reported and investigated cases and outcomes.

Any amendments required to the Council's Counter fraud Strategy, Fraud Response Plan, Anti Money Laundering Policy, and Confidential Reporting Code (Whistle Blowing Policy) are reported to the Audit Committee for approval.

New and emerging fraud risks will be brought to the Audit Committee's attention when annual audit plans are presented for approval and through quarterly Internal Audit Progress reports.

***2) Does management have knowledge of any actual, suspected or alleged fraud, either within the Council as a whole or within your department during the period 1/4/2012 to 31/3/2013? If so, what actions is management taking to address?***

Management is aware of a number of proven and potential frauds. The majority of cases relate to housing benefit that have either been disclosed through data matching exercises (Audit Commission and the Housing Benefit Service) or through its own fraud and error investigative procedures. Action taken in response to proven housing benefit fraud is in accordance with the Council's Housing Benefit Sanction Policy. This involves recovery action through court prosecution, or the imposing of

administrative penalties or cautions, as considered most appropriate in accordance with the sanction policy.

Details of all actual, suspected or alleged fraud and action taken in response are as reported by the Head of Internal Audit through bi- annual reports. New potential cases of corporate fraud will also be reported to respective Corporate Directors as and when they arise and updates provided through Internal Audit Quarterly progress reports or more frequently if necessary.

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

Within any organisation of the size of Durham County Council there is always the potential for fraud to be occurring. Hence, the risk of fraud and corruption is captured within the corporate strategic risk register. However, the policies, procedures and processes outlined above and the continual development of raising fraud awareness seek to further embed a strong counter fraud culture and minimise the risk.

Specific fraud risks within the Council are identified through the internal audit fraud risk assessment process. This assessment is based on the monitoring and investigation of reported cases, consideration of the overall control environment operating within the Council and national fraud risk indicators. Fraud risks will also be considered in consultation with service managers as part of the annual audit planning process.

Management is aware that the extent of change across the Council together with the current economic climate has increased the risk of fraud and corruption. All suspicions reported by management referred to Internal Audit are as captured in bi annual reports to CMT and Audit Committee.

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

Independent assurance on the effectiveness of the control environment is provided through the work of Internal Audit as reported through individual audit reports, quarterly progress reports and the Annual Audit Report. The latter is yet to be finalised for 2012/13 but will be considered by CMT and the Audit Committee shortly.

Corporate Directors also consider other assurance sources and the effectiveness of internal controls operating within their service groupings when providing assurance statements in support of the Council's Annual Governance Statement (AGS). This is the currently being prepared and will be reported in CMT and Audit Committee in June.

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

The Council has a Confidential Reporting Code (Whistle Blowing Policy) that is effectively communicated through staff induction and is easily accessible. E Learning Fraud Awareness Training reinforces managers' responsibilities in relation to fraud and will further encourage staff to be more vigilant and report their concerns. There are dedicated counter fraud pages on the Council's intranet that provide information to employees on how to raise any concerns and what to do and what not to do if they suspect something is wrong. Whilst employees are encouraged to report



any concerns internally through their line managers or internal audit, external contacts are also provided.

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

Discussions on the risk of fraud and corruption are held with senior management as part of the consultation process on the preparation of annual audit plans and managers are reminded of their responsibilities for ensuring that adequate controls are implemented to manage any identified risks.

Fraud awareness training developed specifically for managers will help managers consider fraud risks within their operational areas and to identify posts which are considered to be at high risk and what to do about it.

IA devise an annual counter fraud programme of work, agreed by Corporate Management Team and the Audit Committee as part of their annual audit plan, to provide independent assurance that internal controls are operating effectively in high risk areas.

Fidelity guarantee insurance is in place.

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

The Council has an employee Code of Conduct in place which clearly communicates the responsibilities of staff and requires officers to complete declarations of interest where appropriate. It is management's responsibility to ensure compliance with this Code and to monitor the nature of any interests declared.

The Council has a member's Code of Conduct in place which clearly communicates the responsibilities of members, during meetings, with regard to declarations of interests. Procedures are in place for the recording, maintaining and monitoring of such declarations.

A register of interests of members and co-opted members of the council, as required under section 81(1) of the Local Government Act 2000, is maintained which details the declaration of financial and other interests.

All Members and the corporate management team are required to complete an annual return of related party relationships and transactions and guidance notes have been issued to support their completion. Where any related transactions are declared extracts are obtained from Accounts Payable to identify actual payments made and reviewed. A list showing all such transactions for 2012/13 is currently being compiled by strategic finance.

In addition, Internal Audit carries out periodic reviews of all employees and members' declarations to help identify any potential undeclared relationships and or fraudulent transactions using outputs from data matching exercises. As a result of the last review, concluded during 2012/13, corporate guidance is to be revised to improve the recording, approval and monitoring processes of employee declarations.

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

Given the size and complexity of transactions reflected in the Council's accounting records there is always the potential for error or false accounting that could escape detection. However internal controls and assurance on their effectiveness provides reasonable assurance that any such error would not be material.

I am not aware of specific entries that I believe are false or intentionally misleading.

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

I am not aware of any inappropriate organisational or management pressures being applied or incentives offered to anyone to meet financial or operating targets.

**ISA+250 - Management processes in place in relation to compliance with relevant laws and regulations**

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

The Council has a local Code of Corporate Governance developed in accordance with CIPFA/SOLACE guidance. This Code is part of the Council's Constitution and is communicated internally and externally. This is reviewed annually and corporate governance arrangements in place, including those relating to compliance with relevant laws and regulations, are regularly assessed by senior officers. The AGS must be approved by the Corporate Management Team and the Audit Committee.

The Council's Monitoring Officer, the Head of Legal and Democratic Services, is generally responsible for ensuring that all laws and regulations impacting on County Services are disseminated to appropriate service managers and will arrange to brief the Corporate Management Team and Cabinet as considered appropriate on legal issues. Service managers are responsible for ensuring that laws and regulations relevant to their service area are complied with and for ensuring that any legal implications are identified and considered when any reports requiring key decisions are presented to Cabinet.

The Council's Financial Procedure Rules, which are also part of the Council's Constitution, provide the framework for managing the Council's financial affairs. There is specific provision within these procedures for the Chief Financial Officer to report to full Council, and to the Council's external auditors, if the Council or one of its officers:

- Has made, or is about to make a decision which involves incurring expenditure which is unlawful
- Has taken or is about to take any unlawful action which has resulted in a loss or deficiency to the Council
- Is about to make an unlawful entry in the Council's accounts.

I am not aware of any such issue having being reported.

Arrangements have been put in place within ACE to prepare regular updates on new central government initiatives and consultation exercises which are circulated to senior managers as an early warning of potential new legislation and regulations.

Assurance that risks around compliance with laws and regulations are being effectively managed is provided through the Council's risk management processes.

Internal audit carry out periodic reviews of the control framework in place for ensuring that services keep abreast of any changes to legislation impacting on their operations and carry out compliance testing.

Other functions within the Council also provide assurance on compliance e.g Quality assurance audits within CAS and Health and Safety inspections.

Some external assurance is also provided through external inspection and review bodies.

***11. Are management aware of any instances where the Council has not complied with any laws or regulations during 2012/13?***

I am aware of a number of cases involving actual and potential litigation action against the Council, that if proven may indicate non compliance with legislation in a variety of subject areas. Records of all such cases are captured in a database maintained by Legal Services as and when cases are referred to them for advice.

**ISA+501 - Litigation and claims that would effect the financial statements**

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

The value of individual potential claims is captured in the central data base maintained by Legal Services. Arrangements have been put in place for monitoring and reporting financial risks associated with all potential claims to ensure that any uninsured risks are appropriately reflected in the financial statements and any incidences of noncompliance with legal requirements are identified and corrective action taken to avoid a reoccurrence. Any individual cases with a significant value are brought to the attention of the appropriate Service Corporate Director and Corporate Director Resources.

These arrangements are subject to periodic independent assurance reviews by Internal Audit.

Collectively, potential values are not considered to be material although I am aware of some cases where a contingent liability and / or provision may be necessary. For example, I am aware that the Council is still involved in defending a class action relating to land charges fees. Provision has been made in reserves based upon possible restitution of fees, but the litigants are represented by lawyers who may be widening the scope of the litigation. The council is using LGA organised external lawyers to represent its interests.

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

**13. What controls does the Council have in place to identify, authorise, approve, account for and disclose related party transactions and relationships?**

The controls in place are those outlined in response to question 7 above.

A list is being prepared of all related party transactions, with an explanation of the nature of these and whether any transactions have been entered into with these related parties during the 2012/13.

**ISA 570 – Consideration of the going concern assumption in an audit of financial statements.**

**14. How has management assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?**

Yes. A full assessment has been carried out and the outcomes reported to Audit Committee at its meeting on the 4 April 2013. Based on the assessment undertaken I have concluded that the County Council is a going concern and it is appropriate for the Statement of Accounts to be prepared on this basis because:

- The County Council has a history of stable finance and ready access to financial resources in the future
- There are no significant, operating or other risks that would jeopardise the County Council's continuing operation.

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

No.

Yours sincerely

Don McLure  
Corporate Director Resources

Catherine Banks  
Senior Auditor  
Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
DH1 5TS

30 April 2013

Dear Catherine,

**Audit of Durham County Council's Financial Statements (including Pension Fund Accounts) - Compliance with International Auditing Standards**

Thank you for your letter dated 11 March 2013 regarding the above.

I have noted the response provided by Don McLure as the Council's Section 151 Officer, in relation to the management arrangements in place for those areas covered by the International Auditing Standards you refer to, and would like to add the following comments from the Audit Committee's perspective.

**ISA + 240 - Management processes in place in relation to fraud**

***How does the Audit Committee exercise oversight of the management processes in place relating to fraud?***

The Audit Committee is responsible for considering proposed changes to the Council's Counter Fraud and Corruption Strategy and supporting Fraud Response Plan, prior to approval by Cabinet, and is therefore well aware of the management processes in place for identifying and responding to the risk of fraud. The Audit Committee also has responsibility for reviewing the Council's Anti Money Laundering and Whistle Blowing Policies and for monitoring their effectiveness.

The Audit Committee receives updates, twice a year, on Counter Fraud Activity and is aware of a number of actions being undertaken or planned to help embed a strong counter fraud culture.

The Committee is kept informed of the Audit Commission's National Fraud Initiative exercise and the outcomes. The Committee is also kept informed of key messages from other national initiatives and publications that highlight potential fraud risks that the Council could be exposed to e.g the Audit Commission's, "Protecting the Public Purse", and is therefore able to challenge how the risk of fraud and corruption is being managed within the authority and to seek assurance that management arrangements in place are effective.

Members of the Committee are aware of how to report any suspected fraud and are satisfied that staff are encouraged to report their concerns about fraud.

The Audit Committee is aware that all suspected cases of corporate fraud must be reported to the Head of Internal Audit and are advised of all potential and proven cases reported. Bi annual fraud reports also advise the Committee of the number of cases handled by the Housing Benefit Fraud and Error Team. Consequently, the Committee is aware of suspected or alleged fraud during 2012/13.

The Committee approve annual internal plans and provide challenge to counter fraud audit work planned each year to ensure that adequate assurance is provided on high fraud risk areas.

The Committee have a good understanding of where fraud may be occurring and actively seek assurance on any specific risks they identify.

The Committee receive independent assurance that internal controls, including the division of duties exist and work effectively, or otherwise, from the work undertaken by internal and external audit. Any significant control weaknesses are brought to the Committee's attention and the Committee monitors progress made by management in implementing agreed recommendations to improve controls.

The Committee is aware that internal controls evaluated by internal and external audit will include those controls managers which have been put in place to mitigate the risk of fraud and corruption.

As the risk of fraud and corruption has been recognised as a Corporate Strategic Risk the Audit Committee is kept informed of how this risk is being managed as part of quarterly risk management update reports.

The Audit Committee maintains an oversight of management processes in place for assessing the risk that the financial statements may be materially misstated by considering all the sources of assurances it has available to it on the effectiveness of the control environment. These sources include Internal Audit, External Audit, management (throughout the Council), risk management, section 151 and monitoring officer and other external review bodies. The Committee also calls officers into account where further assurance is required.

The Committee is responsible for considering any proposed amendments to the Council's Code of Local Governance prior to approval by Full Council, and maintains an understanding of key corporate policies and procedures that are an integral part of the Council's Internal Control Framework to help mitigate the risk of fraud e.g. officers and members code of conducts, financial procedure rules, contract procedure rules, officer scheme of delegations, complaints procedures and performance management arrangements. The Committee is also aware that certain posts, such as those involved with treasury management activities and have access to the Council's bank accounts, carry a higher risk and are consequently covered by fidelity guarantee insurance.

The Committee is aware of the processes and controls in place to identify and monitor related party transactions and the relevant reporting requirements for this.

The Committee is not aware of any specific entries made in the accounting records of the Council that it believes or suspect are false or intentionally misleading.

The Committee is not aware of any inappropriate organisational or management pressure to meet financial or operating targets.

**ISA+250 - Management processes in place in relation to compliance with relevant laws and regulations**

***How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?***

The Audit Committee is responsible for the annual review of the Council's Local Code of Corporate Governance and approving the Annual Governance Statement and is therefore aware of management arrangements in place for identifying and responding to changes in laws and regulations and any significant governance issues arising as a result.

The Audit Committee gains independent assurance over the effectiveness of the arrangements in place through the work of Internal and External Audit and other external review bodies.

The Audit Committee receives regular updates on the management of strategic risks that include risks relating to non compliance with laws and regulations.

**ISA+501 – Specific consideration of the potential for, and actual litigation and claims affecting the financial statements**

The Audit Committee is aware of the monitoring and reporting arrangements in place of financial risks associated with potential litigation claims and will seek to gain assurance that revised processes are effective and any significant risks or control implications are brought to its attention.

**ISA+570 – Consideration of the going concern assumption in an audit of financial statements**

The Audit Committee considered a report of the Corporate Director Resources at its meeting on the 4 April 2013 relating to an assessment of the going concern assumption. The Committee is satisfied that it is appropriate to adopt the going concern basis in preparing the 2013/13 financial statements.

The Audit Committee have not identified any events or conditions since this assessment was considered which cast any doubt on the Council's ability to continue as a going concern..

Yours sincerely

Cllr Edward Bell  
Chair of Durham County Council Audit Committee

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**Audit Committee**

**31 May 2013**



**Action Plan**

**2011/12 Audit of Accounts - Update**

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**Report of Don McLure, Corporate Director Resources**

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**Purpose of the Report**

- 1 The purpose of this report is to update Members on the progress on implementation of the Action Plan from the agreed recommendations for improving control weaknesses incorporated in the External Auditor's 2011/12 Interim and Final Governance Reports.
- 2 The action plan, which was reported to Members in November, is being used by management for monitoring purposes and as agreed at that Committee, this report forms part of regular reporting leading to the approval of the Statement of Accounts for 2012/13.
- 3 The report is presented in accordance with paragraph 4.1.26 of the Committee's Operational Terms of Reference, "to monitor progress made by management in response to both internal and external audit findings and recommendations".

**Background**

- 4 In July, when the Statement of Accounts was reported to the Committee, it was agreed that an Action Plan based on the findings of the External Audit's Interim and Annual Governance reports which were presented to the Committee in May and September respectively, would be drawn up and reported to the Committee.
- 5 Responsibility for the actions then agreed have, where appropriate, been amended to a more appropriate officer from those recorded in the version reported to Committee in September.
- 6 The Action Plan has been incorporated into the Resources Performance Management Framework. Progress on the Plan is being monitored by the Resources Policy Performance and Planning Manager and this report gives an update on progress.

## The Action Plan

- 7 An updated action plan incorporating progress made to date is included at Appendix 2.
- 8 All recommendations have a response to the Auditor's findings and an action plan to remedy the weakness identified. In most cases the weakness has now been addressed; these recommendations are marked as complete.
- 9 Actions that are complete require evidence to assure the Corporate Director Resources and External Audit that the recommendation has been implemented. This has now been identified and made available in most cases.
- 10 As the remaining recommendations are considered by officers in more detail, there will be discussions with External Audit to ensure that the controls and procedures, either in place, or to be implemented are in line with the Auditor's expectations.
- 11 It is possible how ever, that not all recommendations will be implemented in full. Any such variations will be agreed with the Corporate Director Resources and the reasons discussed with the External Auditor.

## Summary of Progress

### Interim Governance Report (IGR)

- 12 The following table shows the progress towards implementing the External Audit recommendations from the IGR.

IGR	Total number of Actions	Actions Outstanding	Actions Completed	Evidence provided
<b>As at 22 November 2012</b>				
Actions from 2010/11	19	9	10	0
New Actions for 2011/12	33	10	23	0
	<b>52</b>	<b>19</b>	<b>33</b>	<b>0</b>
<b>As at 22 February 2013</b>				
Actions from 2010/11	19	6	13	9
New Actions for 2011/12	33	4	29	24
	<b>52</b>	<b>10</b>	<b>42</b>	<b>33</b>
<b>As at 4 April 2013</b>				
Actions from 2010/11	19	2*	17	13
New Actions for 2011/12	33	2	31	28
	<b>52</b>	<b>4</b>	<b>48</b>	<b>41</b>
<b>As at 21 May 2013</b>				
Actions from 2010/11	19	1*	18	18
New Actions for 2011/12	33	1	31	31
	<b>52</b>	<b>2</b>	<b>49</b>	<b>49</b>

\* One outstanding action has a completion date 30 September 2014.

- 13 The above table shows that two further recommended actions have been completed since the April report, and evidence has now been provided for all of the 49 completed actions.

### **Annual Governance Report (AGR)**

- 14 Of the 6 recommendations detailed in the AGR, two were due to be complete by 28 February 2013 and both are now complete.
- 15 Recommendation 3 – Asset Register – Migration of Housing Dwellings. There was a delay in the completion of this recommendation. All three former Districts' Housing Assets have now been successfully migrated into the Single Asset Register and were available in the live Asset Register from 3 April 2013. The information has also been fully reconciled. The delay in completion of this recommendation is not affecting the completion of the Statement of Accounts.
- 16 Work is on-going to put in place procedures to implement the remaining recommendations by their due date.
- 17 The monitoring of progress will continue through the Resources Performance Management Framework.

### **Recommendation and reasons**

- 18 Members are asked to note the updated action plan attached at Appendix 2 and to gain assurance that control weaknesses identified through the final account audit process in 2011/12 are being appropriately addressed.

### **Background papers**

- (a) Audit Committee – 22 November 2012 – Action Plan - 2011/12 Audit of Accounts
- (b) Audit Committee – 22 February 2013 – Action Plan - 2011/12 Audit of Accounts – Update
- (c) Audit Committee – 4 April 2013 – Action Plan - 2011/12 Audit of Accounts - Update

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**Appendix 1: Implications**

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**Finance –**

None

**Staffing -**

None

**Risk -**

None

**Equality and Diversity -**

None

**Accommodation -**

None

**Crime and Disorder -**

None

**Human Rights -**

None

**Consultation -**

None

**Procurement -**

None

**Disability Discrimination Act -**

None

**Legal Implications -**

None

20/09/11	Findings documentation (Ex.6)	Supporting documentation (Ex.6)	Responsible	Priority	Auditor Comments	Response	Actions	Complete by	Evidence
	<b>Recommendation 1: General Ledger - Opening balances</b> Supporting documentation to ensure its accuracy, balance position. No supporting documentation accompanies journals when sent to the Ledger Management Team for input. Instead departments keep all documentation. It is therefore not clear how the Ledger Management Team know the amounts in the journal are accurate.	<b>Recommendation 1: General Ledger - Opening balances</b> Supporting documentation to ensure its accuracy, balance position. No supporting documentation accompanies journals when sent to the Ledger Management Team for input. Instead departments keep all documentation. It is therefore not clear how the Ledger Management Team know the amounts in the journal are accurate.	Strategic Finance - ALL / Service Finance - ALL	High	The risk is journals being input with no understanding of what the journal is for and that inaccurate journals are input into the General Ledger	Journals are prepared and reviewed by service accountants who retain the appropriate documentation. The Ledger Management team's role is to process journals and to ensure that the journal has been correctly entered into the system. Accuracy checks on the journal entries are carried out in services.	Supporting documentation is attached to all journal entries completed	Complete	It is not practical to attach all evidence to journals. It has been agreed with the Final Accounts Monitoring Group that where it is not possible to attach all evidence to journals, this will be done.
*	<b>Recommendation 2: General Ledger - Journal authorisation (Ex.7)</b> The Council should introduce the review and authorisation of journals before posting to the General Ledger. A journal chosen during the walkthrough had no evidence of authorisation prior to input into the GL. There is no requirement for journal entries to be reviewed and authorised by a senior officer prior to upload.	<b>Recommendation 2: General Ledger - Journal authorisation (Ex.7)</b> The Council should introduce the review and authorisation of journals before posting to the General Ledger. A journal chosen during the walkthrough had no evidence of authorisation prior to input into the GL. There is no requirement for journal entries to be reviewed and authorised by a senior officer prior to upload.	Strategic Finance - Hilary Appleton	High	Without authorisation there is a risk that errors may not be identified prior to the journal being input and that inappropriate journals could be posted to the GL	The review and authorisation of journals was discussed at the last audit. The volume of journals processed by Finance requires consideration of the process. Strategic Finance will issue instruction to all services accounting teams to review and approve journals prior to entering into the General Ledger. This recommendation was the subject of an internal audit review to establish best practice.	Provide a number of journal approval Supporting documentation is attached to all journal entries completed Agree with External Audit Implement a process of Journal Approvals	Complete	An on-line method of journal approval was proposed and discussed in FY13 - the group of services to be reviewed will be agreed with the Final Accounts Monitoring Group of Final Accounts Monitoring Accounts Group approval. This Group agreed that there should be a paper-based system for journal approvals. This system will be implemented in FY14. The system will be consistent with existing practices for journal approvals. This will be discussed with the External Auditor.
*	<b>Recommendation 3: General Ledger - Dataset reconciliations (Ex.8)</b> The Council should complete regular reconciliations of dataset uploads/files. ICON cash receipts, Durham City Homes rents and payroll datasets are uploaded into the General Ledger. However, it is possible to amend the datasets. As a result there is a risk of amendments to the datasets before posting to the General Ledger. However, there is no reconciliation of the Durham rents upload file to the General Ledger. This also affects GL AM uploads because of the .dat format, resulting in the possibility of amendment of files before upload into General Ledger.	<b>Recommendation 3: General Ledger - Dataset reconciliations (Ex.8)</b> The Council should complete regular reconciliations of dataset uploads/files. ICON cash receipts, Durham City Homes rents and payroll datasets are uploaded into the General Ledger. However, it is possible to amend the datasets. As a result there is a risk of amendments to the datasets before posting to the General Ledger. However, there is no reconciliation of the Durham rents upload file to the General Ledger. This also affects GL AM uploads because of the .dat format, resulting in the possibility of amendment of files before upload into General Ledger.	Strategic Finance - Ledger Management Team/Service Finance - ALL	Medium	The risk is amendment of datasets resulting in the upload of errors to the General Ledger	Partially a Ledger Management issue. There are amendments made to files to allow processing. This is to change headers, footers or periods to ensure that files are unique, particularly where there are unique headers so that they can be uploaded into Oracle. It is agreed that upload files could be locked to prevent amendment. However, introducing the appropriate system would be costly and unlikely to be a priority. Confirmation from ICT Services that it is possible to lock the files would need to be sought. As all amendments are processed via the Oracle system, there is no reason, subject to it being able to arrange this, that files may not be locked.	Investigate the possibility of locking files that are to be uploaded into Oracle Request ICT arrange the locking of files, if possible to do this.	Complete	Further consideration has been given to the processing of files of information into Oracle. As a result, it is understood that the locking of files is not possible. The Oracle system is due to having to return files to the originator for re-upload. If the error is the result of a system, simply re-uploading would not remedy the problem, but would mean that information would not be available in Oracle. It has been agreed that the Ledger Management team will retain the ability to amend datasets that include errors prior to processing into Oracle, but will keep a log of the errors amended and continue to risk the originator to amend the error in future files.
*	<b>Recommendation 4: General Ledger - Opening Balance (Ex.9)</b> The Council should complete regular trial balances to confirm the General Ledger has brought the correct balances forward. The Oracle General Ledger automatically carries forward Opening balances. Officers are unaware of any procedures to check opening balances carried forward are correct.	<b>Recommendation 4: General Ledger - Opening Balance (Ex.9)</b> The Council should complete regular trial balances to confirm the General Ledger has brought the correct balances forward. The Oracle General Ledger automatically carries forward Opening balances. Officers are unaware of any procedures to check opening balances carried forward are correct.	Strategic Finance/Financial Systems Support	Medium	The risk is the Oracle GL does not carry forward the opening balances accurately, and officers do not identify this as no review takes place.	Oracle does not bring forward balances. It perpetually calculates balances on account from the sum of the transactions. The opening balances were checked by officers after amendments were made following the audit of the Statement of Accounts to ensure that the ledger reflected the Statement of Accounts.	Check the opening balances in Oracle are consistent with the Statement of Accounts. Record the verification of the balances and sign off.	Complete	The balances in Oracle General Ledger have been checked for consistency with the Statement of Accounts. The amendments following the audit of the Accounts to be made to the Oracle GL will be completed by 28 February 2013. Completed by 31 March 2013.
*	<b>Recommendation 5: General Ledger - Trial Balance (Ex.10)</b> The Council should complete regular trial balances to ensure there are no major differences. Completion of regular trial balances has not taken place during 2011/12. Trial balances are instead only completed at the year end	<b>Recommendation 5: General Ledger - Trial Balance (Ex.10)</b> The Council should complete regular trial balances to ensure there are no major differences. Completion of regular trial balances has not taken place during 2011/12. Trial balances are instead only completed at the year end	Strategic Finance - Ian Herberson	Medium	The risk is that an imbalance occurs that is not identified before the year-end. Trial balances will be substantively tested at year end.	Agreed. Trial balances are being undertaken weekly, daily during the final accounts period. A trial balance was run on 9 March 2012, ahead of the final accounts period. The system is in balance. On a monthly basis there should also be a reconciliation to the Discoverer Reports. During the year, trial balances should be run to ensure the system is in balance. On a monthly basis, there should also be a reconciliation to the Discoverer Reports.	Ensure that Trial Balances are produced on a regular basis. Ensure that the Trial Balances are reviewed and corrective action taken where necessary. Ensure that the Trial Balances are filed centrally for evidence of completion and correctness.	Complete	Trial balances are produced monthly and have been reviewed and approved up to 31 March 2013. The system has been in place since September 2012.
*	<b>Recommendation 6: General Ledger - Electronic authorisation (Ex.11)</b> The Council should introduce a system of approving reconciliations using emails. This will require the approving officer to email the preparer to confirm the reconciliation is accurate. Officers complete monthly Drive to Oracle reconciliations. A suitable officer then emails the preparer to confirm the reconciliation is accurate. This process is cumbersome and makes it difficult to verify the officer reviewing the reconciliation.	<b>Recommendation 6: General Ledger - Electronic authorisation (Ex.11)</b> The Council should introduce a system of approving reconciliations using emails. This will require the approving officer to email the preparer to confirm the reconciliation is accurate. Officers complete monthly Drive to Oracle reconciliations. A suitable officer then emails the preparer to confirm the reconciliation is accurate. This process is cumbersome and makes it difficult to verify the officer reviewing the reconciliation.	Strategic Finance - Ian Herberson	Medium	The risk is the review of the reconciliation does not take place	The weekly reconciliation of the files processed through the AM interfaces from the Discoverer Reports, Payroll to Oracle is no longer in place. As the Agresso systems have been decommissioned, this reconciliation is no longer applicable.	Complete	No longer applicable	
*	<b>Recommendation 7: Payroll: No authorised signatories list (Ex.14)</b> Either the Payroll section or the Service Departments should introduce an authorised signatories list, to help reduce the risk of submission of fraudulent time sheets	<b>Recommendation 7: Payroll: No authorised signatories list (Ex.14)</b> Either the Payroll section or the Service Departments should introduce an authorised signatories list, to help reduce the risk of submission of fraudulent time sheets	HR - Payroll and Pensions - Nick Orton	Medium	The risk is submission of inaccurate or fraudulent claims without the knowledge of the supervising officer	Creating, maintaining and using an authorised signatories list would be a significant, labour intensive paper based task which would have doubtful benefits. A more suitable approach for confirming the validity of claims is to move where possible to electronic submission of claims. The identity of the individuals submitting/authorising the claims is confirmed through their logging on to the system. Online mileage claims are already being rolled out across the Authority. The payroll system is being updated to allow for the use of a signatories list. It is agreed that the signatories list will be implemented on whether to develop this functionality is likely to be taken by 30 September 12.	Decide on the development of Resourcelink to allow electronic submission of claims. Move to electronic submission of claims, subject to above action. Following the development of a Resourcelink development plan, implement a module for recording additional hours.	Complete	In order the development of Resourcelink is now going forward via a formal project plan (evidence Project Initiation Document) - a decision on whether or not to develop and introduce online timesheet authorisation will be made as part of the Resourcelink project. The signatories list will be implemented on whether to develop this functionality is likely to be taken by 30 September 2014 under 'Enhancements to Manager & Employees Self Service'.
	<b>Recommendation 8: Payroll: BACS pay run authorisation (Ex.15)</b> The Payroll section should ensure a Team Supervisor authorises all BACS submission files	<b>Recommendation 8: Payroll: BACS pay run authorisation (Ex.15)</b> The Payroll section should ensure a Team Supervisor authorises all BACS submission files	HR - Payroll and Pensions - Nick Orton	Medium	The risk is that no review of the BACS submission file took place. Increasing the risk of inaccurate payments.	All BACS submission files are now authorised by a Team Supervisor.	Complete	Evidence Received - File in Relevant Office if Required	

Findings	Response	Auditor Comments	Priority	Responsibility	Complete by	Actions	Evidence
<p><b>Recommendation 9: Payroll: Voluntary Redundancy agreement not signed and returned by leaver (Ex. 18)</b> The Council should ensure all employees leaving have returned signed copies of the redundancy agreements.</p> <p>The leaver tested had not signed and returned the voluntary redundancy agreement. However, because of the volume of redundancies processed during the year they have been unable to check the return of all redundancy agreements.</p>	<p>From June 2012 the process will be undertaken from one central point (The new HR Service) and in this regard audit and monitoring checks will be implemented to ensure all cases have the appropriate signatures prior to agreement to dates.</p>		Medium	HR - Lorraine Anderson	Complete		Evidence Received - File in document Oracle HR Rebuilt
<p><b>Recommendation 10: Payroll: Reconciliation of payroll upload files to GL (Ex. 19)</b> The Council should ensure a senior officer reviews and authorises all reconciliations in the Oracle Management Team completes a monthly reconciliation between the Payroll upload files and the General Ledger. However, there is no independent review and authorisation of the reconciliation.</p>	<p>The current P2P review project has targeted this process to reduce the review (Jan 2013) a full quality check will be implemented.</p>		Medium	Strategic Finance - Beverley White	Complete	<p>Complete the reconciliations</p> <p>Review and authorise the reconciliations</p> <p>File the reconciliations to evidence completion</p>	Evidence held on file in Strategic Finance.
<p><b>Recommendation 11: Accounts Payable: Payroll authorisation (Ex.3)</b> The Council should introduce an independent review of pay sheets and BACS files. However, there is no review and authorisation of the pay run by an independent officer to ensure the pay sheet is accurate.</p>	<p>An independent officer has now been nominated.</p>		Medium	Service Finance - K Coad / Chris Jones	Complete	<p>Ensures the BACS pay sheets are reviewed and authorised by the nominated person.</p>	Evidence Provided
<p><b>Recommendation 12: Accounts Payable: Authorised Signatories List (Ex. 50)</b> The Accounts Payable section should introduce an authorised signatories list. Officers could limit the list size by reducing the number of individuals with the ability to certify non-purchase order invoices within each department.</p> <p>The Accounts Payable section do not keep an authorised signatories list. As a result they are unable to gain assurance that only approved officers certify non-purchase order invoices for payment.</p>	<p>The current approved signatory list is available. This list will be reviewed and updated if applicable during 2012/13.</p>		Medium	Service Finance - K Coad / Chris Jones	30 November 2012 and ongoing	<p>Review the authorised signatory list and revise if applicable.</p>	The current process of signing and reviewing invoices and signatories is to be reviewed with the intention of the hard copy signatories being held locally within each service area. AP will then utilise the Oracle electronic hierarchy. A meeting has been arranged for 29th May 2013 with service representatives to discuss further.
<p><b>Recommendation 13: Accounts Payable: Non-Purchase Order Invoice review (Ex. 51)</b> The Council should ensure the Accounts Payable section validate the invoice in the Accounts Payable system. This officer should then validate the invoice for payment. This would help identify errors or inappropriate invoices.</p> <p>After the manual entry of non-purchase order invoices into the Accounts Payable system, the same officer who entered the invoice details also manually validates the invoice in the Accounts Payable system, which approves the invoice for payment.</p>	<p>The current P2P review project has targeted this process to reduce the review (Jan 2013) a full quality check will be implemented.</p>		High	Service Finance - K Coad / Chris Jones	Complete	<p>Complete P2P review.</p> <p>Implement a full quality check.</p>	AP Manager requested a sample report of 2% of invoices for review. Supervisors to validate this report is not available to validate. AP Supervisors will therefore select 20 random hard copy coded invoices per day to review. This commenced 01st May 2013 and example is attached.
<p><b>Recommendation 14: Accounts Payable and Receivable: Control account reconciliations (Ex.5)</b> The Council should ensure the timely review and authorisation of all reconciliations by a senior officer.</p> <p>Officers have completed regular Accounts Payable and Accounts Receivable control account reconciliations. However, in November 2011 the only reconciliations authorised by a senior officer were the August, September and October 2011.</p> <p><b>Recommendation 15: Account Receivable: Periodic Invoices (Ex.12)</b> The Council should ensure the timely raising of all periodic invoices.</p>	<p>This process was implemented following the AGR for 2010/11. The reconciliation review and authorisation is now done on a regular/monthly basis.</p>		Medium	Strategic Finance - Ian Hebrson	Complete		Evidence held on file in Strategic Finance.
<p>Responsibility for periodic invoicing passed from the Accounts Receivable team to the Asset Management Team in 2011/12. Officers explained there was little handover. Asset Management Team are only raising district invoices on a piecemeal basis as they only received district Agresso reports in November 2011. In addition, the Asset Management team has expressed concern that issuing of bills to some properties has not taken place for several years.</p>	<p>An assets Billing working group has been set up meeting on a monthly basis. Processes are being reviewed and properties under separate classifications are currently on system with industrial units review ongoing.</p>		Medium	Asset Management Team - Gerard Darby	Complete		Garage rents are currently invoiced by standing charges. Industrial Rents are currently invoiced manually. All other rental invoices are currently being raised manually by Asset Management. We now have access to all former District Billing systems and are invoicing all rents previously billed in those systems.
<p><b>Recommendation 16: Accounts Receivable: No reconciliation between Schools SMS Receipts and Accounts Receivable System (Ex.13)</b> The Council should introduce a formal reconciliation between the two systems to help ensure the upload of all receipts from the SMS system into the Accounts Receivable system.</p> <p>No formal reconciliation between the Accounts Receivable system and Schools (SMS) system is completed. Instead, officers rely on an error message from Oracle to identify any receipts not correctly uploaded during the upload.</p>	<p>The income is input into SMS manually via Receipts Advice forms. The income is then matched to receipts at school banknotes. In bank receipts to SMS, controlled by an Oracle weekly report showing outstanding items. Quality checking process being determined. In addition, the schools funding finance team run regular Oracle reports and provide to the schools for further reconciliation. A review will be undertaken by the Schools Funding team, with regards to the error message within Oracle AR. Debtors invoices not raised within Oracle</p>		Medium	Service Finance - Ian Mearns	Complete	<p>Determine a quality-checking process</p> <p>School funding team to review the process</p> <p>Establish the meaning of the error message from Oracle system.</p>	N/A

2019/11	Findings	Responsibility	Priority	Auditor Comments	Response	Actions	Complete by	Update:	Evidence
	<b>Recommendation 17: Loans and Investments - Monthly reconciliation not authorised (Ex.17).</b> The Council should ensure a senior officer reviews and authorises the monthly and year-end reconciliations. Investments and Loans - Officers perform a monthly reconciliation of the Investments Monitoring Schedule, which contains details of all investments made, and the General Monitoring Schedule, which contains details of all investments made, and the General PVM (and other) interest and principal payments in the General Ledger to the PVM (and other) Schedule. In both cases, a senior officer reviews the reconciliation. However, there is no evidence of this review taking place.	Strategic Finance - Ian Herberson	Medium	The risk is the reconciliations are not accurate and because no review takes place this is not identified.	Following Finance Utilisation, a senior officer has now been assigned responsibility for this review.	Complete the monthly reconciliation Review the reconciliation - ensure that it is correct, or take corrective action. Retain evidence of the review of the reconciliation	Complete	Monthly reconciliations are complete for both principal and interest which has been standard to both case records and Oracle GL. All reconciliations are reviewed and approved to 31 January 2013.	Evidence is held in Strategic Finance.
*	<b>Recommendation 18: Oracle Projects, No authorised signatories list (Ex.54).</b> Service Director should ensure that all extraction forms and time sheets have suitable approval. No authorised signatories list is in place at the Service Direct site. This affects both extraction forms, used to confirm the receipt of goods, and manual time sheets. Site Foremen sign both to confirm their accuracy. It was not possible to confirm that an authorised signatory signed the extraction form and time sheet (tested as no authorised signatories list is in place).	Building & Facilities - Paul Burr	Medium	The risk is that an inappropriate individual approves both the extraction forms and time sheets, resulting in the processing of inaccurate information.	All goods are ordered electronically using the Oracle system by the newly created Materials Controller posts and the requisitioner is identified at that stage. Goods are received by the Materials Controller once they have been received. They are then approved by the requisitioner / Site Foreman / Supervisor that the goods have been received.	Action completed	Complete	A signatory list is included as part of the Building and Facilities Maintenance's ISO 9001:2008 Accreditation.	Signatories List to be provided to the signatory list as required from a couple of staff who have currently been absent from
*	<b>Recommendation 19: Oracle Projects, Lack of evidence of supervisor visit or authorisation (Ex.55).</b> Service Director should ensure that Oracle Projects or a hard copy file documents all work completed by the Surveyor. Officers claimed Surveyors re-measure Service Direct jobs to identify actual changes. However, there is no evidence of this being done. Evidence of the Surveyors visit. Evidence of the supervisors approving the job is also limited.	Building & Facilities - Paul Burr	Medium	Officers claimed Surveyors re-measure Service Direct jobs to identify actual changes. However, there is no evidence of this being done. Evidence of the Surveyors visit. Evidence of the supervisors approving the job is also limited.	Once a job is completed it is approved by the clients agent (Buildings Surveyor / Architect) who issues a Practical Completion certificate with or without a snagging list. The snagging list is then completed by the client's agent and a further inspection is carried out by the client's agent and Direct Services and any remedial works are then undertaken. On completion of these defects a 'Making Good / Final Certificate' is issued by the clients agent. This system has been recently reinforced and is monitored and reported upon by B & F's programme planning and is an important element that all projects follow the process which ensures all jobs are signed off and to improve our customer satisfaction levels.	Action completed	Complete	The work undertaken by all of the Quantity Surveyors results in an estimate entered into the Oracle system and all workings filed by the estimate reference.	Evidence is held with the Estimate and Estimations Team.
	<b>Recommendation 20: Repairs and Maintenance: Delivery note filing (Ex.20).</b> No formal filing system is in place for the delivery notes received by the Materials Controller. As a result it was difficult to find specific delivery notes.	Building & Facilities - Paul Burr	Low	The risk is that Site Foremen do not provide the Materials Controller with delivery notes. Instead, the Materials Controller simply receipts the goods in Oracle when required to, to ensure inaccurate delivery and payment of goods.	Agree with the recommendation, and this will be implemented as soon as possible	Ensure that the recommendation has been implemented.	Complete	This is not practical as we neither have the space to file delivery notes or the resources to undertake the task or scan the delivery notes in and file them. However, the Material Controllers check the delivery notes against the order and receipt this on the screen and destroy the delivery note once this is done.	N/A
*	<b>Recommendation 21: Repairs and Maintenance: No authorised signatories list (Ex.21)</b> Service Direct should complete an authorised signatories list to provide No authorised signatories list is in place at the Service Direct site. Approved officers sign manual time sheets completed by employees to confirm their accuracy. However, as there is no authorised signatories list it was not possible to confirm that the officer signing the extraction form and time sheet was approved to do so.	Building & Facilities - Paul Burr	Medium	The risk is that an inappropriate individual approves time sheets, resulting in the processing of inaccurate information.	Agree with the recommendation, and this will be implemented as soon as possible	Ensure that the recommendation has been implemented	Complete	A signatory list is included as part of Building and Facilities Maintenance's ISO 9001:2008 Accreditation.	Signatories List to be provided to the signatory list as required from a couple of staff who have currently been absent from work
	<b>Recommendation 22: Repairs and Maintenance: Receipting of materials in Oracle (Ex.22)</b> An independent officer should review receipts entered into Oracle to ensure the information entered is accurate, before Oracle recognises the receipts. The receipting of goods in Oracle for the transaction tested was not completed. The quantity received column, while including the quantity received (1) in the price column. Oracle updates any commitment already in the system, through multiplying the quantity by the unit price. This inaccurate treatment had no impact on the updated commitment; however officers stated that large errors have occurred because of the inaccurate receipting of goods in Oracle.	Financial Systems - Keith Munroe	Medium	The risk is the individual receipting the goods enters wrong information into the Oracle system. Although budget monitoring would identify this, it could be time-consuming to correct any errors uploaded in such a way.	Introducing an independent check on every receipt entered is not practical as a separate person would need to be appointed and it would require a customisation. The compensating control is that all outstanding accruals for material amounts (above £250) are circulated (on a monthly basis) for review.	Nothing required	Complete	N/A	N/A
	<b>Recommendation 23: SSID - Reconciliation of the SSID upload to the Accounts Payable system (Ex.16)</b> The Council should ensure the year-end reconciliation uses the control sheet and that a senior officer reviews and authorises the year-end Officers complete an informal reconciliation between the SSID upload file and the Accounts Payable system after every SSID upload file. However, there is no control sheet in place and no formal documentation of the reconciliation exists. Officers have provided assurance that a control sheet will be introduced by the year-end.	Accounts Payable - Chris Jones	Medium	The risk is the reconciliation is not in place and as a result not all invoices are uploaded to the Accounts Payable system for payment.	Although governed by the constraints of Oracle, reconciliation/control sheets are now checked, maintained and filed following each year end reconciliation is carried out by an officer from Strategic Finance.	Ensure completion of the reconciliation Review the reconciliation and ensure correct, or take corrective action Retain evidence of review	Complete	Although governed by the constraints of Oracle, reconciliation/control sheets are now checked, maintained and filed following each year end reconciliation is carried out by an officer from Strategic Finance.	Evidence Provided
	<b>Recommendation 24: SIMS: Invoice not authorised for payment (Ex.23)</b> School Finance staff should ensure that all invoices are authorised. The School Manager should keep all GRNs on file to provide evidence the goods have been received. The Durham Federation Finance Team stated that an approved individual signs all invoices before payment. However, the invoice tested was not authorised for payment. In addition, there is no documentary evidence of the School Manager confirming the Finance Team should ensure the annual audit of all authorised signatory lists.	Service Finance - David Shier	Low	The risk is the payment of inaccurate or fraudulent invoices. In addition, goods may not have been received as there is no formal documentation of the School Manager receiving the goods.	A reminder will be issued to schools via the Extramail, about recommended procedures.	Nothing required	Complete	Note placed on the Schools Extramail 5 July 2012 reminding schools of procedures	Evidence Provided
	<b>Recommendation 25: SIMS: Authorised Signatories List (Ex.24)</b> The School Finance Team should ensure the annual audit of all authorised signatory lists. The Payment Authorisation Control Using (PACU) tested was authorised by a member of staff not included on the authorised signatories list held by the School Funding Team. Officers stated the authorised signatories list was out of date and provided evidence of compensating control.	Service Finance - David Shier	Medium	The risk is an unapproved individual signs the PACU and as the signatories lists are not up to date this is not identified. This could result in payment of inaccurate or fraudulent invoices.	Agreed. The Creditor Team within School Funding will pursue this after half-term which is the best time to do this.	Nothing required	Complete	Note placed on Schools Extramail 15 January 2013 - copy of evidence attached. File held in office containing revised authorised terms received. Outstanding forms will be chased	Evidence Provided
	<b>Recommendation 26: SIMS: Reconciliation of the SIMS upload to Accounts Payable system (Ex.25)</b> The Council should ensure the year-end reconciliation uses the control sheet and also ensure a senior officer reviews and authorises the year-end reconciliation.								







2010/11	Findings	Responsibility	Priority	Residual Comments	Response	Actions	Complete by	Update:	Evidence Provided
	A process is in place for the removal of findings. However, this does not involve the property removed being reviewed by an independent officer to ensure the removal is correct.	Service Finance - J Dowson	Medium	The risk is that processes being primarily bought or demolished are still included in the housing stock and properties from the Rent Account. Any errors are spotted by the nature of the service. For example, should a RTB not be removed and the Authority continued to charge the rent, the former tenant advises immediately of the problem. Similarly, should a demolished property not be removed, the rent areas would be highlighted immediately and upon investigation the problem would be found. The risk is that the former tenant continues to pay rent for a property where a reconciliation of stock numbers is undertaken for the HRA Statement. A similar mid-year check took place in previous years as part of the Housing Subsidy Base data return and whilst this return is no longer valid, it is the Head of Finance (Financial Services) intention to continue with this mid-year reconciliation.	These are current processes in place. The Rent Team to remove properties from the Rent Account. Any errors are spotted by the nature of the service. For example, should a RTB not be removed and the Authority continued to charge the rent, the former tenant advises immediately of the problem. Similarly, should a demolished property not be removed, the rent areas would be highlighted immediately and upon investigation the problem would be found. The risk is that the former tenant continues to pay rent for a property where a reconciliation of stock numbers is undertaken for the HRA Statement. A similar mid-year check took place in previous years as part of the Housing Subsidy Base data return and whilst this return is no longer valid, it is the Head of Finance (Financial Services) intention to continue with this mid-year reconciliation.	Continue the mid-year reconciliation	Complete		
	<b>Recommendation 46: Cash Receipting: Suspense Account (Ex.59)</b> The Council As at 15 March 2012 the total value in suspense was £1,613,361.52. Of this balance, £1,566,871.34 related to March 2012. This does show significant improvement in managing suspense items from the very high balance seen early February 2012 which occurred due to the assignment of incorrect references meaning transactions were not recorded in the correct suspense account.	Service Finance - K Coad / J Dowson	High	The risk is that a high volume of income is not correctly posted by the year-end.	The re - referencing has been resolved. Suspense amounts are being cleared on a daily basis and monitored weekly by management. The year end action plan ensured that all payments were posted on 31 March 2012.		Complete	Volume and value of suspense is now a local and monthly. Substantial improvement achieved	Evidence Provided
	<b>Recommendation 47: Cash Receipting: Cash sheet totals reconciliation not evidenced (Ex.59)</b> The Council should ensure documentation is maintained to provide evidence of reconciliations taking place. No reconciliation was performed between the cash taken by the Spennymoor Cash Office and the amount recorded in ICON for the date received as the cash office printers do not print the date. The Council should ensure documentation is maintained to provide evidence of reconciliations taking place. Officers did however state that they reviewed ICON to ensure the values reconciled, although this review is not evidenced.	Service Finance - K Coad / J Dowson	Medium	The risk is the reconciliation is not performed and as a result errors are not identified.	Upon failure of a printer, end of day reports can be produced in the back office. All cashiers bankings have been reconciled from 1 April 2011 as part of the bank reconciliation. These form part of the reconciliation action plan.		Complete	Any previous cash-up reports can also be viewed and re-printed. (See Evidence). Daily checks are undertaken to ensure ALL bankings are correct and that they have gone in to Bank Reconciliation System. Again statement further evidence is available on the website within the systems. Additionally, all staff provided with Cash Handling Policy recently reviewed & updated	Evidence Provided
	<b>Recommendation 48: Cash Receipting: Cash upload files reconciliation (Ex.60)</b> The Council should ensure documentation is maintained to provide evidence of reconciliations taking place. No reconciliation was performed between the cash taken by the Spennymoor Cash Office and the amount recorded in ICON for the date received as the cash office printers do not print the date. The Council should ensure documentation is maintained to provide evidence of reconciliations taking place. Officers did however state that they reviewed ICON to ensure the values reconciled, although this review is not evidenced.	Service Finance - K Coad / J Dowson	High	The risk is the reconciliation does not highlight differences between the upload file and the General Ledger, as it only focuses on the General Ledger account and is not reviewed and authorised.	Originally this reconciliation only included amounts going through ICON, which explains that difference. Since then, the daily reconciliation has been extended to include all income. A senior officer now has responsibility for reviewing all income reconciliations in accordance with a pre-approved checklist, on at least a monthly basis.		Complete	The ICON reconciliation to the GL was only introduced on a daily basis on the 1 <sup>st</sup> December 2011, however it was then also implemented. The ICON system was implemented. 16 <sup>th</sup> March 2011. Reconciliation is reviewed and authorised on at least a monthly basis and forms part of the monthly Reconciliation Pro Forma. Log mentioned earlier. ICON is being rolled out to every remaining establishment by August 2013	Evidence Provided
	<b>Recommendation 49: Cash Receipting: Duplicate References (Ex.61)</b> The Council should ensure that all income posted to duplicate reference accounts has been investigated and evidence gained that it has been posted to the correct account.	Service Finance - K Coad / J Dowson	Low	The residual risk is that income posted to the wrong account is not identified but this is not a material risk.	An exercise was undertaken to identify all duplicate account numbers and where possible, the accounts were amended from September 2011 to ensure that this could no longer happen.		Complete	Action was taken on accordance with Councils Solution and all issues were resolved by September 2011. Duplicate references identified, customers contacted bank rates and validation were changed & lightened, account holder tables amended, additional lines for interfaces & impex. Further evidence available on site	Evidence Provided
*	<b>Recommendation 50: Bank Reconciliations: Bank Reconciliations not prepared or authorised on a timely basis (Ex.56)</b> The Council should ensure bank reconciliations for all accounts should be prepared and authorised on a timely basis. As at 26 March 2012 the most recently completed County Fund reconciliation was 31 December 2011. January and February 2012 reconciliations were signed as prepared and reviewed on 27 March 2012 but they contained material amounts of items in the bank but not in General Ledger. Not all of these amounts were identified to transaction level.	Service Finance - K Coad / J Dowson / Strategic Finance - Iain Small	High	The risk is that bank or General Ledger errors will not be identified and corrected on a timely basis.	Picked up by the Spennymoor team where extensive work has been carried out in this area. A detailed action plan has been developed. Weekly meetings/ updates continue to be conducted to monitor progress. A draft reconciliation is complete to 31 March 2012. However, a matching exercise is being undertaken to ensure that all reconciliations are correct. This refers to cheque and BACS payments made from the Open Revenue system and not processed through Oracle.	Ensure the reconciliations are completed, reviewed and evidence retained. The current position is that David Watchman and Iain Small are working on the County Fund bank reconciliation for December 2012.	Complete	Reconciliation for Income Account in 11/12 was not done throughout that year until a manual reconciliation was completed in February 12 and another final one for the year in March 12. Reconciliations are being undertaken on a timely and appropriate basis	Evidence Provided
	No district reconciliations have been undertaken since September 2011. Officers have been advised to ensure that reconciliations are undertaken for the last 6 months of the year. In addition, there is no evidence the former district September 2011 reconciliations were reviewed and authorised. No Income Collection fund bank reconciliation facility within ICON is not working. This is because the bank reconciliation facility within ICON is not working. In addition, the Bank Reconciliations are not authorised on a timely basis. Bank reconciliations are also being authorised even though they include material reconciling items that have not been identified.	Service Finance - K Coad / J Dowson / Strategic Finance - Iain Small	High	The risk is the General Ledger will not accurately reflect the bank transactions, which may impact on other areas such as budgetary control. Manual posting introduces an added risk of error or manipulation	A senior officer now has responsibility for reviewing all reconciliations in accordance with a pre-approved checklist, on at least a monthly basis.		Complete		Evidence Provided

2019/11	Findings	Responsibility	Priority	Auditor Comments	Response	Actions	Complete by	Update:	Evidence
	<p>Recommendation E2: SPOCC: No reconciliation between the SPOCC system and the Accounts Payable system (Ex.31)</p> <p>The Council should perform formal reconciliations between the SPOCC system and the Accounts Payable System. A senior officer should review and authorise the reconciliations.</p>	Accounts Payable - Chris Jones	Medium	The risk is the Accounts Payable system and General Ledger will not be complete.	Although reviewed by the specialists of Credits, reconciliations/offsets are now checked, maintained and filed following each upload. An AP supervisor reviews and authorises the reconciliation.		Complete	Complete	Evidence Provided

Recommendation	Finding	Responsibility	Priority	Auditor Comments	Response	Actions	Commentary	Evidence Provided	Complete By:	On target/ ahead of target/ behind target/ complete / not due
1	Revaluations - Schools	Assets - Michael Gibby	High	The Council Valuer will need to consider which assets are revalued in 2012/13 to avoid any problems with part valuation of schools. The Council should ensure that all assets are fully revalued by the year end (31 March) and fully considered by finance as well as estates before deciding whether to account for these in the financial statements. A full valuation of schools should be completed as at 1 April 2012.	Rolling Programme with External Audit for consideration.	Agree rolling programme of valuations with External Audit. Vise reconciliations to Assets - Valuations in line with agreed programme.	The rolling programme for valuations has been agreed with the External Auditor. The programme has been issued, requesting valuations to be completed by 28 February 2013 in line with the Final Accounts Timetable.	Evidence Provided	Complete	The Rolling Programme includes the following assets: CIPS Phase B, Surplus, Assets held for Sale, Investment, Housing, Ad-Hoc, and Annual Valuations. The programme was issued to the only housing area requiring full valuations owing to significant variations in values since the previous full valuation a sample of Durham City and Easington area houses were revalued and as there were no significant variations in value since the previous valuation then the Land Registry percentage impairment was deemed to be the correct valuation approach. In addition we review the Surplus and Investment properties but these are not reviewed until the year end with a valuation date of 31 March 2013.
2	Asset Register Reconciliation to Ledger	Ian Herberson	High	Reconciliations between the fixed asset register and the general ledger should be completed as part of the closed down period and must reconcile to all figures in the PPE note in the accounts. This should be supported by working papers and be completed prior to submission of the draft statements. The asset register should be updated regularly throughout the year (including additions).	Although reconciliations were provided, they did not adequately verify all the figures in the PPE note. From 2012/13 the reconciliations will be extended to include verification of all movements recorded in the PPE Note. It is agreed that the asset register should be updated regularly throughout the year (including additions), however this is a challenge as it requires the continual reconciliation of additions to capital expenditure, which is only possible to finalise at the year end. It is a further time consuming process to evaluate the additions for adding value to the asset.	Complete reconciliations for all entries in PPE note. Evaluate the benefit of including additions during the year.			30-Jun-13	Not Due
3	Asset Register - Migration of Housing Dwellings	Ian Herberson	High	Easington Council Dwellings records are held on a village basis and not on an individual asset basis. The Council should look to migrate all three housing asset registers for council dwellings onto the JPF Asset Manager as soon as is practicable to address this issue.	Separate report to Audit Committee - 22 November 2012		The project has suffered some delays due to delays at CIPFA in processing data and other conflicting workload priorities. It is anticipated that all information on Housing Assets will be with CIPFA by 28 February 2013. This delay should have no impact on 2012/13 closing of accounts.		Complete	Wear Valley, Easington and City of Durham Housing Assets have now been processed by CIPFA and were available in the live Asset Register from 3 April 2013. The information has been fully reconciled.
4	Working Papers	Hilary Appleton	High	The Council needs to ensure that final accounts working papers are prepared by officers as part of the closed down arrangements and a full set available for the beginning of the audit. There should be a clear audit trail to the figures in the statements and notes. This process will involve considerable effort but I am confident that the number of audit queries will reduce and more importantly so will the demands on officers' time.	Strategic Finance are discussing the format and extent of working papers that the External Auditor would expect to be provided. When devising the Final Accounts timetable for 2012/13 Closure of Accounts, it is proposed to build in an action and time for the completion of good quality working papers. A central repository will be established which adequately signposts the working papers provided to the Notes to the Statement of Accounts.	Add action working paper completion into Final Accounts Timetable. Create a central repository for the deposit of completed working papers ready for External Audit consideration. Ensure the quality of the working papers is improved.			30-Jun-13	Not Due
5	HRA Rents	Azhar Rafiq	High	Officers were unable to provide a detailed breakdown of the weekly rent income figure, for the week 02/01/2012 - 08/01/2012, from the Durham City Homes rents system because only one individual who works offsite has the appropriate knowledge to allow an interrogation of the system. Officers should ensure that they have the appropriate knowledge within the council to enable them to complete this task.	Reports to provide specific evidence were not available on the Rent System - however, we are able to provide a standard system report which details all transactions over a period identified. Unfortunately, this report is a text file and does not have the facility to sort query and the size of such files can also negate manual reconciliation. Although the County Council uses a contractor, there are other means of providing the appropriate reports. The County Council will however consider how the appropriate skills and knowledge can be transferred to officers. Officers will liaise with External Auditors prior to the year end to establish what evidence/information will be required for 2012/13 Audit so that this can be made.	Arrange for the required reports to be available as soon as possible after the year end. Investigate the possibility of providing reports in a format that allows interrogation i.e. not a text file. Consider how appropriate level of skills & knowledge to interrogate the system can be gained.			30-Jun-13	Not Due
6	HRS ALMOs	Azhar Rafiq	High	Both East Durham Homes and Dale and Valley Homes should be requested to specifically show a charge for 'Supervision and Management' and 'Repairs and Maintenance' on their periodic management fee invoices to provide a more robust method for finance officers to be able to prepare the classification needed for the accounts.	The management agreement with the ALMOs is a single agreement in return for a single management fee which is negotiated annually and we do not have separate funding agreements for repairs and management expenditure. The two ALMOs prepare income and expenditure accounts in line with companies act requirements and for their purposes a separate set of necessary figures used for the final accounts process are developed following detailed and full consultation and agreement with the two ALMOs. Therefore the work required to ensure the figures are robust is already undertaken. Showing a notional breakdown on the invoice is not necessary. The year end position and the entries on the HRA statement are discussed and agreed with ALMO colleagues.	Discuss the information requirements with External Audit prior to the year end. Provide evidence of the agreement of the split of the ALMO fee as appropriate.			30-Jun-13	Not Due

Durham County Council

Audit Progress report

May 2013

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# 1. Introduction

The purpose of this report is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. For the benefit of any new members we have also taken the opportunity to include some background information on auditors' and audited bodies' responsibilities which we hope you find helpful.

This report also seeks to highlight key emerging national issues and developments which may be of interest to Members.

If you require any additional information, please contact me or your Senior Manager using the contact details at the end of this update.

Finally, please note our website address ([www.mazars.co.uk](http://www.mazars.co.uk)) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

## 2. Progress on the 2012/13 audit

Good progress has been made on the audit for 2012/13. Since the initial planning work we have:

- documented and reviewed your material financial systems;
- performed an IT risk assessment; and
- tested efficiency savings and considered quarterly outturn reports to Cabinet, feeding into our Value for Money (VfM) conclusion work.

In the period between now and the start of detailed work in July to September, we will:

- finalise residual interim work;
- liaise with key staff with regard to the production of the 2012/13 financial statements;
- submit the National Fraud Initiative (NFI) risk assessment: as required by our regulator, the Audit Commission, we review the Council's progress in addressing any 'matches';
- complete any other returns as required by the Audit Commission; and
- continue our ongoing work feeding into the VfM conclusion work (including progress in achieving efficiency savings planned and developing a strategy for savings required).

### **Significant issues arising from work to date**

We are required to report any significant deficiencies in internal control that we become aware of to 'those charged with governance' (i.e. the Audit Committee). We have only two issues to report at this stage:

- journals: we have raised in previous years the lack of authorisation of journals and the failure to retain supporting documentation. Officers have agreed to authorise all journals with a value greater than £1m and to retain supporting documentation where possible within Oracle prior to upload into the ledger; or to retain outside Oracle if not;
- bank reconciliations: we mentioned in our Audit Strategy Memorandum (see below) at the last meeting the failure to routinely prepare timely bank reconciliations from May to December 2012. We are pleased to note that these reconciliations have now been completed and indeed are up to date with the March 2013 bank reconciliation now ready for our review.

### **Audit Strategy Memorandum 2012/13**

For the benefit of new Audit Committee members, we refer you to our Audit Strategy Memorandum, which was considered by the Audit Committee in April 2013, for full details of our planned 2012/13 work.



The Audit Strategy Memorandum sets out:

- the scope of our 2012/13 audit;
- significant risks identified and what impact these will have on our audit work;
- how and what work we plan to carry out (including the use of experts, both management's and our own e.g. the actuary and valuer);
- timeline for work and reporting requirements; and
- how we will communicate with the Audit Committee and senior officers throughout the year, including the importance of two-way communication.

### 3. Summary of Auditors' and Audited Bodies' Responsibilities

The Audit Commission, as regulator of local public sector audits, has previously set out in a statement, a summary of the responsibilities of auditors and audited bodies. For the benefit of any new members we have summarised some of the key points below. The full statement '*Statement of Responsibilities of Auditors and Audited Bodies, Local Government – March 2010*' is available on the Audit Commission's website: <http://archive.audit-commission.gov.uk/auditcommission/sitecollectiondocuments/MethodologyAndTools/Guidance/20100310lgstatementofresponsibilities.pdf>

#### Key points from the Audit Commission's statement

- **Responsibilities in relation to the financial statements**
  - Audited bodies' responsibilities: put in place and review the effectiveness of its system of internal control, maintain proper accounting records, prepare 'true and fair' financial statements, publication of a statement of internal control (now called the 'Annual Governance Statement').
  - Auditors' responsibilities: subject to the key concepts of materiality and assessment of risks, provision of reasonable assurance that the financial statements are free from material misstatement (whether caused by fraud or error) and compliance with relevant reporting requirements.
- **Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources:** the 'Value for Money conclusion'.
  - Audited bodies' responsibilities: to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and to regularly review the adequacy and effectiveness of them.
  - Auditors' responsibilities: to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources with regard to the criteria specific by the Audit Commission.
- **Specific powers and duties of auditors:** auditors have specific powers and duties under the Audit Commission Act 1998 in relation to matters of legality and, for local authorities, electors' rights. These include:
  - 'public interest reports';
  - advisory notices or application to the court for a declaration that an item of account is unlawful; and
  - application for judicial review with respect to a decision of an audited body or a failure of an audited body to act.

- **Reporting the results of audit work:** specific reporting requirements for auditors, ranging from an audit planning document to the final report for the year - the Annual Audit Letter.  
There are also specific requirements under auditing standards for auditors to report 'significant deficiencies' in internal control they become aware of, whether via their own work or that of Internal Audit.
- **Ad hoc requests for auditors' views:** including the importance of auditor independence.
- **Grant claims and returns – certification:** for Durham County Council, there are four returns only currently subject to certification, with the auditor being required to issue a formal annual report after certifying the grants.
  - Housing and Council tax benefit subsidy;
  - Pooling capital receipts,
  - Teachers' Pensions return; and
  - NNDR return.
- **Access to information, data security and confidentiality:** rights of access of auditors to information plus, importantly, the requirement to ensure data is held securely and for no longer than required.

## 4. National publications and other updates

### **Local Audit and Accountability Bill May 2013**

The effect of the Local Audit and Accountability Bill is to abolish the Audit Commission and to establish new arrangements for the audit and accountability of local public bodies in England. This includes certain health service bodies that were previously audited by auditors appointed by the Audit Commission. In addition to these health service bodies, the Bill makes provision for some consequential changes to the audit arrangements for NHS Foundation Trusts.

The bill also confirms proposal for Local Authorities to appoint their own external auditor in future on the recommendation of an independent appointment panel, but no date as yet has been specified for when this is likely to come into effect and further guidance is likely to support its implementation.

The Bill also amends the legislative framework for council tax referendums to provide that increases set by levying bodies are taken into account when local authorities determine whether they have set an excessive amount of council tax each year. It also provides for measures which can ensure local authority compliance with the Code of Recommended Practice on Local Authority Publicity.

A summary of the main provisions can be found at:

<http://www.publications.parliament.uk/pa/bills/lbill/2013-2014/0004/en/2014004en.htm>

### **Local Government Application Note - Public Sector Internal Audit Standards, CIPFA April 2013**

On 1 April 2013 a common set of standards came into effect for Internal Audit across the UK public sector. The Public Sector Internal Audit Standards (PSIAS) apply the mandatory elements of the Institute of Internal Auditors (IIA) International Standards. Adoption of a consistent framework is designed to bring benefits for partnership working and working across the different parts of the public sector. The standards are also designed to drive improvement, leading to better public financial management. The new standards replace the existing ones in local government, central government and the NHS.

The new standards include a requirement for an independent external assessment of Internal Audit once every five years. The external assessment requirement may be satisfied by either arranging for a 'full' external assessment or by undertaking a self-assessment with 'independent validation'. The standards require the Chief Audit Executive ( Head of IA ) to determine the form of external assessments following consultation with senior management and the board (Audit Committee) and consideration of the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. As external auditors of the Council, this is something we consider we would be able to carry out efficiently and effectively.

## **A Practical Guide for Local Authorities on Income Generation (2013 Edition), CIPFA**

CIPFA have published an update of their guide on income generation, which is aimed at helping local authorities to make the most of their fees and charges potential. It provides a full update of the charging opportunities available as at January 2013, reflecting recent legislation and regulations.

### **National Fraud Initiative, *Audit Commission March 2013***

The Audit Commission issued a press briefing in March 2013 on its National Fraud Initiative (NFI). This data matching exercise is mandatory for all local government and health bodies and is undertaken every two years, with the Audit Commission reporting the results of these matches at the end of each cycle.

The outcomes, in England, from the most recent exercise include the prevention and detection of £103 million pension overpayments, £79 million council tax single person discounts incorrectly awarded and £42 million housing benefit overpayments. Others include:

- 164 employees identified as having no right to work in the UK;
- 321 false applications removed from housing waiting lists;
- 1,031 prosecutions, 921 of them for housing benefit fraud; and
- 32,633 blue badges and 52,635 concessionary travel passes cancelled.

The next NFI report is due in June 2014.

By way of background, the Audit Commission's 17-year-old initiative compares data held by 1,300 public sector and 77 private sector organisations. These include sister audit bodies in Scotland, Wales and Northern Ireland, government departments and other national agencies. It flags up inconsistencies in data that potentially indicate a fraud is taking place, and signals the need for a closer investigation.

The initiative helps detect one-off individual frauds or error, as well as serious wide-scale organised crime. It helps find patterns in fraud activity that might otherwise be missed at a local level, for example if activities are repeated over a large geographical area or masked by false identities. It helps provide a national picture of fraud and highlights some emerging fraud risks.

## 5. Contact details

Please let us know if you would like further information on any items in this report.

[www.mazars.co.uk](http://www.mazars.co.uk)

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## Audit Committee

31 May 2013

### Strategic Risk Management Progress Report for the Quarter period January to March 2013



## Report of Corporate Management Team

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**Don McLure, Corporate Director Resources**

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### 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 January to March 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 Portfolio Member for Risk Management 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<sup>st</sup> March 2013, there were 39 strategic risks, which is a decrease of five from the previous period on 31 December 2012. In summary, the key risks to the Council are:
  - Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses;
  - Failure to identify and effectively regulate Contaminated Land;
  - Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier is not undertaken;
  - Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA);
  - Damage to Highways assets as a result of a severe weather event;
  - Government budget plans announced in the Chancellor's March 2013 budget to cut local government funding further in 2014/15,

2016/17 and 2017/18 will have a major impact on services including frontline services;

- Potential restitution of search fees going back to 2005;
- School funding reforms & LACSEG reductions threaten viability of some centrally managed services for children and young people;
- If proposed funding reforms are implemented, the Council may have a major funding shortfall for Post 16 High Needs Placements.

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 March 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.
7. The following, ongoing projects have been supported in various ways, including risk analysis through workshops and meetings, giving critical feedback on risk management documentation and procedures, attending project / board meetings and helping to maintain the risk register through challenge and identifying controls.
  - Community Buildings;
  - Financial Management Computer System;
  - Internet Project;
  - Library Strategy;
  - Local Council Tax Support Scheme;
  - Revenues and Benefits Computer System, Phase 2;
  - Welfare Reforms.

### **Recommendations and reasons**

8. 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.

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**Contact: David Marshall Tel: 03000 269648**

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## **Appendix 1: Implications**

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**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.

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## **Appendix 2: Background**

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A large amount of work is being carried out across the Council in shaping and developing our approach to risk management where the Cabinet and the Corporate Management Team have designated the Portfolio Member with responsibility for risk management 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<sup>st</sup> March 2013, there were 39 strategic risks, a decrease of five from the number of risks at the end of the previous period at 31 December 2012.

The following matrix summarises the total number of strategic risks based on their Net risk assessment as at 31 March 2013. Where there have been changes to the number of risks from the last quarter period end, the risk total as at 31 December 2012 is highlighted in brackets.

### Overall number of Strategic Risks as at 31 March 2013

Impact					
Critical	1 (1)	3 (2)	3 (3)		
Major		3 (3)	4 (4)	1 (1)	2 (2)
Moderate		2 (2)	11 (13)	4 (5)	3 (2)
Minor			0 (3)	2 (2)	0 (1)
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

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

#### 1 Beneficial outcomes

Due to the Services effectively managing their risks:

- The financial impact of changes to the Ordinary Residence guidance has been minimised; **(CAS)**
- The funding distribution for schools has been finalised; **(CAS)**
- The implementation of the Public Health and NHS reforms has enabled a planned response to the provision of mandatory public health services; **(CAS)**
- The project to deliver the proposed Waste Management Solution has now progressed to the procurement of contracts. **(NS)**

## 2 Significant New and Increased Risks

Two new risks have been identified this quarter:

- *'If proposed funding reforms are implemented, the Council may have a major funding shortfall for Post 16 High Needs Placements'*. From 2013/14, funding reforms bring together all funding for Post 16 High Needs Placements and the LA will be both the commissioner and funder. This enhanced role means that each local authority will have a single high needs budget to cover their funding responsibilities for all high needs children and young people aged up to the age of 25. There is a potential major shortfall of funding. **(CAS)**
- *"Lack of asbestos management plans in the former District Council Buildings"* The lack of plans may result in the Council being non-compliant with Health & Safety Legislation. **(NS)**

We monitor emerging risks on an ongoing basis, and in this respect, the Council anticipated that the implementation of welfare reforms from 1 April 2013 would have a major impact on a range of services and this is reflected in a number of risks in the risk register in Appendix 4. Since implementation of the reforms on 1 April, the impact on the wider community is also becoming clear and the consequent increase in demand for services, such as Housing Solutions having seen up to a 100% increase in enquiries as a result of the Welfare Reform changes, demand for 3 bedroom properties in the social rented sector is plummeting, and households having reduced expenditure to spend on a range of services, with a consequent impact on the high streets of town centres. These are just a few examples of early impact. These raise potentially new risks, and the Council will be monitoring these as they emerge in the coming months.

## 3 Removed and Reduced Risks

The following risks are now considered by CAS Management Team to have been reduced to an acceptable level to be managed as business as usual risks, and have therefore been removed from the strategic risk register:

- Viability of many accommodation-based services in supported housing sector is threatened by proposed reductions in HB subsidy;
- Management and administration of service users medications;
- Work Related Stress – STAFF;
- Potential financial, operational, and reputational risks arising from proposed NHS Reforms;
- Potential for the Police Reforms to weaken the ability of the Council and its partners to cut crime and anti-social behaviour;
- Increased cost to the authority from revision to "Ordinary residence" guidance;
- Merger of Children/Adults Services.

The only significant risk which has reduced during the quarter is:

- *“Failure to develop the proposed Waste Management Solution”*. Procurement of the contracts is now complete which has reduced the likelihood of this risk from Possible to Unlikely. Once transition period is complete it is anticipated this risk will be removed from the Strategic to the Operational Risk Register. **(NS)**

#### 4 Key Risks

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

<b>Impact</b>					
Critical			<b>Risks 1, 2 and 3</b>		
Major				<b>Risk 6</b>	<b>Risks 4 and 5</b>
Moderate					<b>Risks 7, 8 and 9</b>
Minor					
Insignificant					
<b>Likelihood</b>	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	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses	Critical	Possible	The Delivery plan implementation will be monitored by CMT and Cabinet.		This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage.
2	NS Risk Owner: Joanne Waller	Altogether Greener	Failure to identify and effectively regulate Contaminated Land	Critical	Possible	All sites will be inspected in two phases by 31/10/2012 and 31/3/2013 respectively, and then confirmed by an external review by July 2013.		We will have reduced the risk to an acceptable level by July 2013.
3	NS Risk Owner: Terry Collins	Altogether Wealthier	Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier is not undertaken	Critical	Possible	Funds will be allocated in future budgets for the design and undertaking of repairs to the structure.		The mitigating actions to bring this risk to an acceptable level will be completed by Autumn 2014
4	RES Risk Owner: Don McLure	Altogether Better Council	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)	Major	Highly Probable	The cost of any clawback will be met from the Insurance Reserve.		A levy of 15% will be charged on all claims previously paid by MMI, meaning that at some point during 2013/14, we will be expected to pay approximately £815,000 to MMI. As this is not a solvent run-off of MMI, we are likely to be required to pay additional levy contributions in future years
5	NS Risk Owner John Reed	Altogether Safer	Damage to Highways assets as a result of a severe weather event.	Major	Highly Probable	A revised inspection and maintenance regime to be implemented.		

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
6	RES Risk Owner: Don McLure	Altogether Better Council	Government budget plans announced in the Chancellor's March 2013 Budget to cut Local Government funding further for 2014/15, 2016/17 and 2017/18 will have major impact on services including frontline services that customers rely on.	Major	Probable	Sound financial forecasting based on a thorough examination of the Government's "red book" plans is in place.  Early engagement with Cabinet and a timetable of key milestone dates will be agreed, so that this risk will be managed and mitigated to best effect.		This is related to key risk 2 above.
7	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
8	CAS Risk Owner Caroline O'Neill	Altogether Better for Children and Young People	School funding reforms & LACSEG reductions threaten viability of some centrally managed services for children and young people	Moderate	Highly Probable	Reviews of major areas of the service are underway.		An ongoing review of staffing structure is underway to manage LACSEG reductions in 2013-14
9	CAS Risk Owner Caroline O'Neill	Altogether Better for Children and Young People	If proposed funding reforms are implemented, the Council may have a major funding shortfall for Post 16 High Needs Placements	Moderate	Highly Probable	The Education Funding Agency (EFA) has agreed some additional funding but has been unable to quantify the amount. The eligibility threshold for Post-16 High Needs Learners will be reviewed.	<b>NEW</b>	The EFA is expected to notify the additional amount of funding imminently. The situation is being monitored and reported periodically to CAS MT.

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

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

### **Corporate Theme – Altogether Better Council**

<b>Ref</b>	<b>Service</b>	<b>Risk</b>
1	ACE	Risk that the Council does not respond to the Government's changes to Welfare Reform
2	ACE	Failure to substantially deliver the Community Buildings Strategy by March 2014, leading to continuation of current issues
3	Resources	Government budget plans announced in the Chancellor's March 2013 Budget to cut Local Government funding further for 2014/15, 2016/17 and 2017/18 will have major impact on services including frontline services that customers rely on.
4	RED	Increased demand for Housing Solution Service beyond current staffing capacity due to changes in Government Welfare legislation.
5	RED	Adverse impact on Durham City Homes revenue, capacity and resources and tenants due to changes in Government legislation.
6	Resources	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.
7	Resources	Major Interruption to IT Service Delivery
8	NS	If Local Authority schools choose not to take our services, Building Services could see a loss of business if the academies do not use Council services and/ or opt out of the SLA to procure outside agencies to carry out compliance, building and maintenance/ grounds maintenance works.
9	Resources	Industrial Action will adversely impact service delivery
10	Resources	Due to the amount of change occurring across the Council, the potential for fraud and error is increasing.
11	NS	Consistent health and safety policies, practices and procedures across the Neighbourhoods Service are not embedded across NS
12	ACE	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation



Ref	Service	Risk
13	ACE	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation
14	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
15	Resources	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)
16	Resources	Potential restitution of search fees going back to 2005
17	Resources	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses
18	NS	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.
19	Resources	National Non-Domestic Rates and Council Tax collection rates do not reach target set for 2013/ 14
20	Resources	Inconsistent approach to managing funding bids by Services could expose the Council to financial losses and reputational damage.

### Altogether Safer

	Service	Risk
21	CAS	Unauthorised encampment
22	CAS	A service failure of Safeguarding leads to death or serious harm to a service user.
23	CAS	Failure to protect child from death or serious harm (where service failure is a factor or issue)
24	RED	Serious injury or loss of life due to Safeguarding failure (Transport Service)
25	NS	Lack of asbestos management plans in the former District Council Buildings.
26	RED	Disused unmaintained Coal Authority mine workings on DCC land may result in serious injury/financial claims against the Council

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	CAS	Violence and Aggression Staff

#### **Altogether Greener**

	<b>Service</b>	<b>Risk</b>
30	NS	Failure to identify and effectively regulate Contaminated Land
31	NS	Failure to effectively deliver the proposed Waste Management Solution.

#### **Altogether Better for Children and Young People**

	<b>Service</b>	<b>Risk</b>
32	CAS	If proposed funding reforms are implemented, the Council may have a major funding shortfall for Post 16 High Needs Placements
33	CAS	School funding reforms & LACSEG reductions threaten viability of some centrally managed services for children and young people
34	CAS	Failure to meet escalating costs of external and high-cost placements effectively where highly-specialised provision is required
35	CAS	Children/families experience a lack of interface between services for children & adults as a result of failure to work together
36	RED	Employment Services for young people (18-24 year olds) are under resourced and unco-ordinated between service groups.

### **Altogether Wealthier**

	<b>Service</b>	<b>Risk</b>
37	NS	Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier isn't undertaken
38	RED	Private housing stock condition worsens with adverse implications for local economy, health & neighbourhood sustainability.
39	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.

### **Altogether Healthier**

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

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## Audit Committee

31 May 2013

### Partnership Governance



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## Report of Corporate Director Resources

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### Purpose of the Report

1. To advise the Committee of known arrangements in place that can provide assurance on the adequacy and effectiveness of the Council's partnership governance arrangements.

### Background

2. At the last meeting of the Audit Committee, issues were discussed relating to partnership governance arrangements.
3. The Committee requested information on how assurance is provided on the effectiveness of partnership working, following an example referred to by Councillor Temple on the closure of Derwentside Citizens Advice Bureau at short notice.
4. Partnerships with the council can take many forms, and consequently the governance arrangements can also take many different forms.
5. To help improve governance arrangements on the council's most significant partnerships, the Council has adopted a partnership governance framework. This is supported by the Partnership and Community Engagement Service within Assistant Chief Executive's Service Grouping.
6. Under this framework, partnership working is defined as,
  - Working **with** others: where the Council agrees to work with partners to achieve a mutually shared objective
  - Working **through** others: where the Council funds external organisations to deliver a product or a service on its behalf
  - Working **for** others: where another organisation funds the Council to deliver a product or a service on its behalf

A significant partnership exists where two or more independent bodies make an agreement to work collectively to achieve a shared objective and collectively take decisions on significant financial, operational or strategic issues.

The distinctive feature of partnerships is that they involve **taking decisions collectively** and require **joint governance**.

7. As part of this framework, assurance is provided that arrangements in place are effective by Council lead officers for each partnership who are required to carry out an annual self-assessment on the effectiveness of governance arrangements in place from the council's perspective.
8. The self-assessment tool is designed to provide assurance that:
  - The partnership's purpose, aims and objectives are reviewed to reflect current remit
  - Working arrangements , including sub-groups it oversees are appropriate
  - Performance, finance and risks are well managed
  - The public and key service users can easily access key information
  - The public and key service users understand how to make complaints and suggestions
  - Working arrangements are set out in an up-to-date agreement
9. Other arrangements in place, identified through the annual review of the Council's corporate governance arrangements, which contribute to the control and assurance framework around partnership governance risks include:
  - The strategic arm of the Delivery Improvement Group which supports the County Durham Partnership (CPD), consider how partners' plans align and where efficiencies/value can be maximised through integration, shared services and joint commissioning.
  - An annual light-touch review of CDP achievements and the requirements for additional interventions where there is slippage or targets have not been achieved is carried out.
  - The performance arm of the CDP's Delivery Improvement Group which monitors performance against the Sustainable Community Strategy (SCS) Action Plan.
  - The CDP Performance Management Framework which measures the impact and progress of the SCS over a three year period via a basket of performance indicators aligned to the priority themes and key objectives.
  - Bi-monthly updates to Cabinet which provide an update on key issues and achievements of all bodies included in the CDP Framework. Annual review of the CDP framework
  - Through the Thematic partnerships of the CDP, the Council aligns activities with other public sector service providers and is able to utilise their organisational mechanisms e.g. the Health and Well Being Board draws on the PCT arrangements, and the Safe Durham Partnership draws upon Police led mechanisms. Examples where we work with partners through the County Durham

Partnership in developing our response and implementation plans include a shared NHS and Council programme to responding to NHS, Public Health, community safety, welfare reform and Housing changes.

- Working groups established for the Voluntary and Community Sector (VCS) led by DCC with VCS reps, to establish arrangements to support front line VCS organisations in County Durham
  - A VCS Working Group with Local Council representatives in place. This is the primary forum for DCC to engage with the VCS. This group includes three Cabinet Members and is chaired by the Assistant Chief Executive. The VCS Working Group is supported by the multi-agency Third Sector Strategy Group.
  - The County Durham Compact provides a framework of engagement within the voluntary and community sector, including annual reporting.
  - Regular reports to Cabinet on the work of Area Action Partnerships (AAP's ) and CDP
  - Regular meetings of AAP boards to discuss how the AAP is progressing against its action plan, manage spending and work with local partners around service issues.
  - Overview and Scrutiny review of AAP's which concluded that the AAPs were fit for purpose but also made a number of recommendations for improvements
  - All AAP project risks are considered as part of the appraisal process in place for all AAP area budget applications and also Councillor focused Neighbourhood projects.
10. The Local Government Association (LGA) peer review last year also provided an independent opinion on our partnership working.
11. Some independent assurance, on the effectiveness of the partnership governance framework and the individual significant partnerships within it, is provided by Internal Audit as part of a rolling programme of assurance reviews informed by the annual self-assessment exercise.
12. Examples of partnerships governance reviews carried out or planned by Internal Audit include:
- Safe Durham Partnership (2011/12)
  - Local Resilience Forum ( Planned last year but cancelled pending corporate review of business continuity)
  - Area Action Partnerships – Funding arrangements ( 2011/12)
  - Area Action Partnerships - Information Governance Review ( In progress)
  - Children's Trust (planned for review in 2012/13 but deferred until 2013/14 as the service is currently reviewing )
  - One Point Service (2011/12)
  - Public Health Transfer – Due diligence exercise (2012/13)

13. In addition the risk based approach applied by Internal Audit to the review of all key service activities should ensure that other potential partnership risks are identified during discussions with service managers as part of the planning and preparation stage of each audit. These discussions should also identify how service managers gain assurance that partnership working is effective. If the risks are considered high and there is little or no other source of assurance, the scope and terms of reference for the audit should ensure that these risks are reviewed as part of the audit.
14. Given the likelihood of an increasing use of partnership working and alternative ways of delivering council services, the adequacy of assurance on partnership working has recently been raised in consultation meetings with Corporate Directors on next year's audit plan. As a result, more audit resources are likely to be allocated to significant partnerships assurance work next year.
15. However, Internal Audit has limited resources and can therefore not be relied upon to be the sole provider of evidence based assurance. To help the Corporate Management Team and the Audit Committee to understand how assurance is provided and what assurance is provided, Internal Audit intends to lead on the development of assurance maps for all key service activities. Given the reliance on effective partnership working for the delivery of many of the council's priorities and objectives, the mapping of assurance on partnerships risk is a key area that needs to be considered in this exercise.
16. At the last meeting of the Committee, concerns were also raised about the lack of guidance provided to elected members in relation to their involvement with partnerships and acting as trustees on outside bodies. A guidance note had been prepared by legal and democratic services to assist in this regard. The latest guidance note, dated December 2010, is attached at Appendix 2 for information. This is currently being reviewed.

### **Recommendations and reasons**

17. The Committee note the identified sources of assurance on the Council's partnerships governance arrangements and plans to develop assurance maps to help identify all key sources of assurance, improve understanding of what assurance is provided and identify any gaps where further assurance is required.
18. The Committee note the guidance available to elected members on their involvement with partnerships and outside bodies.

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

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**Appendix 1: Implications**

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**Finance -**

None directly 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 Issues -**

None

**Legal Implications -**

None



**GUIDANCE NOTE FOR COUNCILLORS**

**WHO SERVE ON OUTSIDE BODIES**

**7 December 2010**

# 1. INTRODUCTION

Members often act as members of organisations, sometimes termed ‘outside bodies’, which are separate to the County Council, but whose aims and objectives are in accordance with or complimentary to those of the County Council. This guidance note seeks to provide some general advice for Members about their roles and responsibilities when serving on such bodies. It is not possible to provide a comprehensive guide to every situation that may arise and further advice on specific issues is always available from Legal Services.

The types of organisation with which Members may be involved can be many and varied and may exist on a national, regional or sub-regional basis, but usually fall into the following categories:

- Statutorily constituted public bodies independent of the County Council for which legislation provides for membership to be appointed from the County Council (e.g. Police Authority, Fire Authority).
- Companies of a commercial nature, usually companies limited by shares (e.g. Durham County Waste Management Company).
- Companies of a social nature. These are usually companies limited by guarantee (e.g. County Durham Development Company). Such companies may be registered charities or Community Interest Companies
- Trusts which may or may not be charities.
- Unincorporated associations which may or may not be charities.
- Special interest groups, Advisory Bodies, consultative or pressure groups (e.g. Local Government Association, Employers’ Organisations etc.).

Members come to serve or attend the boards of these organisations from several different routes including:

## **Local authority nomination of a Member.**

This can be through legislation which requires nomination by the authority of a certain number of Members to a panel or board. This usually happens where a local authority has a substantial interest in the area of work of the organisation and might fund some of its activities or purchase services from it. It may also, in relation to companies, be a shareholder or member of the company. The governing instrument of the organisation may also stipulate that the local authority is entitled to nominate a Member to serve on the board.

- **Invitation by an organisation to the local authority**

Organisations, typically charities and voluntary organisations, may invite a local authority to nominate a Member to serve on their boards.

- **Members' personal interest in the subject area of an organisation**

Members will often take up a position on the Governing Body of an organisation, usually a voluntary organisation, without being nominated or appointed by the local authority.

- **Local authority Member as observer**

Members may be asked to attend meetings of organisations as observers or representatives of the County Council rather than as members of boards with the full duties of trustees or directors.

How a Member is appointed and the role undertaken will affect the power of the County Council to provide Members serving on outside bodies with an indemnity for any loss or claim against them whilst acting on behalf of that body. For more details see section 5 on 'Indemnities to Members' below.

## **2. GENERAL MATTERS**

There are a number of general rules of which Members need to be aware when taking up an appointment on an outside body of whatever nature. These are as follows:-

- Members need to be aware at the time of joining a body, what they are taking on and what that body expects of them.
- Members **must** act in the interests of that organisation as they are generally held to have a fiduciary relationship with the organisation (i.e. they should act honestly and in good faith; and they should not put their personal interests or that of a third party before their duty to the organisation). A mandate from the Council to vote one way or the other would put the representative in breach of their duty to the organisation. It is permissible to take account of the Council's wishes but the Member must exercise independent judgement in the matter. The overriding duty in considering items before the outside organisation is to vote in accordance with the interests of that organisation.

**N.B.** This would not apply if a Member attended solely as an observer in a non voting capacity **and** not as part of the organisation (e.g. 'link members' on various voluntary organisations funded by the County Council through Service Level Agreements).

- Members should be aware that taking on a specific role may create a conflict of interest when the Council considers matters relating to that body.
- Members should take an active and informed role in the affairs of the outside body.
- Members are bound by the Council's Code of Conduct when serving on any outside body unless this conflicts with any legal obligations arising from membership of that body (see below for more details).
- Members should endeavour not to be merely a passive member of the outside body, just turning up to meetings, not reading papers or failing to ask for appropriate reports.
- Some outside bodies may require members to keep business discussions and information confidential. Whilst this may appear to diminish the public accountability of the outside body, Members are bound by that confidentiality.
- Members should ensure, wherever possible, that insurance provision is made **by the organisation** to cover the actions of the member.

### 3. CODE OF CONDUCT

The Code of Conduct for Members has relevance to the way Members conduct themselves on outside bodies.

Paragraph 2 of the Council's Code of Conduct emphasises a Member is bound to observe the requirements of the Council's Code when serving on another body, unless that Member is subject to another relevant authority's Code, or unless (in relation to any other body) the Council's Code conflicts with any other legal obligations.

#### **Personal Interests**

The Council's Code is also relevant to Members acting on outside bodies in relation to the declaration of personal interests. In particular:

- Paragraph 13            -        requires Members to **register** membership of, or a position of general control or management in, a body to which they have been appointed or nominated by the Authority as its representative. The standard Register of Interest forms which Members complete provides for this information to be listed.

- Paragraph 9 - requires Members serving on outside bodies to **declare** at any Council meeting a personal interest in the business arising at the meeting which may affect, or arise from, an outside body on which they serve as Members

The declaration of a personal interest would not necessarily disallow the Member from speaking and voting on the particular issue at the meeting.

### **Prejudicial Interests**

The Code also deals with the position where a Member's interest in the business of an outside body could be prejudicial. The declaration of a prejudicial interest generally requires the Member not to participate in the business concerned and to leave the meeting (see paragraph 12 of the Code for details). Paragraph 10(1) of the Code says a prejudicial interest is "*one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice your judgement of the public interest*".

The Code provides at paragraph 10(2) that where Members are appointed or nominated *by the Council* to an outside body they may regard themselves as not having a prejudicial interest in a matter as long as that matter does **not** relate to their financial position, the financial position of the outside body or the determination of approvals, licences, consents or permissions with respect to that outside body.

However even when appointed to outside bodies by the Council, Members still need to consider the particular circumstances of each meeting or agenda item and decide whether they have a prejudicial interest as the Code does not give the automatic right to regard "outside body business" as a personal interest only. As an example this could include occasions when consideration is being given to possible enforcement action against that body. Consultation with the Council's Monitoring Officer may be required when there are circumstances which may give rise to problems in this respect.

Members who are involved with outside bodies but have not been appointed to that position by the Council should apply the normal rules about prejudicial interests (unless the body falls into another exemption category – see paragraph 10(2) (c) of the Code). This also includes Members who have been appointed to Body A as the Council's representative and then appointed/nominated by Body A to represent it on Body B.

Members should also be aware there is a greater potential for matters to involve a prejudicial interest when they have accepted a position as an officeholder on an outside body (e.g. Chairman, Treasurer etc.) As an officeholder a Member should normally expect to declare a personal and prejudicial interest in matters affecting the affairs of the body - not just grants, but also issues relating to planning, licensing, property etc.

## **Other matters relating to the Code of Conduct**

Members should be alert to possible conflicts of interest. This could arise from individual circumstances relating to the outside body or from more significant policy and financial aspects of the relationship between the organisation and the Council. Some outside bodies may themselves have governance arrangements designed to regulate ethical standards.

Regard should also be had to paragraph 6 (a) of the Code which states that a Member must not use or attempt to use his position as a Member improperly to confer on or secure for himself or any other person, an advantage or disadvantage.

It is also important to avoid any perception of impropriety. This could be influenced by factors such as:

- The degree to which the outside body is dependent on the Council for financial or other support, and the scale of that support
- The general nature of the relationship between the Council and the outside body
- The real or perceived influence the Member may be able to exert over the Council - for example, is he or she a Member of the Cabinet/Chair of a particular Committee or 'high profile' in some other way? Would a decision contrary to a Member's known point of view made either by the Council or by the 'management committee' of the outside body be perceived as politically embarrassing?
- Would the Council be perceived as seeking to exercise undue influence over the outside body, or vice versa?

Such considerations will apply to all Members who hold office, whether or not they have been appointed to the outside body by the Council.

## **4. GUIDANCE ABOUT SERVING ON PARTICULAR OUTSIDE BODIES**

### **A. COMPANIES**

#### **What is a company?**

A company is a separate legal entity which can hold property in its own right, enter into contracts and sue and be sued in its own name. The company is distinct from its shareholders and members. In the case of a limited liability company, the liability of members of the company is limited to the amount they paid or agreed to pay when they joined the company. This can be as little as £1.

Companies limited by shares are those which have a share capital (eg 1000 shares of £1 each). Each member holds shares and receives a share in the profits made by the company according to the value of the shares held. Shares can be sold.

Companies limited by guarantee are those where there is no shareholding. Instead each member agrees that in the event of the company being wound up they will agree to pay a certain amount. This may also be as little as £1. This form of company is the most usual in the public and voluntary sector, particularly where charitable status is sought.

The management of a company is generally the responsibility of a board of directors. The powers of the directors are usually set out in the company's Articles of Association (the rules each company has to govern its internal management). Sometimes, even though a company has been incorporated, the directors may be referred to as members of the committee of management, governors or even trustees. However this does not change their status as directors under the Companies Act. Conversely, sometimes officials are called "directors" but they are **not** members of the board. Again their status will not be affected. Directors are only those who are appointed by the company to act in that capacity.

### **Directors' Duties**

In accordance with the Companies Act 2006, the statutory duties owed by a director of a company to the company are as follows:-

- (1) A duty to act in accordance with the Company's constitution and only exercise powers for the purposes for which they are conferred.
- (2) A duty to promote the success of the company for the benefit of its members as a whole.

*In doing so a director must have regard (amongst other matters) to*

- *The likely consequences of any decision in the long term*
  - *The interests of the company's employees*
  - *The need to foster the company's business relationships with suppliers, customers and others*
  - *The impact of the company's operations on the community and the environment*
  - *The desirability of the company maintaining a reputation for high standards of business conduct*
  - *The need to act fairly as between members of the company*
- (3) A duty to exercise reasonable care, skill and diligence to the company.



*However a director requires no greater skill than might reasonably be expected of someone of that individual's particular knowledge and experience. A director is not deemed to be an expert, but is expected to use due diligence and to obtain expert advice if necessary.*

- (4) A duty to exercise independent judgement.

*A director will continue to be able to rely on the judgment of others in areas where he is not expert. A director's judgment must be his own judgment.*

- (5) A duty to avoid conflicts of interest.

*There may be actual or potential conflicts between the interests of the Council and the interests of the company (see also conflicts of interest and the Council's Code of Conduct above). In such circumstances the only proper way for the conflict to be resolved is for the representative to resign either from the company or from the Council.*

- (6) A duty not to accept benefits from third parties conferred by reason of being a director or doing or not doing anything as a director.

- (7) A duty to declare an interest in a proposed transaction or arrangement with the company.

### **Directors' Liabilities**

- (1) The company's registered name must clearly be shown on all forms of business correspondence and documentation including cheques, whether in hard copy, electronic or any other form. A company must display *the company's registered number, the place of registration and the registered office address* on its business letters, order forms and website *and if any of the directors' names are shown then they must all appear.*

*Non-compliance is an offence and the directors and company officers can be fined.*

- (2) Directors have a responsibility to prepare and deliver documents on behalf of the company to Companies House as and when required by the Companies Act.

*Failure to submit certain information on time is a criminal offence for which directors may be prosecuted and fined.*

- (3) A company must disclose the address of its registered office, any inspection place and the type of company records kept at that office or place to any person it deals with in the course of business who makes a written request to the company for that information. The information

must be provided in writing within five working days of receipt of that request.

*Non-compliance is an offence and the directors and company officers can be fined.*

- (4) A director may also be liable for breach of trust, if he/she misapplies the money or property of the company.

*Directors may also be liable if they fail to take action to prevent the breach of a co-director of which they are aware.*

- (5) In the event of failure to act in accordance with the best interests of the company, or if a director uses his/her powers improperly or makes a personal profit from his/her position as director, then the director may be personally liable for loss to the company and may be required to give to the company the personal profit made.

- (6) If the level of skill and care shown by a director falls below that which could be reasonably expected and the company suffers loss, the director will be liable for the loss incurred.

*If it believes the director acted honestly and reasonably, a Court may excuse the director the liability.*

- (7) If a director knows or ought to know that there is no reasonable prospect of the company avoiding liquidation, a Court may require that director to contribute to the company's assets on liquidation if the company continues to trade. This is known as wrongful trading.

*No such order will be made if the Court is satisfied that the director took all reasonable steps to minimise the loss to the creditors. If a director has concerns about the company's financial position he/she would be well advised to inform the other directors and seek advice from the company auditors. He/she should try to ensure that further debts are not incurred.*

- (8) A director will also be liable if to his/her knowledge the company carries on business with intent to defraud creditors or any other person, or for any other fraudulent purpose.

*Fraudulent trading can also lead to disqualification from acting as a director.*

- (9) A third party who enters into a contract on the assumption that a director has power to bind the company, may be able to claim damages against the director if it subsequently transpires that the director had no such power.

*Directors would be well advised to ensure that contracts are approved by the board and that the authority to enter into any contract has been properly delegated before signing it.*

- (10) Though company liability ceases on dissolution the liability of the directors (if any) may still be enforced **after** dissolution.

### **Obligations of Directors nominated by the Council to Outside Companies**

Members who are nominated as directors by the Council to Outside Companies are also under the following obligations:-

- The remuneration they receive from the company should not exceed that received from the Council, and should be declared.
- To give information to Councillors about their activities as required by the Council (except confidential information); and
- To cease to be a Director immediately upon disqualification as a Councillor.

### **B. CHARITABLE TRUSTS**

To be a charity an organisation must operate for the public benefit and exist exclusively for one or more of the following charitable purposes:

- The prevention or relief of poverty
- The advancement of education.
- The advancement of religion.
- The advancement of health or the saving of lives
- The advancement of citizenship or community development
- The advancement of the arts, culture, heritage or science
- The advancement of amateur sport
- The advancement of human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity
- The advancement of environmental protection or improvement
- The relief of those in need, by reason of youth, age, ill-health, disability, financial hardship or other disadvantage
- The advancement of animal welfare

- The promotion of the efficiency of the armed forces of the Crown, or the efficiency of the police, fire and rescue services or ambulance services
- Any other purposes currently recognised as charitable and any new charitable purposes which are similar to another charitable purpose

An organisation that operates for political purposes cannot register for charitable status.

To register as a charity the organisation must submit its Trust Deed (similar to the Memorandum and Articles of Association of a company limited by guarantee) to the Charity Commissioners for approval. If the Commission is satisfied that the organisation is charitable, it will be registered.

Those who are responsible for the control and administration of a charity are called Trustees, even where the organisation is a company limited by guarantee. Trustees retain personal liability, and can only delegate it if the Trust Deed authorises them so to do.

### **Trustees' Duties**

Trustees are responsible for controlling the management and administration of a charity.

Trustees must take care to act in accordance with the Trust Deed and to protect the charity's assets. They are responsible for compliance with the Charities Acts and the Trustee Act 2000 and should note the particular requirements of the Acts in respect of land transactions.<sup>1</sup>

#### **(1) Duty of Care**

Trustees must exercise reasonable care and skill as trustees, using personal knowledge and experience to ensure that the charity is well run and efficient. They must perform their duty with the standard of care that an ordinary, prudent business person would show. Higher standards are required of professional Trustees and in relation to investment matters.

*Consider getting external professional advice on all matters where there may be material risk to the charity, or where the trustees may be in breach of their duties.*

#### **(2) Duty of Prudence**

Trustees must;

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<sup>1</sup> When selling, leasing or transferring charity land, the law sets out clear requirements to ensure that these important transactions are properly managed in the charity's interest and that trustees obtain the best reasonable price in the circumstances. For further information see the Charity Commission's Guidance Note CC28 – What Trustees need to know about disposing of charity land.

- Ensure that the charity is and will remain solvent
- Use charitable funds and assets wisely, and only to further the purposes and interest of the charity.
- Avoid undertaking activities that might place the charity's property, funds, assets or reputation at undue risk
- Take special care when investing the funds of the charity, or borrowing funds for the charity to use
- Not make any private profit from their position. Trustees cannot be paid or benefit in any way from their connection with the charity. There are limited exceptions to this rule, and the 1993 Act allows Trustees to be paid in circumstances for providing services to the charity over and above their normal trustee duties.

### (3) Ensuring Compliance

Trustees must ensure that their charity complies with;

- Charity Law and the requirements of the Charity Commission as regulator that information relating to the Charity and Trustees is registered with the Charity Commission and that annual accounts, reports and returns are completed and sent
- The requirements or rules, and the charitable purpose and objects, set out in the charity's own governing document.
- The requirements of other legislation and other regulators (if any) which govern the activities of the charity
- The requirement for trustees to act with integrity, and avoid any personal conflicts of interest or misuse of charity funds or assets.
- The requirement that if charitable income exceeds £10,000, the charity's letters, adverts, cheques etc. must bear a statement that the organisation is a registered charity and the charity's registered number.

### **Trustees' Personal Liability**

If in doubt, it is important to seek further advice. It is also possible to consult the Charity Commission. A Trustee who does consult the Charity Commission can avoid personal liability for breach of trust if they act in accordance with the advice given.

Generally, a Trustee incurs personal liability if they:

- Act outside the scope of the Trust Deed.

- Act in breach of the law
- Fall below the required standard of care.
- Make a personal profit from Trust assets
- Act other than in the best interests of the charity, in a way which causes loss to the charity's funds. In such circumstances the trustee will incur personal liability for losses incurred.

Trustees can be personally liable to third parties because unlike a company, a Trust has no separate identity from the Trustees. Trustees will normally be given an indemnity from the Trust assets, provided they act properly in incurring the liability. Trustees remain personally liable once they retire (e.g. if they have entered into a contract on behalf of the Trust) and should therefore seek an indemnity from their successors. If the charity is a company, the Trustees for the time being will be protected from liabilities incurred in the day to day running of the charity in the normal course, but will be personally liable if they commit a breach of trust.

Trustees may be liable to fines if they do not comply with the duty to make returns etc to the Charity Commission.

### **Trustees Indemnities**

An indemnity can be given from the Trusts funds provided Trustees have acted properly and within their powers. Trustees may take out insurance to protect themselves against personal liability but not for criminal acts, fraud etc. There will be no problem if Trustees themselves pay the premiums but if they are paid out of the charitable funds the Trustees will need the consent of the Charity Commission, unless the trust deed allows it.

## **C. UNINCORPORATED ASSOCIATIONS**

Groups that are not charitable trusts or limited companies are called "unincorporated associations". Property is held by individuals, as the group has no separate legal identity. The rules governing the members' duties and liabilities will be set out in a constitution, which is simply an agreement between the members as to how the organisation will operate. Usually the constitution will provide for a Management Committee to be responsible for the everyday running of the organisation. Management Committee members must act within the constitution and must take reasonable care when exercising their powers. An "unincorporated association" may have exclusively charitable objects and may register as a charity, but will be subject to its constitution being approved by the Charity Commission.

Generally, Management Committee members are liable for the acts of the organisation, but are entitled to an indemnity from the funds of the organisation if they have acted properly. If there are not enough funds, the Committee members are personally liable for any shortfall. It is possible to

obtain insurance but if the organisation is to pay the premium it must be permitted by the constitution. See also 'Indemnities to Members' below.

Management Committee members have personal liability if they act outside the authority given to them or if they do not comply with statute e.g. the payment of employees' tax etc.

If one person is appointed by the constitution to act as the agent of the organisation for certain purposes, then that person acts as the agent of all the members, who have joint liability for the agent's actions.

## **5. INDEMNITIES TO MEMBERS**

The Local Government (Indemnities for Members and Officers) Order 2004 gave specific power for authorities to grant indemnities to cover the potential liability of members (and officers) in a wide range of circumstances. As a result Durham County Council at its Cabinet of 28 September 2006 adopted a scheme of indemnity.

The scheme provides an indemnity for any loss suffered by a Member whilst acting as a member of an outside body as a result of an appointment or nomination made by the authority or where the authority has specifically approved the appointment.

The indemnity does not, therefore, cover a Member's involvement in an organisation that he/she joins of his/her own volition. Nor, in law, can the indemnity cover the following:

- Criminal activity;
- Fraud or deliberate wrong doing or recklessness;
- The costs of pursuing a defamation action; or
- Liability for actions taken outside the powers of the outside body, even if the action was taken in the honest belief that it was within the outside bodies power.

However, an indemnity can be provided for the costs of defending criminal proceedings or Standards for England proceedings on the condition that if a finding is made against the Member, all such costs must be reimbursed.

## 6. CONTACTS

If you have any concerns or queries concerning your role as a representative on an outside body it is important to seek further advice. More detailed advice about any of the above issues is available from the Council's Monitoring Officer.

Further advice about charities is available from:

Charity Commission Direct  
PO Box 1227  
Liverpool  
L69 3UG

Tel: 0845 3000 218  
Fax: 0151 703 1555

[enquiries@charitycommission.gov.uk](mailto:enquiries@charitycommission.gov.uk)

Website: [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)



**Audit Committee**

**31 May 2013**

**External Funding – Grant Clawback**



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**Report of Corporate Director Resources**

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**Purpose of the Report**

1. The purpose of this report is provide information relating to Members on occasions when grant paid to the Council has had to be repaid as grant conditions had not been compiled with.

**Background**

2. At the Audit Committee on 21 February 2013 Members requested further information on whether the Council “lost” any grant funding from external sources for whatever reason. We have been able to look at all the grants we receive and a summary of such cases is attached at Appendix 2.
3. As the management of grant funding is considered a high risk area, provision has been made within the 2012/13 to review processes in place relating to grant funding. As part of this work a sample of externally funded projects are to be reviewed to provide independent assurance that related risks, including the risk of clawback, are being effectively managed. The selection of funding sources/projects to be reviewed has been informed by known cases of claw back. This work is currently in progress and the outcomes will be reported to Audit Committee in due course.

**Recommendations and reasons**

4. The Committee note details of grant claw back as set out in Appendix 2, and work being undertaken by Internal Audit to help improve the management of grant related risks.

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

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**Appendix 1: Implications**

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**Finance -**

None directly 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 Issues -**

None

**Legal Implications -**

None

## ACE / NEIGHBOURHOODS

None.

## RESOURCES

- **2009/10 HB/CTB Subsidy Claim**  
£1.2m repaid (less than 0.6%) from a claim of £201.2m following external audit testing as part of the year end accounts process.  
Repayment of housing benefit subsidy is not unusual and all councils are in similar positions to Durham.
- **2010/11 HB/CTB Subsidy Claim**  
£622k repaid (less than 0.3%) from a claim of £215m following external audit testing as part of the year end accounts process.
- **2011/12 HB/CTB Subsidy Claim**  
£521k to be repaid from a claim of £223.5m following external audit testing as part of the year end accounts process.

## CAS (Adults)

- **2010/11 Discretionary Learner Support Funding. Revenue funding.**  
£23.7k repaid during 2011-12 – funding in 2010/11 was £24.7k, but expenditure defrayed by 31 March 2011 was minimal.
- **2011/12 Adult Skills Funding. Revenue funding.**  
£52.8k reclaimed in respect of Adult Skills funding during 2012-13 relating to the 2011-12 contract. The Adult Skills funding had been £730k, but expenditure defrayed by 31 March 2012 was below the grant level.

## RED

- **NETPark Capital Scheme Development - Servicing the Land. £480k total expenditure approved, £240k ERDF grant.**  
Project dates 1st Feb 09 - 30th Sep 10. Some relatively small grant repayments of:  
ERDF grant reclaimed of £17.9k for internal fee recharges.  
ERDF grant due to be repaid of £51.7k in relation to the Strategic Alliance Civil Engineering and Highways procurement process.
- **'Be Enterprising' Revenue Scheme Project. £8.4m total expenditure approved, £4,123,269 ERDF grant. Revenue scheme**  
Project dates 1st Apr 09 - 31st Dec 11. Some relatively small grant repayments of:  
ERDF grant reclaimed of £261.9k due to procurement process.  
ERDF grant reclaimed of £24.7k for accreditation costs for Coaching staff which were found not to be eligible to be claimed from ERDF.

ERDF grant reclaimed of £23.9k in relation to partners premises costs and room charges.

ERDF grant reclaimed of £.7.9k for expenditure associated with ineligible beneficiaries.

- **NETPark Net Revenue Scheme project. £486.8k total expenditure approved, £243,398 ERDF grant.**

Project dates 1st Apr 09 - 30th Apr 12. Some relatively very small grant repayments of:

ERDF grant reclaimed of £903 due to procurement process.

ERDF grant reclaimed of £144 for ineligible travel expenses.

- **NETPark 'Large Grow on Space' Capital Scheme. £9.8m total expenditure approved, £4.6m ERDF grant.**

Project dates 1st Apr 09 - 31st Mar 13. Some relatively small grant repayments of:

ERDF grant reclaimed of £303k due to procurement process.

ERDF grant reclaimed of £13.5k for internal fee recharges.

**Audit Committee**

**31 May 2013**

**Internal Audit Progress Report  
Quarter Ended 31<sup>st</sup> March 2013**



**Report of Manager of Internal Audit & Risk**

**PURPOSE OF THE REPORT**

- 1 The purpose of this report is to inform Members of work carried out by Internal Audit during the period July 2012 to March 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 significant issues where controls need to improve to effectively manage risks
  - Advise you of any other types of audit work carried out such as grant certification or consultancy reviews where an assurance on the control environment may not be applicable
  - Advise you of amendments to planned work
  - Advise you of unplanned work carried out or to be carried out
  - Track progress on the response to audit reports and the implementation of agreed audit recommendations
  - Advise you of any changes to the audit process
  - Provide an update on our performance indicators comparing actual performance against planned

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 | Background to preparation and approval of the 2012/13 plan |
| Appendix 3 | Audit methodology  |
| Appendix 4 | Progress on plan   |
| Appendix 5 | Final reports issued this quarter                          |
| Appendix 6 | High and medium priority actions raised and implemented    |
| Appendix 7 | *Overdue actions   |
| Appendix 8 | Performance Indicators                                     |

## **BACKGROUND**

- 4 Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
- 5 The background to the preparation and approval of the 2012/13 annual audit plan and the approved risk based audit strategy to be applied to deliver it is attached at Appendix 2.
- 6 The audit methodology used to determine the risk priority for addressing audit findings and how we arrive at our assurance opinion is given in Appendix 3.

## **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 4. The status of each audit as at 31<sup>st</sup> March 2013 is indicated.
- 8 The status of each type of planned audit, as shown in Appendix 4, is summarised below:

<b>Status</b>	<b>Assurance</b>	<b>Advice &amp; Consultancy</b>	<b>Counter Fraud</b>
Not Yet Started	5	3	5
Planning & Preparation	14	0	4
TOR agreed	10	1	2
Fieldwork in progress	13	15	3
Complete (draft or final report stage)	61	11	3
Postponed	1	0	0
Agreed Defer/Cancelled	13	1	0
<b>Total</b>	<b>117</b>	<b>31</b>	<b>17</b>

- 9 Where work is finalised the resultant assurance opinion, if applicable, is also shown in Appendix 4.
- 10 A summary of final audit reports issued this quarter is given in Appendix 5.

## **SIGNIFICANT ISSUES ARISING THIS QUARTER**

### **Amendments to the approved 2012/13 Audit Plan**

- 11 The following amendments to planned work have been agreed with Corporate Directors this quarter:

<b>Service Grouping</b>	<b>Audit</b>	<b>Audit Type</b>	<b>Type of Amendment</b>	<b>Reason</b>
ACE	Business Continuity Planning (BCP)	Assurance	Defer	ACE has commenced a new project to review business continuity arrangements. New procedures not expected to be in place until later in 2013.
CAS	Children's and Families Trust	Assurance	Defer	The Service is to review the joint working arrangements

Service Grouping	Audit	Audit Type	Type of Amendment	Reason
				relating to the governance of the Children and Families Trust. Audit review to be deferred until 2013/14 and considered as part of the rolling programme of assurance on significant partnerships agreed following the annual self-assessment exercise co-ordinated by ACE each year (Part of the Corporate Partnership Governance Framework).
	Personalisation	Assurance	Defer	The risks associated with Personalisation have been assessed and reduced following confirmation that the resource allocation process for commissioned services was not going to be subject to fundamental change. Internal Audit has already reviewed and reported upon processes associated with Direct Payments. The Service is to look again however at its arrangements in this area through its transformational change programme and Internal Audit will agree with responsible managers a timeframe when a review of these revised arrangements would be undertaken.
	School Surplus / deficit Balances	Assurance	Defer	Arrangements in place to support and challenge schools on their use of balances are currently being reviewed by the service. The effectiveness of these new arrangements will be reviewed in 2013/14.
RED	Visit County Durham County	Assurance	Defer	Service request to defer to 2013/14
	Development Control – Mystery Shopping to test compliance and consistency of procedures	Advice & Consultancy	Defer	Service request to defer to 2013/14 pending implementation of staff movements
	Markets	Assurance	Defer	The service is currently developing the management models required to deliver the the market strategy. Review of new arrangements deferred to 2013/14
RES	Oracle EBS	Assurance	Defer	Service request to defer as the new system (upgrade) is now planned to be implemented in Feb2014.

<b>Service Grouping</b>	<b>Audit</b>	<b>Audit Type</b>	<b>Type of Amendment</b>	<b>Reason</b>
	Card Terminal	Assurance	Defer	A gap analysis on PCI compliance is to be carried out by the service. It was agreed to defer the audit so that assurance can be provided on progress made in implementing the agreed action plan during 2013/14.
	Contract Register	Assurance	Cancel	Work planned has been incorporated into the scope of the Counter Fraud review of the award of contracts
	Information Security Policy Review – Systems development and management	Assurance	Cancel	The scope of the review of Forensic Readiness has been widened to include a review of Systems Development & Maintenance.
	Information Security Policy Review – Security Incident Management	Assurance	Cancel	The scope of the Public Services Network assurance review has been widened to include a review of the framework for managing information security.
	Information Security Policy Review – Warranty	Assurance	Cancel	The scope of the Public Services Network assurance review has been widened to include a review of the framework for managing information security.

12 18 unplanned reviews have been added to the plan this quarter. Of these 16 relate to potential fraud or irregularity investigations. Details of progress on all investigations will be provided in the 6 monthly fraud and irregularity update that will be reported to the next meeting of the Committee on 27 June 2012.

13 The 2 unplanned reviews which have been added to plan from the contingency provision within the plan are:

<b>Service Grouping</b>	<b>Audit</b>	<b>Audit Type</b>
ACE	Business Continuity Planning Project Support	Advice & Consultancy
NS	Verification of payments made to Competition Line ( Leisure Services Partner) to fulfil contract obligations of Income Sharing Agreement	Advice & Consultancy



## Outstanding Management Responses to Draft Reports

14 Responses to the following draft reports were overdue as at 31 March 2013

Service Grouping	Audit	Date Issued	Key Contact	Assurance Opinion	Comment
CAS	Procurement in Schools	30 Oct 2012	Head of Education	Moderate	IA progressing matters with Corporate Procurement and School Funding Managers.
	PARIS System	4 Oct 2012	Strategic Manager Performance and Systems	Substantial	Service requesting response from TEWV Partner before report can be finalised

## 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 6. A summary of progress on actions due by the 31 March 2013 is given below:

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

16 Your attention is drawn to the 32 actions, which are overdue by either their original date or their revised date, where this has been set. These are highlighted in bold in Appendix 7.

17 Those recommendations reported last quarter as overdue, where revised target implementation dates have still not been agreed and are therefore still overdue, are highlighted in bold italics.

## Limited / No Assurance Opinion Audits

18 There were no audits finalised this quarter that resulted in a Limited or no assurance opinion.

## **PERFORMANCE INDICATORS**

- 19 A summary of our actual performance at the end of March 2013 compared to agreed target performance indicators is given in Appendix 8.
- 20 This is the third quarter of the 2012/13 audit plan (July 2012 - June 2013). 61 out of 117 planned assurance reviews are complete. Work has commenced on another 31 which on average are estimated to be 48% complete. 13 reviews have been deferred/cancelled in agreement with management. Consequently of the 104 reviews planned to be complete 30 June, the annual target to deliver 90% after 9 months is on track. However some slippage on delivery is expected in the final quarter due to a reduction in the forecast of audit days available for the rest of the year.
- 21 The resource gap is being managed through a combination of agency staff and/or work being allocated to external partners. Following a procurement exercise, Audit North has been appointed as our IT audit partner wef April 2013. Our existing contract with PriceWaterhouseCoopers has also been extended for a further 12 months to allow completion of planned work for the Pension Fund and any additional ad hoc service support.

## **RECOMMENDATIONS**

- 22 Members are asked to note,:
- The amendments made to the 2012/13 Annual Audit Plan
  - Work undertaken by Internal Audit during the quarter ended March 2013 and
  - Note the progress made by service managers in responding to the work of Internal Audit

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

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## **Appendix 1: Implications**

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### **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

**Background to the preparation of the 2012/13 Annual Audit Plan**

- 1 The 2012/13 annual audit plan was developed in consultation with each service grouping's senior management team and was endorsed by CMT and the Audit Committee on the 6<sup>th</sup> June 2012 and the 28<sup>th</sup> June 2012 respectively.
- 2 The planned assurance work included in the plan reflects the agreed audit strategy to review each key service activity and each key system over a five year rolling programme. In applying a risk based approach we aim to support managers embed operational/inherent risk management through the development of Control Risk Assessments (CRAs).
- 3 Through the development of CRAs in consultation with nominated key contacts, as part of the planning and preparation stage of each planned assurance review, we will add value by helping service managers to:
  - Identify and assess risks
  - Document service objectives, risks and existing controls
  - Assess the adequacy of the existing control framework (control design) and identify additional controls to improve operational risk management and /or highlight controls that are unnecessary
  - Identify and assess the reliability of assurance provided from other sources to avoid any unnecessary duplication and highlight any assurance gaps
- 4 Through independent testing of expected controls we add value by providing reliable and objective assurance that controls established by managers are operating in practice and that they are effective in reducing the likelihood and / or impact of agreed risks occurring.
- 5 Through the identification and assessment of operational risks we are also able to add value to the strategic risk management process. This is done by providing assurance that controls identified to manage strategic risks are both adequate and effective. Potential new or emerging strategic risks may also be identified.
- 6 Applying a risk based audit approach ensures that audit resources are focused on the right things. The planning and preparation stage of each audit review with the right key contact(s) is essential. It is not until this planning and preparation stage is complete that we can determine the scope and timing of each audit.
- 7 Following initial planning and preparation discussions, draft terms of reference specifying the proposed scope of each audit will be issued for the agreement of the key contact. The planned start date (fieldwork) and planned completion date (issue of draft report) will also be shown. It should be noted

that wherever possible any timing preferences expressed by service managers at the audit planning and preparation stage will be considered when determining planned start dates but these cannot be guaranteed.

- 8 Confirmation of actual start dates and expected completion dates will be given to key contacts prior to fieldwork commencing. It should be noted that these timescales are subject to the following assumptions:
  - All relevant documentation, including source data, reports and procedures will be made available promptly on request
  - Staff and management will make reasonable time available for interviews and will promptly follow-up questions or requests for documentation and
  - Assistance will be available in scheduling meetings and interviews where required
- 9 Should audit staff not be able to commence the fieldwork as planned, the key contact will be advised accordingly. Wherever possible advance notice will be given but there may be circumstances when this cannot be done e.g unplanned leave of absence. Likewise, we request that should a key contact become aware of something that may prevent the fieldwork starting as planned that they immediately let us know so that if necessary audit resources can be reallocated.
- 10 Should any problems be encountered in progressing an audit these will be reported to the relevant head of service and /or the Corporate Director, and if necessary the Audit Committee.
- 11 In accordance with our Internal Audit Charter, we will give an assurance opinion on the effectiveness of internal controls each time we complete an assurance review.
- 12 The % of planned assurance reviews completed is monitored through the Council's quarterly performance reporting framework and is challenged by the Audit Committee. Failure to deliver the agreed plan may prevent an annual audit opinion being given and the Council failing to meet its statutory requirements. It will also delay the embedding of operational risk management exposing the Council to potential greater risk.
- 13 It is managers' responsibility to ensure that effective controls operate within their service areas. To provide independent assurance that adequate progress is made in the implementation of agreed recommendations at the appropriate service operational level, all high and medium recommendations contained within actions plans within individual audit reports are followed up by internal audit. The method of audit follow up will vary according to the priority of the recommendation. In addition, listings of all recommendations outstanding at the end of each month are produced and issued to nominated representatives to assist managements own internal monitoring processes.
- 14 Audit recommendations are allocated a priority ranking reflecting the significance of the audit findings to which they relate.

**Findings**

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

<b>Impact Rating</b>	<b>Assessment Rationale</b>
<b>Critical</b>	<b>A finding that could have a:</b>
	<b>Critical</b> impact on operational performance (Significant disruption to service delivery)
	<b>Critical</b> monetary or financial statement impact (In excess of 5% of service income or expenditure budget )
	<b>Critical</b> 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)
	<b>Critical</b> impact on the reputation of the Council (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
	<b>Critical</b> impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)
<b>Major</b>	<b>A finding that could have a:</b>
	<b>Major</b> impact on operational performance (Disruption to service delivery)
	<b>Major</b> monetary or financial statement impact (1-5% of service income or expenditure budget )
	<b>Major</b> 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)
	<b>Major</b> impact on the reputation of the service within the Council and/or complaints from service users
<b>Minor</b>	<b>A finding that could have a:</b>
	<b>Minor</b> impact on operational performance (Very little or no disruption to service delivery)
	<b>Minor</b> monetary or financial statement impact (less than 1% of service income or expenditure budget )
	<b>Minor</b> 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)

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

**Overall Finding Rating**

This grid is used to determine the overall finding rating.

<b>LIKELIHOOD</b>			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	L
	Minor	Major	Critical
	<b>IMPACT</b>		

**Priority of our recommendations**

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

<b>High</b>	Action that is considered imperative to ensure that the service/system/process objectives are not exposed to <b>significant risk</b> from weaknesses in critical or key controls
<b>Medium</b>	Action required to ensure that the service/system/process objectives are not exposed to <b>major risk</b> from weaknesses in controls
<b>Low</b>	Action required to ensure that the service/system/process objectives is not exposed to <b>minor risk</b> from weaknesses in controls
<b>Advisory</b>	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:

<b>Full Assurance</b>	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)
<b>Substantial Assurance</b>	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)
<b>Moderate Assurance</b>	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)
<b>Limited Assurance</b>	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk.(H findings/recommendations)
<b>No Assurance</b>	Control is weak as controls in numerous key areas are ineffective leaving the system open to significant risk of error or abuse

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DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013 AS AT 31/3/2013						
Service	Audit Ref	Review Type	Status	Assurance Opinion		
<b>CORPORATE</b>						
<b>Deferred from 2011/12</b>						
Scheme of Delegation	11075/2013	Assurance	Preparation			
Award of Contracts	99900x/2013/05	Counter Fraud	In Progress			
Declaration of Interests	99900x/2013/06	Counter Fraud	Not Started			
<b>Planned work for 2012/13</b>						
Strategic Risk Management	11070/2013	Assurance	Not Started			
Corporate Governance	66530/2013	Assurance	Not Started			
Grants Receivable	99900/2013/01	Counter Fraud	Not Started			
Grants Payable	99900/2013/02	Counter Fraud	Not Started			
Cash Security	99900/2013/03	Counter Fraud	In Progress			
Payroll: IDEA analysis	99900/2013/04	Counter Fraud	Preparation			
Payroll: Timesheets	99900/2013/05	Counter Fraud	Preparation			
Payroll: Overtime	99900/2013/06	Counter Fraud	Preparation			
Payroll: Starters and Leavers	99900/2013/07	Counter Fraud	ToR issued			
Expenses and Allowances	99900/2013/08	Counter Fraud	Preparation			
Creditor Payments - Quarterly review*	99900/2013/09a	Counter Fraud	Complete	N/A		
Creditor Payments - Quarterly review*	99900/2013/09b	Counter Fraud	Complete	N/A		
Creditor Payments - Quarterly review*	99900/2013/09c	Counter Fraud	Complete	N/A		
Creditor Payments - Quarterly review*	99900/2013/09d	Counter Fraud	ToR issued			
Housing Tenancy	99900/2013/10	Counter Fraud	Not Started			
National Fraud Initiative	99903/2013	Counter Fraud	In Progress			
* = 1 ToR for the 4 quarterly reviews. At the end of the first 3 quarters an interim report will be produced, with a full report to be produced by May 2013.						
<b>RESOURCES</b>						
<b>Work in progress @ 30/06/12</b>						
Expenses and Allowances	HR&OD					
Income Collection: Debtors	Finance Service	Assurance	Final	Moderate		
Cash Collection	Finance Service	Assurance	Final	Limited		
GL: Key controls and reconciliations	Corporate Finance	Assurance	Final	Limited		
Compliance with Laws and Regs	Legal & Democratic	Assurance	Final	Limited		
Procurement - Governance Review	Corporate Finance	Assurance	Final	Moderate		
	11051x/2013	Assurance	Draft			

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013 AS AT 31/3/2013						
Service	Audit Ref	Review Type	Status	Assurance Opinion		
Procurement - Tendering	11053x/2013	Assurance	Final	Substantial		
Health & Safety Governance review	11240x/2013	Assurance	Final	Substantial		
Design & Print Services	65000x/2013	Assurance	Draft			
Business Continuity for ICT	98101x/2013	Assurance	Draft			
Procurement - Quotations	11052x/2013	Advice & Consultancy	Complete	N/A		
Business Travel & Accommodation	10117x/2013	Advice & Consultancy	Complete	N/A		
Digital Durham	98112x/2013	Advice & Consultancy	In Progress			
Pension Lump Sum	99901/2012/03	Investigation	In Progress			
HB Cheques	99901/2013/01	Investigation	In Progress			
<b>Audits deferred from 2011/12</b>						
Oracle EBS	10604/2013	Assurance	Defer to 2013/14			
Procurement - Contract Register	11054x/2013	Assurance	Cancelled - To include scope in the Award of Contracts			
Whistleblowing arrangements	11171x/2013	Assurance	Final	Moderate		
Information Security Policy - Physical Security	98103x/2013/04	Assurance	Draft			
<b>Audits scheduled from the strategic plan</b>						
Council Tax	00500/2013	Assurance	Draft			
NNDR	00550/2013	Assurance	Draft			
Housing & Council Tax Benefits	00700/2013	Assurance	Final	Moderate		
Housing Benefit Subsidy	00715/2013	Assurance	Final	Moderate		
Revs & Bens Reconciliations	00720/2013	Assurance	Final	Substantial		
P2P	10150/2013	Assurance	In Progress			
Payroll	10210/2013	Assurance	ToR issued			
Income & Debt Recovery	10400/2013	Assurance	In Progress			
Credit Card	10417/2013	Assurance	Deferred			
ICON Cash Management	10460/2013	Assurance	Draft			
Short Term Investments	10500/2013	Assurance	Final	Moderate		
Bank Reconciliations	10602/2013	Assurance	ToR issued			
Budgetary Control & Reporting	10605/2013	Assurance	In Progress			
Section 151 Compliance	10650/2013	Assurance	Preparation			
Banking Arrangements	10907/2013	Assurance	Draft			

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013 AS AT 31/3/2013						
Service	Audit Ref	Review Type	Status	Assurance Opinion		
Taxation - PAYE	10213/2013	Assurance	In Progress			
Taxation - VAT	10915/2013	Assurance	In Progress			
Procurement Cards	10925/2013	Assurance	ToR issued			
Committee Services	10950/2013	Assurance	Draft			
Flexible Working & Contract Variations	11021/2013	Assurance	ToR issued			
Unix Security	98004/2013	Assurance	Preparation			
Windows Security	98011/2013	Assurance	ToR issued			
Internet Security	98012/2013	Assurance	Preparation			
Information Security - Forensic Readiness	98103/2013/01	Assurance	Preparation			
Information Security - Security incident Management	98103/2013/02	Assurance	Cancelled - To include IS framework in scope of PSN review			
Information Security - Systems Dev & Mtce	98103/2013/03	Assurance	Cancelled - To include in scope of Forensic Readiness review.			
Information Security - Warranty	98103/2013/04	Assurance	Cancelled - To include IS framework in scope of PSN review			
Income & Expenditure Project	98114/2013	Assurance	Preparation			
Oracle workstreams	10607/2013	Advice & Consultancy	Complete	N/A		
Review of SLAs	10929/2013	Advice & Consultancy	In Progress			
RIPA Group	11011/2013	Advice & Consultancy	In Progress			
Strategic Procurement Network	11057/2013	Advice & Consultancy	In Progress			
Information Security Forum	98103x/2013	Advice & Consultancy	In Progress			
<b>Service Requests</b>						
Local Council Tax Scheme	00510/2013	Advice & Consultancy	Complete	N/A		
Corporate Credit cards	10908/2013	Assurance	In Progress			
Leases	10927/2013	Advice & Consultancy	In Progress			
Petty Cash Usage	10928/2013	Assurance	In Progress			

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013 AS AT 31/3/2013						
Service	Audit Ref	Review Type	Status	Assurance Opinion		
Access Controls	98037/2013	Assurance	Draft			
Public Services Network	98108/2013	Assurance	Preparation			
Invoice scanning and indexing	10465/2013	Advice & Consultancy	In Progress			
Oracle EPM project	10616/2013	Advice & Consultancy	In Progress			
Oracle BI project	10617/2013	Advice & Consultancy	In Progress			
Oracle R12 project	10618/2013	Advice & Consultancy	In Progress			
Collection Fund	10926/2013	Advice & Consultancy	Complete	N/A		
<b>Unplanned work</b>						
RIPA	11011a/2013	Assurance	Final	Substantial		
ICON v11 project	10460/2013/01	Advice & Consultancy	In Progress			
Private business at work	99901/2013/25a	Investigation	Complete			
Private business at work	99901/2013/25b	Investigation	Complete			
Expenses	99901/2013/27	Investigation	Complete			
Access to Records	99901/2013/38	Investigation	Complete			
Missing money	99901/2013/39	Investigation	Complete			
Access to client records	99902/2013/04	Investigation	Complete			
Unauthorised Direct Debit Blocked	99901/2013/44	Investigation	Complete: No			
Unauthorised Direct Debits	99901/2013/54	Investigation	Complete -			
Fraudulent Cheques presented	99901/2013/55	Investigation	Complete -			
Unauthorised Direct Debits	99901/2013/59	Investigation	Complete -			
PCC Elections	10941/2013	Advice & Consultancy	In Progress			
County Council Elections	10942/2013	Advice & Consultancy	Not Started			
<b>ACE</b>						
<b>Work in progress @ 30/06/12</b>						
Records Management	11010x/2013/04	Assurance	Draft			
Potential breaches of policies	99902/2012/21	Investigation	Complete	N/A		
<b>Audits deferred from 2011/12</b>						
PGF: AAP Information Governance	11000x/2013/03	Assurance	In Progress			
Data Protection - Encryption	11010x/2013/03	Assurance	Draft			
Development of Intranet	11005x/2013	Assurance	ToR issued			

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013 AS AT 31/3/2013						
Service	Audit Ref	Review Type	Status	Assurance Opinion		
Business Continuity Planning	11001/2013	Assurance	Defer to 2013/14			
<b>Audits scheduled from the strategic plan</b>						
Partnership Governance Framework	11000/2013	Assurance	ToR issued			
Data Protection - Training	11018/2013/01	Assurance	Draft			
Data Protection - Data Access	11018/2013/02	Assurance	Not Started			
Data Quality - Rolling Programme	11080/2013	Assurance	ToR issued			
Communications - Internet	11017/2013/02	Assurance	Deferred			
Information Governance Group	11010/2013	Advice & Consultancy	In Progress			
Communications - Internet Dev.	11017/2013/01	Advice & Consultancy	In Progress			
Community Buildings	11019/2013	Advice & Consultancy	Complete	N/A		
<b>Unplanned work</b>						
CIC Grant Application	99815/2013	Advice & Consultancy	Complete	N/A		
Business Continuity Planning	11001/2013	Advice & Consultancy	In Progress			
<b>RED</b>						
<b>Work in progress @ 30/06/12</b>						
Project Management	99805x/2013/01	Advice & Consultancy	Complete			
Taxi Contract (Individual)	99901/2012/28	Investigation	Complete			
Taxi Contracts	99901/2012/36	Fraud & Irregularity	Complete			
<b>Audits deferred from 2011/12</b>						
Implementation of new planning system	26035/2013	Advice & Consultancy	In Progress			
Grants process	00600/2013	Assurance	In Progress			
Business Durham	13561/2013	Assurance	Preparation			
HR ALMOs Contract Monitoring	00810/2013	Assurance	Final	Full		
Taxi Contracts follow up	25895/2013	Advice & Consultancy	ToR Issued			
<b>Audits scheduled from the strategic plan</b>						
Ad hoc grant certification work	00601/2013	Grant Certification	In Progress			
Visit County Durham	14615/2013	Assurance	Deferred			
Private Sector Housing	13562/2013	Assurance	Not Started			
Housing Tenancies	00820/2013	Assurance	Preparation			
Supported Housing (Income and Funding arrangements)	13092/2013	Assurance	Final Report	Full		

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013 AS AT 31/3/2013						
Service	Audit Ref	Review Type	Status	Assurance Opinion		
<b>Service Requests</b>						
Development Control - Mystery Shopping	26040/2013	Assurance	Deferred			
Project Genesis	26045/2013	Assurance	In Progress			
Projects outside of scope of corporate programme	26046/2013	Advice & Consultancy	Cancelled			
Utility Bills	26047/2013	Assurance	Final Report	Moderate		
<b>Unplanned work</b>						
Compromised access to DCC systems	99901/2013/26a	Investigation	Complete	N/A		
Compromised access to DCC systems	99901/2013/26b	Investigation	Complete	N/A		
Income Irregularity	99901/2013/34	Investigation	In Progress			
Income Irregularity	99901/2013/35	Investigation	In Progress			
Timesheets	99901/2013/37	Investigation	Complete	N/A		
Windlestone Hall	99902/2013/12	Investigation	Complete	N/A		
Alleged unauthorised access to documents	99902/2013/14	Investigation	Complete	N/A		
<b>Neighbourhoods</b>						
<b>Work in progress @ 30/06/12</b>						
Management of Gym Memberships	12260/2012.bf	Assurance	Final Report	Moderate		
Trade Waste	22010/2012.bf	Assurance	Final Report	N/A		
Pollution Control	12265/2012.bf	Assurance	In Progress			
Highways Maintenance	25890/2012.bf	Assurance	Postponed pending service review			
Repairs and Maintenance (Gas Servicing and Responsive Repairs)	20011/2012.bf	Assurance	Final Report	Substantial		
<b>Audits scheduled from the strategic plan</b>						
Bereavement Services	13003/2013	Assurance	Final Report	Limited		

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013 AS AT 31/3/2013						
Service	Audit Ref	Review Type	Status	Assurance Opinion		
Non Council Services - MOT Arrangements	20100/2013/01	Assurance	Final Report	Moderate		
Enforcement & Education	13421/2013	Assurance	TOR Issued			
Construction Services and Planned Maintenance Programme	60720/2013	Assurance	Not Started			
Housing Maintenance (Durham City Homes - Planned Maintenance)	13098/2013	Assurance	Final Report	Full		
Public Health Enforcement - Housing Multiple Occupation Licences	13031/2013	Assurance	Final Report	Moderate		
Events Management ( Compliance testing - follow up from 2011/12)	13430/2013	Assurance	Final Report	Moderate		
Stores	20020/2013	Assurance	Final Report	Limited		
Trade Waste	22010/2013	Assurance	Not Started	Not Applicable		
<b>Service Requests</b>						
Stores Management - On site processes for stores management / disposal of waste materials	25001/2013	Assurance	Draft Report	Limited		
Budgetary Control - Focus on management of duplicate receipting of expenditure on system and allocation of costs to budget heads	10635/2013	Assurance	Final Report	Moderate		
Cash reconciliation, cash receipting (including analysis of alternative methods) and recovery	10435/2013/01	Advice & Consultancy	Complete			
Energy Management Arrangements	13422/2013	Advice & Consultancy	Complete	N/A		
County Durham Sport	12211/2013	Grant Certification	Complete	N/A		
Markets	13351/2013	Advice & Consultancy	Deferred			
Gala Theatre	14901/2013	Assurance	Final Report	Moderate		
MTFP Savings	20100/2013/02	Advice & Consultancy	Not Started			

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013 AS AT 31/3/2013						
Service	Audit Ref	Review Type	Status	Assurance Opinion		
<b>Unplanned Work</b>						
School Crossing Patrol - Retainer payment arrangements.	99803/2013/03	Assurance	Draft Report	Moderate		
NS - QMS	99806/2013/03	Advice and Consultancy	Final Report	N/A		
NS - QMS Subsequent quarterly visits	99806/2013/04	Advice and Consultancy	Draft Report	N/A		
Cash collection arrangements at outside events	99806/2013/05	Advice and Consultancy	Complete	N/A		
Competition Line Contract Review	20730/2013	Advice and Consultancy	Complete	N/A		
Competition Line Income Share Agreement	20730/2013/01	Advice and Consultancy	Complete	N/A		
<b>Fraud and Irregularities</b>						
Allegations of collusion with supplier leading to payment of goods not supplied.	99901/2012/23	Investigation	In Progress			
Employee continued to be paid after leaving	99901/2012/32	Investigation	In Progress			
Employee paid for hours not worked.	99901/2012/35	Investigation	Complete			
Allegations of employee using DCC fencing for private work and also offering to sell fencing to the public.	99901/2013/04	Investigation	Final Report			
Allegations Regarding the Disposal of Scrap Metal.	99901/2013/09	Investigation	Final Report	N/A		
Letter of complaint received from former employee alleging staff had stolen and sold council materials	99901/2013/10	Investigation	Complete			
Theft of equipment from council Depot.	99901/2013/13	Investigation	Complete			
DCC Stock Items Being Sold on E-bay.	99901/2013/16	Investigation	Final Report			
Allegations of Employee running a Business from work.	99901/2013/23	Investigation	Complete			
Inappropriate Amendment to Job Sheets.	99901/2013/31	Investigation	Complete			
Payroll Irregularities	99901/2013/36	Investigation	Complete			
Allegations of stealing items from work and selling them on e-bay	99901/2013/45	Investigation	Complete			
Allegations that employee has taken goods without processing through the till	99901/2013/46	Investigation	Complete			



DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013 AS AT 31/3/2013					
Service	Audit Ref	Review Type	Status	Assurance Opinion	
Theft of £40 from float.	99901/2013/48	Investigation	Complete		
Allegations that staff are accepting backhanders from Companies for placing orders with them for van hire.	99901/2013/49	Investigation	In Progress		
Allegation relating to free/discounted membership	99902/2012/17	Investigation	Final Report		
Allegations of abuse of flexi time.	99902/2012/23	Investigation	Complete		
Accessing Internet During Work Time.	99902/2013/05	Investigation	Complete		
Accessing Internet During Work Time.	99902/2013/06	Investigation	Complete		
Accessing Internet During Work Time.	99902/2013/07	Investigation	Complete		
Accessing Internet During Work Time.	99902/2013/08	Investigation	Complete		
Accessing Internet During Work Time.	99902/2013/09	Investigation	In Progress		
Accessing Internet During Work Time.	99902/2013/10	Investigation	Complete		
Accessing Internet During Work Time.	99902/2013/11	Investigation	Complete		
Cash Discrepancies. Management request to review systems	99902/2013/62	Investigation	In Progress		
Theft of cash referred to Police	99902/2013/66	Investigation	Complete		
Cash Discrepancy due to recording error	99902/2013/67	Investigation	Complete		
Stanley Bowls Club Annual Accounts	12210/2013	Advice & Consultancy	Complete		
<b>Children and Adults Services</b>					
<b>Work in progress @ 30/06/12</b>					
PAYP	88805/2012.bf	Assurance	Final Report	Limited	

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013 AS AT 31/3/2013						
Service	Audit Ref	Review Type	Status	Assurance Opinion		
Procurement in Schools	70056/2012.bf	Assurance	Draft Report	Moderate		
Caldicott compliance	58810/2012.bf	Assurance	Final Report	Moderate		
Caldicott compliance	58809/2012.bf	Assurance	Final Report	Substantial		
School Catering	70220/2012.bf	Assurance	Final Report	Full		
One Point - Children's services for under 5 year olds and their families	70245/2012/bf	Assurance	Draft Report	Moderate		
Public Health Transition Due Diligence	50075/2013	Advice & Consultancy	Complete	N/A		
SSID system review	58800/2012.bf	Assurance	Final Report	Moderate		
<b>Audits deferred from 2011/12</b>						
Planning & Quality Assurance within CYPS and the Children's and Families Trust	70050/2013	Assurance	Deferred			
POPPIE system review	58802x/2013	Assurance	Deferred			
<b>Audits scheduled from the strategic plan</b>						
Looked After Children -to perform follow-up on VFM study undertaken by Service	78463/2013	Assurance	Preparation			
Specialist Services - to focus on prevention and early intervention	78473/2013	Assurance	Preparation			
School Admissions	70235/2013	Advice & Consultancy	Complete	N/A		
Learning Support Services	78462/2013	Assurance	In Progress			
Durham Schools Continuing Professional Development Partnership	78474/2013	Assurance	Cancelled			
Safeguarding of Children in Schools	78475/2013	Assurance	Preparation			
<b>School's cyclical audit programme</b>						
Seascope Primary School	72004/2013	Assurance	Final Report	Moderate		
Sacriston Nursery and Infant School	72123/2013	Assurance	Final Report	Moderate		
Broom Cottages Primary and Nursery School	72400/2013	Assurance	Final Report	Moderate		
Langley Moor Primary School	72455/2013	Assurance	Final Report	Substantial		
Blackhall Colliery Primary School	72737/2013	Assurance	Final Report	Substantial		
King Street Primary School	72750/2013	Assurance	Final Report	Moderate		
St. Mary Magdalen R.C. Aided Primary School	73301/2013	Assurance	Final Report	Substantial		
Wolsingham School and Community College	74139/2013	Assurance	Final Report	Moderate		

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013 AS AT 31/3/2013						
Service	Audit Ref	Review Type	Status	Assurance Opinion		
Wellfield School						
Troubled Families Programme						
Achievement Services	74218/2013	Assurance	Final Report	Moderate		
Early Intervention & Partnership Service	00611/2013	Assurance	Preparation			
County Durham Care and Support - Shared Lives	50080/2013	Assurance	Final Report	Substantial		
Professional Practice Oversight of Care Management Processes	50085/2013	Assurance	Final Report	Full		
Management of service users finances and property	50006/2013	Assurance	Final Report	Substantial		
Caldicott Compliance	58809/2013	Assurance	Preparation			
<b>Service Requests</b>						
School Attendance Enforcement	78453/2013	Advice & Consultancy	Complete	N/A		
Award of additional pay in Schools	78464/2013	Assurance	Draft Report	Moderate		
School Benevolent Fund	70107/2013	Advice & Consultancy	Final Report	N/A		
Medium Term Financial Plan - Home to School and College Transport	70068/2013	Assurance	Preparation			
One Point - Arrangements with the Health Service	70245/2013	Assurance	Preparation			
Personalisation	50031/2013	Assurance	Deferred			
Direct Payments	50030/2013	Assurance	Final Report	Limited		
Blue Badge Scheme						
Adult Learning	50065/2013	Counter Fraud Assurance	Complete			
			Not Started			
<b>Unplanned Work</b>						
School surplus / deficit balances arrangements	70045/2013	Assurance	Deferred			
Durham Federation	74192/2013	Assurance review	Final Report	Substantial		
Control Risk Self Assessment in Schools	70070/2013	Advice & Consultancy	In Progress			
<b>Fraud and Irregularity</b>						
Joint investigation with RED (former AWH) - Taxi companies claiming for unnecessary journey's	99901/2012/28	Investigation	In Progress			
AWH led joint investigation in relation to the allegations of false claims re social care	99901/2012/27	Investigation	Complete			
Allegation of theft from Care Home.	99901/2012/37	Investigation	Complete			

DURHAM COUNTY COUNCIL INTERNAL AUDIT PLAN 01 JULY 2012 TO 30 JUNE 2013 AS AT 31/3/2013						
Service	Audit Ref	Review Type	Status	Assurance Opinion		
Potential financial irregularities in relation to a Day Centre amenity fund.	99901/2013/17	Investigation	In Progress			
Theft of monies at Primary School.	99901/2012/31	Investigation				
Joint investigation with RED (former CYPs) - Claims by taxi contractor for unnecessary journey's	99901/2012/28	Investigation	Complete	N/A		
Suspensions of Completion of fraudulent work programmes and time sheets.	99901/2013/24	Investigation	In Progress			
Theft of laptop.	99901/2013/30	Investigation	In Progress			
Mileage claim discrepancies	99901/2013/32	Investigation	Complete	N/A		
Fraudulent application for school admission	99901/2013/28	Investigation	Complete			
Fraudulent application for school admission	99901/2013/29	Investigation	Complete	N/A		
Allegation that a Head Teacher was undertaking private business in work time.	99901/2013/33	Investigation	Complete	N/A		
School - Allegations of potential fraud and inappropriate management.	99901/2013/40	Investigation	In Progress			
School - Allegations of private goods being purchased via official routes to avoid VAT	99901/2013/43a	Investigation	Complete	N/A		
School - Allegations of Theft of IT Equipment and Cash.	99901/2013/43b	Investigation	Complete			
School - Allegations of Theft of IT Equipment and Cash.	99901/2013/43c	Investigation	In Progress			
School - Possible Breach of Procurement Rules - Non-Declaration of Director's position with service provider.	99901/2013/47	Investigation	In Progress			
School - Misappropriation of School Fund Monies.	99901/2013/50	Investigation	In Progress			
Abuse of Flexi Time Arrangements	99902/2013/13	Investigation	In Progress			
Amended Cheque	99901/2013/51	Investigation	Complete	N/A		
Theft of cash from school	99901/2013/52	Investigation	Complete	N/A		
Cash Discrepancy	99901/2013/53	Investigation	Complete	N/A		

**FINAL REPORTS ISSUED THIS QUARTER****2011/12 Audits**

<b>Audit Area</b>	<b>Brief Scope</b>	<b>Opinion</b>
<b>CAS</b>		
SSID System Review	An assurance review that evaluated the effectiveness of system access controls to the Social Services Information Database	Moderate

**2012/13 Audits**

<b>Audit Area</b>	<b>Brief Scope</b>	<b>Opinion</b>
<b>CAS</b>		
Durham Federation	Assurance review of the school's financial management and key governance arrangements	Substantial
St Mary Magdalen RC Aided School	Assurance review of the school's financial management and key governance arrangements	Substantial
Sacriston Nursery	Assurance review of the school's financial management and key governance arrangements	Moderate
School Benevolent Fund	Annual Audit of Financial Accounts	N/A
Shared Lives Service	A high level assurance review of the effectiveness of governance arrangements in place relating to risks associated with the Shared Lives Service	Substantial
<b>NS</b>		
Building Maintenance QMS	An advice and guidance type review, carried out at the request of the service, relating to the quality management system and procedures prior to external inspections	N/A
Gala Theatre	An assurance review of the management of risks associated with productions and contracts	Moderate
Public Health	An assurance review of the management of risks associated with the licensing of Houses of Multiple Occupation	Moderate
Fleet Management – Non Council Services	An assurance review of the management of risks associated with MOT centres	Moderate
Budgetary Control – Technical Services	An assurance review carried out at the request of the service of the management of risks associated with financial management within Highways operations	Moderate
<b>RED</b>		
Capital Programme	Advice and consultancy review of project arrangements relating to a major contract.	N/A
HR ALMOs Contract Monitoring	Assurance review of the risk management arrangements relating in place to ensure that; <ul style="list-style-type: none"> <li>- Financial information is accurate</li> <li>- Rental income due is collected</li> <li>- Performance data is managed and monitored</li> <li>- Non decent homes are identified and repaired</li> </ul>	Full
Supported Housing – Care Connect	Assurance review of the risk management arrangements in place to ensure that the service collects all of the funding	Full

<b>Audit Area</b>	<b>Brief Scope</b>	<b>Opinion</b>
(Income and Funding arrangements)	/income that it is entitled to.  The scope of this review was reduced due to the reliability of assurance provided through the annual assessment by a third party inspection (Telecare Services Association).	
Utility Bills	Assurance review of the risk management arrangements in place relating to energy contracts and the payment of invoices	Moderate
<b>RES</b>		
Review of Creditor Payments	Counter fraud reviews to identify potential duplicate payments.	N/A
RIPA	Assurance review of the risk management arrangements in place relating to the operation of activities carried out under the Regulation of Investigatory Powers Act (2000)	Substantial
Treasury Management	Assurance review of the risk management arrangements in place relating to Short Term Investments. -	Moderate
Housing and Council Tax Benefits	Assurance review of the risk management arrangements in place relating to payment of benefit.	Moderate
Housing Benefit Grant	Assurance review of the risk management arrangements in place relating to preparation and submission of housing benefit grant claims	Moderate

Risk Category	Actions Raised	Actions Due( OID)	Actions Implemented			Overdue Actions by original target date		Actions where original target date revised		Overdue actions where revised target date agreed	Actions Due (RID)	Revised Total Recommendations Overdue	Revised Total Recommendations overdue %
			Due	Not Yet Due	Total	No	%	No	%				
1	2	3	4	5	6	7	8	9	10	11	12	13	14
						(3-4)					(3-9+11)	(7-(9+11))	(13/3*100)
<b>ACE</b>													
2011/12													
High	0	0	0	0	0	0	0	0	0	0	0	0	0
Medium	5	5	4	0	4	1	20	1	100	0	4	0	0
<b>Total</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>0</b>	<b>4</b>	<b>1</b>	<b>20</b>	<b>1</b>	<b>100</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>0</b>
2012/13													
High	0	0	0	0	0	0	0	0	0	0	0	0	0
Medium	4	4	4	0	4	0	0	0	0	0	4	0	0
<b>Total</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>0</b>
<b>Overall Total</b>	<b>9</b>	<b>9</b>	<b>8</b>	<b>0</b>	<b>8</b>	<b>1</b>	<b>11</b>	<b>1</b>	<b>100</b>	<b>0</b>	<b>8</b>	<b>0</b>	<b>0</b>
<b>CAS</b>													
2010/11													
High	15	15	15	0	15	0	0	0	0	0	15	0	0
Medium	65	65	63	0	63	2	3	2	100	2	65	2	3
<b>Total</b>	<b>80</b>	<b>80</b>	<b>78</b>	<b>0</b>	<b>78</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>100</b>	<b>2</b>	<b>80</b>	<b>2</b>	<b>3</b>
2011/12													
High	10	10	9	0	9	1	10	1	100	0	9	0	0
Medium	30	29	28	0	28	1	3	1	100	0	28	0	0
<b>Total</b>	<b>40</b>	<b>39</b>	<b>37</b>	<b>0</b>	<b>37</b>	<b>2</b>	<b>5</b>	<b>2</b>	<b>100</b>	<b>0</b>	<b>37</b>	<b>0</b>	<b>0</b>
2012/13													
High	5	4	1	0	1	3	75	1	33	0	3	2	67
Medium	15	14	9	0	9	5	36	3	60	1	12	3	25
<b>Total</b>	<b>20</b>	<b>18</b>	<b>10</b>	<b>0</b>	<b>10</b>	<b>8</b>	<b>44</b>	<b>4</b>	<b>50</b>	<b>1</b>	<b>15</b>	<b>5</b>	<b>33</b>
<b>Overall Total</b>	<b>140</b>	<b>137</b>	<b>125</b>	<b>0</b>	<b>125</b>	<b>12</b>	<b>9</b>	<b>8</b>	<b>67</b>	<b>3</b>	<b>132</b>	<b>7</b>	<b>5</b>
<b>NS</b>													
2009/10													
High	71	71	71	0	71	0	0	0	0	0	71	0	0
Medium	102	102	100	0	100	2	2	2	100	2	102	2	2
<b>Total</b>	<b>173</b>	<b>173</b>	<b>171</b>	<b>0</b>	<b>171</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>100</b>	<b>2</b>	<b>173</b>	<b>2</b>	<b>1</b>
2010/11													
High	34	34	32	0	32	2	6	2	100	1	33	1	3
Medium	105	105	105	0	105	0	0	0	0	0	105	0	0
<b>Total</b>	<b>139</b>	<b>139</b>	<b>137</b>	<b>0</b>	<b>137</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>100</b>	<b>1</b>	<b>138</b>	<b>1</b>	<b>1</b>

Risk Category	Actions Raised	Actions Due (OID)	Actions Implemented			Overdue Actions by original target date		Actions where original target date revised		Overdue actions where revised target date agreed		Actions Due (RID)	Revised Total Recommendations Overdue	Revised Total Recommendations overdue %
			Due	Not Yet Due	Total	No	%	No	%	No	No			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
						(3-4)					(3-9+11)	(7-(9+11))	(13/3*100)	
<b>2011/12</b>														
High	6	5	5	0	5	0	0	0	0	0	5	0	0	
Medium	56	55	45	0	45	10	18	10	100	1	46	1	2	
<b>Total</b>	<b>62</b>	<b>60</b>	<b>50</b>	<b>0</b>	<b>50</b>	<b>10</b>	<b>17</b>	<b>10</b>	<b>100</b>	<b>1</b>	<b>51</b>	<b>1</b>	<b>2</b>	
<b>2012/13</b>														
High	8	7	3	0	3	4	57	0	0	0	7	4	57	
Medium	58	35	11	1	12	24	69	7	29	0	28	17	61	
<b>Total</b>	<b>66</b>	<b>42</b>	<b>14</b>	<b>1</b>	<b>15</b>	<b>28</b>	<b>67</b>	<b>7</b>	<b>25</b>	<b>0</b>	<b>35</b>	<b>21</b>	<b>60</b>	
<b>Overall Total</b>	<b>440</b>	<b>414</b>	<b>372</b>	<b>1</b>	<b>373</b>	<b>42</b>	<b>10</b>	<b>21</b>	<b>50</b>	<b>4</b>	<b>397</b>	<b>25</b>	<b>6</b>	
<b>RED</b>														
<b>2009/10</b>														
High	75	75	75	0	75	0	0	0	0	0	75	0	0	
Medium	117	117	114	0	114	3	3	3	100	0	114	0	0	
<b>Total</b>	<b>192</b>	<b>192</b>	<b>189</b>	<b>0</b>	<b>189</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>100</b>	<b>0</b>	<b>189</b>	<b>0</b>	<b>0</b>	
<b>2010/11</b>														
High	18	18	18	0	18	0	0	0	0	0	18	0	0	
Medium	45	45	42	0	42	3	7	3	100	0	42	0	0	
<b>Total</b>	<b>63</b>	<b>63</b>	<b>60</b>	<b>0</b>	<b>60</b>	<b>3</b>	<b>5</b>	<b>3</b>	<b>100</b>	<b>0</b>	<b>60</b>	<b>0</b>	<b>0</b>	
<b>2011/12</b>														
High	3	3	3	0	3	0	0	0	0	0	3	0	0	
Medium	33	33	33	0	33	0	0	0	0	0	33	0	0	
<b>Total</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>0</b>	<b>36</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>36</b>	<b>0</b>	<b>0</b>	
<b>2012/13</b>														
High	9	4	4	0	4	0	0	0	0	0	4	0	0	
Medium	11	5	4	0	4	1	20	1	100	0	4	0	0	
<b>Total</b>	<b>20</b>	<b>9</b>	<b>8</b>	<b>0</b>	<b>8</b>	<b>1</b>	<b>11</b>	<b>1</b>	<b>100</b>	<b>0</b>	<b>8</b>	<b>0</b>	<b>0</b>	
<b>Overall Total</b>	<b>311</b>	<b>300</b>	<b>293</b>	<b>0</b>	<b>293</b>	<b>7</b>	<b>2</b>	<b>7</b>	<b>100</b>	<b>0</b>	<b>293</b>	<b>0</b>	<b>0</b>	



Risk Category	Actions Raised	Actions Due( OID)	Actions Implemented			Overdue Actions by original target date		Actions where original target date revised		Overdue actions where revised target date agreed		Actions Due (RID)	Revised Total Recommendations Overdue	Revised Total Recommendations overdue %
			Due	Not Yet Due	Total	No	%	No	%	No	No			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
						(3-4)					(3-9+11)	(7-(9+11))	(13/3*100)	
<b>RES</b>														
<b>2010/11</b>														
High	64	64	63	0	63	1	2	1	100	0	63	0	0	
Medium	90	90	90	0	90	0	0	0	0	0	90	0	0	
<b>Total</b>	<b>154</b>	<b>154</b>	<b>153</b>	<b>0</b>	<b>153</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>100</b>	<b>0</b>	<b>153</b>	<b>0</b>	<b>0</b>	
<b>2011/12</b>														
High	26	26	22	0	22	4	15	4	100	0	22	0	0	
Medium	86	84	81	0	81	3	4	3	100	0	81	0	0	
<b>Total</b>	<b>112</b>	<b>110</b>	<b>103</b>	<b>0</b>	<b>103</b>	<b>7</b>	<b>6</b>	<b>7</b>	<b>100</b>	<b>0</b>	<b>103</b>	<b>0</b>	<b>0</b>	
<b>2012/13</b>														
High	21	15	13	0	13	2	13	2	100	0	13	0	0	
Medium	79	74	70	0	70	4	5	4	100	0	70	0	0	
<b>Total</b>	<b>100</b>	<b>89</b>	<b>83</b>	<b>0</b>	<b>83</b>	<b>6</b>	<b>7</b>	<b>6</b>	<b>100</b>	<b>0</b>	<b>83</b>	<b>0</b>	<b>0</b>	
<b>Overall Total</b>	<b>366</b>	<b>353</b>	<b>339</b>	<b>0</b>	<b>339</b>	<b>14</b>	<b>4</b>	<b>14</b>	<b>100</b>	<b>0</b>	<b>339</b>	<b>0</b>	<b>0</b>	
<b>TOTAL</b>														
<b>2009/10</b>														
High	146	146	146	0	146	0	0	0	0	0	146	0	0	
Medium	219	219	214	0	214	5	2	5	100	2	216	2	1	
<b>Total</b>	<b>365</b>	<b>365</b>	<b>360</b>	<b>0</b>	<b>360</b>	<b>5</b>	<b>1</b>	<b>5</b>	<b>100</b>	<b>2</b>	<b>362</b>	<b>2</b>	<b>1</b>	
<b>2010/11</b>														
High	131	131	128	0	128	3	2	3	100	1	129	1	1	
Medium	305	305	300	0	300	5	2	5	100	2	239	2	1	
<b>Total</b>	<b>436</b>	<b>436</b>	<b>428</b>	<b>0</b>	<b>428</b>	<b>8</b>	<b>2</b>	<b>8</b>	<b>100</b>	<b>3</b>	<b>368</b>	<b>3</b>	<b>1</b>	
<b>2011/12</b>														
High	45	44	39	0	39	5	11	5	100	0	39	0	0	
Medium	210	206	191	0	191	15	7	15	100	1	188	1	1	
<b>Total</b>	<b>255</b>	<b>250</b>	<b>230</b>	<b>0</b>	<b>230</b>	<b>20</b>	<b>8</b>	<b>20</b>	<b>100</b>	<b>1</b>	<b>227</b>	<b>1</b>	<b>0</b>	
<b>2012/13</b>														
High	43	30	21	0	21	9	30	3	33	0	27	6	22	
Medium	167	132	98	1	99	34	26	15	44	1	118	20	17	
<b>Total</b>	<b>210</b>	<b>162</b>	<b>119</b>	<b>1</b>	<b>120</b>	<b>43</b>	<b>27</b>	<b>18</b>	<b>42</b>	<b>1</b>	<b>145</b>	<b>26</b>	<b>18</b>	
<b>Overall Total</b>	<b>1266</b>	<b>1213</b>	<b>1137</b>	<b>1</b>	<b>1138</b>	<b>76</b>	<b>6</b>	<b>51</b>	<b>67</b>	<b>7</b>	<b>1102</b>	<b>32</b>	<b>3</b>	

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**APPENDIX 7**

**PLEASE SEE ITEM NO. 15  
AS APPENDIX EXEMPT**

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## Performance Indicators as at March 2013

<b>Objective: To provide maximum assurance to inform the annual audit opinion</b>			
<b>Efficiency</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	<b>Actual</b>
<b>KPI</b>			
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% Annually	Not yet due
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Quarterly)	91% 14 days on average
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response Average time taken is also reported for information	95% (Quarterly)	91% 6 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)	98%
<b>Quality</b>			
<b>KPI</b>			
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	96%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (4 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	96% - Average score 4.60
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	33%
<b>Cost</b>			
<b>KPI</b>			
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	Yes 2011/12 Actual – £279 average £313

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

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