



Audit Committee

Date Tuesday 20 May 2014
Time 11.30 am
Venue Council Chamber, County Hall, Durham

Business

Part A

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

1. Apologies for absence
2. Minutes of the meeting held on 28 February 2014 (Pages 1 - 10)
3. Declarations of interest, if any
4. Counter Fraud and Corruption Strategy - Report of Corporate Director, Resources (Pages 11 - 26)
5. Confidential Report Code (Whistleblowing) - Report of the Corporate Director, Resources (Pages 27 - 48)
6. External Audit - Durham County Council Audit Strategy Memorandum Year Ended 31 March 2014 - Report of the External Auditor (Pages 49 - 66)
7. External Audit - Durham County Council Pension Fund Audit Strategy Memorandum Year Ended 31 March 2014 - Report of the External Auditor (Pages 67 - 84)
8. Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2014 - Report of the Corporate Director, Resources (Pages 85 - 104)
9. Strategic Risk Management Progress Report for the Quarter period January to March 2014 - Report of the Corporate Director, Resources (Pages 105 - 118)
10. Internal Audit Progress Report Quarter Ended 31 March 2014 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 119 - 146)

11. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
12. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

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

13. Internal Audit Progress Report Quarter Ended 31 March 2014 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 147 - 156)
14. Overdue Audit Recommendations - Verbal Report of the Chief Internal Auditor and Corporate Fraud Manager
15. Protecting the Public Purse - Report of the External Auditor (Pages 157 - 172)
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
12 May 2014

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

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

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

Co-opted Members:

K Larkin-Bramley and T Hoban

Contact: Jackie Graham

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DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1B, County Hall, Durham on **Friday 28 February 2014 at 11.00 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:

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

Co-opted Members:

Mr T Hoban and Ms K Larkin-Bramley

1 Apologies for absence

An apology for absence was received from Councillor J Rowlandson.

2 Minutes of the meeting held on 28 November 2013

The minutes of the meeting held on 28 November 2013 were agreed and signed by the Chairman as a correct record.

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

3 Declarations of interest, if any

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

4 Oracle E-Business Suite Update, Briefing on Financial and Contract Procedure Rules

The Committee received a presentation from the Head of Corporate Finance that gave an update on the Oracle E-Business Suite and a briefing on the Financial Procedure Rules and Contract Procedure Rules (for copy see file of Minutes).

The following points were highlighted:-

Oracle E-Business Suite:-

- Background

- Stabilisation Phase
- Development Phase
- Upgrade Phase
- The Future

Mr Hoban asked if there was a back up system and Ms Larkin-Bramley asked if so had it been tested. The Head of Corporate Finance said that there was a reciprocal arrangement in place with Sunderland City Council on disaster recovery and it had been tested.

Councillor Carr referred to the handheld devices for workmen stating that it was a good idea but pointed out that there were risks involved. The Head of Corporate Finance explained that a similar system was used for Durham City Homes and Internal Audit were involved from the beginning of the process to help identify risks. He added that controls were built in and the process worked well elsewhere.

On answering a question from Councillor Hillary about the outstanding risk of authorised signatories, the Head of Corporate Finance explained that the automation of financial systems meant that ordering could be made online through Oracle and therefore signatures were not required. The Transaction and Purchasing Team were informed through Oracle if someone was trying to order from a contractor not in the system so it was more efficient at dealing with anomalies.

The Chair informed members that the Audit Committee had visited the Oracle Centre at Tanfield a few years ago and it might be beneficial to re-visit to see first-hand the improvements made. Councillor Smith advised the Committee that Scrutiny were arranging a visit to Tanfield in April and it may be beneficial to join them.

Financial Procedure Rules:-

- What they are
- Why they are important
- Responsibilities
- Content
- General Roles and Responsibilities
- Financial Planning
- Risk Management and Control of Resources
- Financial System and Procedure

Councillor Temple referred to the change of bank and asked if the process would be under review by Scrutiny. The Corporate Director, Resources informed the Committee that the contract with the Co-operative Bank would run until March 2016 but in the meantime it would take 6 months to instruct a new bank. A lot of interest had been received and so the County Council needs to ensure that they receive the best deal. He advised that a view would be taken as to what involvement Audit and/or Scrutiny would have in the process. The Head of Corporate Finance added that a colleague from Internal Audit was on the project team so that they would have an input from the start of the process.

Members were advised that some services use the flexibility of cash limits and there is an incentive to underspend and carry across to the next financial year or future years. The Committee were also advised that schools do not have individual bank accounts and any interest earned is put back into school reserves.

Contract Procedure Rules:-

- What they are
- Basic Principles
- Officer Responsibilities
- Variations and Exceptions
- Approved Lists and Framework Agreements
- Competition Requirements
- Evaluation Criteria and Standards
- Contract Management/ Monitoring

Councillor Stelling asked about the process for offering local tenders. The Head of Corporate Finance explained that one provider could not be favoured over another but the authority do hold provider days that explains how to access the tender process and the contracts available. This ensures maximum opportunities are given to all interested parties.

The Head of Corporate Finance added that approved lists are no longer used and Framework Contracts are used instead which ensure the process is transparent.

Councillor Hillary asked if there was an ethical question for all tenders to ensure the minimum wage is paid. This information would be sought and reported back to Committee. Ms Larkin-Bramley asked that it be reported back as an outstanding action.

The Chairman thanked the Head of Corporate Finance for a very interesting and informative presentation.

5 Agreement of Accounting Policies for Application in the 2013/14 Financial Statements

The Committee considered an update from the Corporate Director of Resources on the County Council's accounting policies to be applied in the preparation of the 2013/14 Statement of Accounts and to seek confirmation that appropriate policies are being applied (for copy see file of Minutes).

The Assistant Finance Manager, Corporate Finance highlighted the changes to be applied in preparing the 2012/13 Statement of Accounts. He further explained the new accounting policies in relation to Business Improvement District Scheme and Voluntary Aided/Voluntary Controlled/ Foundation Schools. The External Auditor advised that they would be working closely with officers to consistently apply the policies. She added that CIPFA were likely to agree with the accounting policies and are in the process of producing guidance for local authorities.

Following a question from Councillor Lawson the Assistant Finance Manager, Corporate Finance explained that a judgement would be made on each school with advice from legal and assets taken on board.

Resolved:-

That the recommendations contained within the report be agreed.

6 Final Accounts Timetable for the year ended 31 March 2014

The Committee considered a report of the Corporate Director of Resources that provided Members with the Final Accounts Timetable for 2013/14 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, Corporate Finance highlighted key dates in the working document and informed the Committee that they had been circulated to all stakeholders. He advised that the accounts had been prepared on time for the last two years and it was hoped to keep on making improvements. The Committee acknowledged that the Service had made great strides last year and congratulated the Corporate Director and his team.

Resolved:-

That the report be noted.

7 Changes to the Code of Practice for Local Authority Accounting in the UK for 2013/14

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 2013/14 accounts (for copy see file of Minutes).

The Assistant Finance Manager, Corporate Finance informed the Committee that this was a technical document and was updated annually. He advised of the changes and highlighted the section relating to Valuation of Assets and in particular the impact of the balance sheet at 31 March.

Councillor Temple said that to reduce the risk the date should be changed for valuations so that the balance sheet was as up to date as possible. The Assistant Finance Manager, Corporate Finance said that the guidelines confirm that the accounting periods commence on 1 April so in effect what is entered onto the balance sheets at 31 March is as up to date as it can be.

Councillor Smith said that as a new member she was interested in finding out about the County Council's assets and Ms Larkin-Bramley suggested that it would be helpful to receive a presentation at a future meeting. The Asset Manager said that he could provide a copy of the Corporate Asset Management Plan.

The Corporate Director, Resources referred to the Business Rate Schemes and explained how difficult it was to forecast the implications. He recognised that at

time new developments could impact on old developments. For example a recent appeal on the impact of business in Bishop Auckland was successful for the business but was applied to all businesses in the area, a situation out of the County Council's control.

Resolved:-

That the report be noted.

8 External Audit Progress Report

The Committee received a report from the External Auditor that gave an update on progress on the External Audit report for Durham County Council (for copy see file of Minutes).

The External Auditor referred to the Future of Local Audit and Protecting the Public Purse, both issues of which would be discussed with Internal Audit to ascertain where Durham sits and a report would come back to a future meeting.

Resolved:-

That the report be noted.

9 External Audit Annual Grant Claim Report

The Committee received a report from the External Auditor regarding grant certification for 2012/13 (for copy see file of Minutes).

The External Auditor highlighted the four areas of grant certification work that has been completed:-

- Housing and Council Tax Benefit Subsidy
- Pooling of Housing Capital Receipts Return
- NNDR
- Teacher Pensions

Councillor Temple was concerned at the errors highlighted and the areas of work where no inspection took place. The Chief Internal Auditor and Corporate Fraud Manager said that there was a wide range of samples inspected every year and gave assurances that all areas were tested.

Resolved:-

That the report be noted.

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

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

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

Councillor Temple referred to a risk that had been removed, Contamination of Material from Kerbside, but was still happening. The Risk, Insurance and Governance Manager explained that a strategic risk was added when there was an element of uncertainty but now that the risk is certain and occurring it could be dealt with at an operational level.

Resolved:

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

11 Internal Audit Charter

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager regarding the revised Internal Audit Charter (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager informed the Committee that the Charter had last been reviewed on 2011 and explained that it sets out how Internal Audit carry out their business. The Committee were informed of the main changes.

Resolved:

That the Internal Audit Charter be approved.

12 Internal Audit Progress Report Quarter Ended 31 December 2013

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed members of the work carried out by Internal Audit during the period October to December 2013 (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager advised that there were no responses to draft reports that remained overdue. He informed the Committee that a CIPFA benchmarking exercise indicated that performance of actions due to be implemented showed an average of 70-80%. Durham was achieving way in excess of this target as 90% of actions due to be implemented had been. He concluded that at present 41% was being achieved of the 90% performance indicator target and there were no concerns to hit the full target by the end of the year.

Resolved:

1. The amendments made to the 2013/14 Annual Audit Plan be noted.
2. Work undertaken by Internal Audit during the quarter ended December 2013 be noted.
3. Progress made by service managers in responding to the work of Internal Audit be noted.

13 Exclusion of the Public

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

14 Internal Audit Progress Report Quarter Ended 31 December 2013

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

Resolved:

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

15 Overdue Audit Recommendations

The Committee considered a verbal report of the Chief Internal Audit and Corporate Fraud Manager about overdue internal audit recommendations.

The Chief Internal Audit and Corporate Fraud Manager advised that he had spoken to all Corporate Directors and feedback was positive to achieve timescales set down by Internal Audit.

Resolved:

That the Chairman and Chief Internal Audit and Corporate Fraud Manager call senior managers to the Audit Committee to explain any overdue actions as and when required.

16 Internal Audit Report - Asset Disposals

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed members of the review of Asset Disposals (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager advised that a moderate opinion had been given on the disposal process for land and buildings.

The Asset Manager gave assurances that the Service could deliver the 4 year disposal programme.

Resolved:

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

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Action Plan - Work of Audit Committee - Part A – 20 May 2014

Ref No.	Date of Meeting	Item No.	Title of Report	Action Required	By Whom	Report to Committee (date)/ implemented
1	27.6.13 28.2.14	4 18	Update on Disposal of Land and Buildings by Head of Planning and Asset Management	Internal Audit to review effectiveness of new procedures as part of next year's audit plan (approximately 6 months' time) and outcomes to be reported back to Committee when complete Moderate Opinion given and assurances given that programme would be delivered	Chief Internal Auditor and Corporate Fraud Manager	28 February 2014 CLOSED
2	27.6.13	12,13	Direct Payments	Internal Audit to carry out follow up audit to review effectiveness of revised controls as part of next year's audit plan (approximately 6 months' time) and outcomes to be reported back to Committee when complete	Chief Internal Auditor and Corporate Fraud Manager	26 June 2014
3	30.9.13 28.2.14	4 4	Authorised Signatories	Update on development and utilisation of Oracle Automation of Financial System should remove the risk of authorised signatories as all staff being encouraged to order through Oracle	Head of Corporate Finance	28 Feb 2014 CLOSED
4	28.2.14	4	Financial Procedure Rules Presentation	Ethical question asked on all tender documentation regarding minimum wage	Head of Corporate Finance	20 May 2014
5	28.2.14	7	Changes to the Code of Practice for Local Authority Accounting in the UK for 2013/14	Presentation required on Council's Assets	Assistant Finance Manager/ Asset Manager	26 July 2014

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AUDIT COMMITTEE

20 May 2014



Counter Fraud and Corruption Policy

Report of Don McLure, Corporate Director Resources

Purpose of the Report

1. To request that the Committee review and approve the revised Counter Fraud and Corruption Policy. The updates to this policy will ensure it is fit for purpose and reflects current legislation as well as being fully aligned to all other Council policies.

Background

2. The current Counter Fraud and Corruption Strategy was agreed in November 2010. The proposed amendments take into account the latest CIPFA guidance "Managing the Risk of Fraud" and the provisions of the Bribery Act 2010 which came into effect in 2011.
3. The revised Counter Fraud and Corruption Strategy is attached as Appendix 2.
4. In order that all employees are aware of the policy and its content the intention is that the policy is communicated to all staff through 'Buzz Magazine' and other appropriate channels. Discussions have been held with the Internal Communications Manager with the formal communications to begin at the end of May following this policy and the revised Confidential Reporting Code (Whistleblowing) being approved by the Audit Committee on 20 May 2014.
5. Furthermore, it is the intention for the Audit Committee to receive some initial training on fraud and the Bribery Act, in July 2014 and this statement will assist with strengthening controls in this area and raising organisational awareness of the key issues.

Key Points

6. The Counter Fraud and Corruption Strategy is designed to prevent, detect and deter fraud and corruption and sets out what action will be taken against any attempted or actual fraudulent acts affecting the Council. It highlights the benefit of having effective internal controls and the role of the Internal Audit Service and joint working with other organisations and agencies in the approach to tackling fraud and corruption.
7. The Strategy also now sets out the Council's responsibilities for employees, councillors and other stakeholders in the prevention, deterrence and detection of bribery which is one of the most common forms of corruption. An important part of complying with the Bribery Act is for organisations to demonstrate robust anti-bribery policies and procedures and this strategy forms an overarching part of that approach.
8. Both documents include methods of reporting suspicions or concerns and, subject to approval, will be published on the Council's intranet and internet. The Counter Fraud and Corruption Policy is attached at Appendix 2.

Recommendation

9. Audit Committee approves the revised Counter Fraud and Corruption Strategy attached at Appendix 2.

Contact:

Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager

Tel: 03000 269645

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

All Corporate Directors have been consulted.

Procurement

None

Disability Discrimination Act

None

Legal Implications

None

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Resources

Internal Audit, Risk and Fraud

COUNTER FRAUD AND CORRUPTION STRATEGY

Altogether better



Version Date	Version ref	Revision History	Reviser	Approved by	Review Date
1.5.14	0.1	Final Version	Julie Scotney		1.5.15

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- 1 Foreword
- 2 Introduction
- 3 Corporate Framework & Culture
- 4 Legal Definitions
- 5 Prevention
- 6 Deterrence
- 7 Detection and Investigation
- 8 Awareness
- 9 Conclusion

1. Foreword

Durham County Council is served by dedicated and hardworking officers who consistently demonstrate high levels of integrity and honesty. Public servants in this country are held in the highest esteem around the world for their personal and professional propriety.

However, we take our responsibility as the guardians of public money very seriously, that is why it is important that we have in place a clear and comprehensive Counter Fraud and Corruption Strategy.

Durham County Council is the biggest organisation in the County and one of the biggest local authorities in the country. We provide vital services to 513,000 residents, we have a gross budget of over £1 billion a year and employ almost 18,000 people. We pay pensions to a further 16,000 retired employees and we manage property, investments and other assets worth billions of pounds.

Fraud and corruption cheats the local tax payer and undermines the aims of our Council to achieve an ‘Altogether Better Durham’ by providing value for money services in an open, honest and accountable way.

We are determined therefore that we will protect ourselves from fraud and corruption from within and outside the organisation. We advocate a zero tolerance approach and will seek to prevent fraud and corruption, including bribery, in all areas of our activities. Where any instances are discovered, the Council will take all action as is necessary to hold perpetrators to account and reduce losses to an absolute minimum.

Our aim is to make absolutely clear to all that we will not tolerate fraud or corruption. We expect anyone with a concern, to report the matter immediately so we can investigate. We will make sure that these reports are dealt with promptly and where a report is substantiated we will take effective and speedy action. In all cases, we will provide a clear explanation to anybody who raises concerns.

We have designed this strategy to fight fraud and corruption by encouraging prevention whilst also promoting detection.

All councillors and employees have a responsibility for promoting a culture of good governance by ensuring that effective measures are in place to prevent fraud, corruption and other irregularities and by promptly identifying and reporting potential instances for investigation.

Simon Henig
Leader of the Council

George Garlick
Chief Executive

2. INTRODUCTION

2.1 Durham County Council recognises that it has a responsibility to protect the public purse. In order to meet these responsibilities the Council is committed to an effective Counter Fraud and Corruption Strategy designed to:

- Promote the prevention of fraud and corruption
- Help people detect fraud and corruption
- Ensure the effective investigation in all cases where suspected fraud or corruption has occurred, and
- Explain what we will do if we identify cases of fraud and corruption.

2.2 This strategy outlines Durham County Council's approach, as well as defining the roles and responsibilities for dealing with the threat of fraud, corruption and bribery both internally and externally. The strategy applies to:

- councillors
- employees
- agency staff
- contractors
- consultants
- suppliers
- service users
- employees and committee members of organisations funded by Durham County Council
- employees and principals of partner organisations

In addition to the above, Durham County Council also expects its residents to adhere to the principles of the strategy and to be honest in their dealings with the Council.

2.3 This strategy sets out the commitments of the Council to tackling fraud, corruption and bribery. It also makes clear to all concerned the appropriate and decisive action that will be taken against those committing or attempting to commit, fraudulent and or corrupt acts against Durham County Council.

Durham County Council has set about to ensure that it creates a zero tolerance culture in order for it to be effective in its approach to dealing with fraud, corruption and bribery.

3. CORPORATE FRAMEWORK AND CULTURE

3.1 Durham County Council has a range of inter related policies and procedures that provide a corporate framework to help counter any fraudulent activity. These have been formulated in line with the appropriate legislative requirements and professional best practice.

- 3.2 Durham County Council believes the best defence against fraud and corruption is to create a strong anti-fraud culture within the organisation and that a culture of honest and openness is a key element in tackling fraud. The codes of conduct for members and employees are based upon the Nolan principles of Standards in Public Life. In cases where members or employees fail to adhere to these codes appropriate action will be taken against them.

4. LEGAL DEFINITIONS

- 4.1 The Fraud Act 2006 describes fraud as the intention to make gain or cause loss under three main headings:

- Fraud by false representation
- Fraud by failing to disclose information
- Fraud by abuse of position

There are further subheadings of fraud described including possession of articles for use in fraud, making or supplying articles for use in frauds, participating in fraudulent business and or obtaining services dishonestly.

- 4.2 Corruption is defined as the offering, giving, soliciting or acceptance of an inducement or reward, or showing any favour or disfavour which may influence any person to act improperly.

- 4.3 The Bribery Act 2010 came into force on 1 July 2011. Bribery is defined in the Act “as giving someone a financial or other advantage to encourage that person to perform their functions or activities improperly or to reward a person for having already done so, in order to gain personal, commercial, regulatory or contractual advantage”. It is the most common form of corruption.

5. PREVENTION

Employees

- 5.1 Durham County Council recognises that its employees are often the first line of defence in preventing fraud.

- 5.2 Employees must work within:

- The Employee Code of Conduct for Durham County Council (which is made available to all employees);
- The Council’s regulatory framework including Financial Regulations and Contract Procurement Rules; and
- Relevant codes of conduct including the standards of any appropriate professional organisations and associations.

- 5.3 Employees must operate within Section 117 of the Local Government Act 1972, regarding the disclosure of the financial interests in contracts relating to the Council, or the non-acceptance of any fees, gifts, hospitality or any other rewards, other than proper remuneration. The Bribery Act 2010 makes it an offence to request, agree to receive, or accept a bribe. It is also an offence to offer, promise or give a bribe.
- 5.4 The Council recognises that training and the responsiveness of employees is important to the success of the anti-fraud, corruption and bribery strategy. Employees should therefore be alert to the possibility of fraud and report any concerns. Durham County Council has a confidential reporting code (Whistleblowing policy) in place to assist employees in reporting their concerns about fraud or any other issues without fear of harassment or victimisation.
- 5.5 The Council has in place disciplinary policies and procedures for all employees. Those found to have breached the Code of Conduct will be dealt with in accordance with these policies and procedures. Where criminal activity is suspected or found, the matter will be referred to the police for investigation and possible prosecution, in accordance with the Fraud and Corruption response plan. In addition, in relevant cases, recompense will be sought from those who are found to have carried out fraudulent acts.
- 5.6 Durham County Council's policies and procedures support compliance with the Bribery Act. Codes of conduct set out the acceptable conduct for both members and employees, with regard to personal interests and the receiving and giving of gifts and hospitality. The codes of conduct, a strong ethical framework, clear procurement rules, transparency and the scrutiny of decision making ensures that the Council's employees and members comply with anti-bribery legislation. Non-compliance by an employee or member may be perceived as bringing the Council into disrepute or using their office for personal gain. It may result in disciplinary action being taken.
- 5.7 One of our main preventative measures is to make sure that the appropriate checks are made before we recruit new employees. Heads of Service and Managers must comply with the Council's Recruitment and Selection Policy. We must always undertake appropriate pre-employment checks (e.g. written references) before any formal offers of employment are made. Some posts, due to the nature of the work and the potential of working with vulnerable people will also require a Disclosure and Barring Service (DBS) check. We must treat temporary, contract and voluntary employees in the same way as permanent employees.

Council Members

- 5.8 Members are required to operate within:
- Durham County Council Member code of conduct
 - The National Code of Local Government Conduct
 - Sections 94 to 97 of the Local Government Act 1972
 - Local Authorities Members' Interest Regulations and;
 - The Council's regulatory framework including Financial Regulations and Contract Procurement Rules.
- 5.9 These matters are specifically brought to the attention of members at induction and are in each member's handbook.
- 5.10 They include the rules on declaration and registration with the Head of Legal and Democratic Services of potential areas of conflict between members' council duties and responsibilities, and any other areas of their personal or professional lives.
- 5.11 Durham County Council has in place an Overview and Scrutiny committee. The responsibilities include a review of decisions and actions undertaken by the County Council. Any matter arising from this process, in which fraud is suspected, can be referred to DCC Corporate Fraud Team for independent investigation.
- 5.12 The County Council has established a Standards Committee, which has independent representatives within its membership to examine issues of misconduct by its members.
- 5.13 The County Council's Audit Committee has within its rules of governance a responsibility to review the effectiveness of Internal Audit including their work in respect of fraud.
- 5.14 The Local Government Act 2000 requires all members to give written undertaking to comply with the Code of Conduct if they are to remain on the Council.

Internal Control Systems

- 5.15 We have developed systems and procedures that include effective and efficient controls. These are designed to achieve clarity and accountability. One important control is giving people separate duties. This prevents any one person having too great an influence over any transaction. Our controls are designed so that even if fraud should happen, we will find it quickly and identify those responsible. We regularly review the effectiveness and appropriateness of these controls, including an independent review by Internal Audit.

- 5.16 The Corporate Director, Resources has a statutory responsibility under Section 151 of the Local Government Act 1972, to ensure proper arrangements are made for the County Council's financial affairs. In addition, under the Accounts and Audit (England) Regulations, the Council is required to maintain an adequate and effective internal audit of all its financial records and systems of internal control.
- 5.17 We have Financial Regulations and Contract Procedure Rules that outline best practice. Heads of Service must ensure that all of their employees are aware of the content of Financial Regulations and other regulatory documents and they are complied with.
- 5.18 In line with section 5 of the Local Government and Housing Act 1989, the Head of Legal and Democratic Services is named as the Council's monitoring officer. The monitoring officer must tell members of the Council if, at any time they feel that any proposal, decision or omission by the Council, or any of our committees, sub-committees or officers constitutes breaking the law or may lead to our breaking the law or to maladministration.
- 5.19 The Chief Internal Auditor and Corporate Fraud Manager is nominated as the Council's Money Laundering Responsible Officer (MLRO). The MLRO will in consultation with the Corporate Director, Resources assess reports of money laundering received from Council employees and will, where appropriate, forward these to the National Criminal Intelligence Service. The Council's Anti-Money Laundering Policy sets out our arrangements in greater detail.
- 5.20 If there are any problems, we have suitable disciplinary procedures and rules for all employees and councillors.

Working with Others

- 5.21 We expect all people and organisations to act honestly in their dealings with us. We will check contractors' and suppliers' references as well as carrying out suitable financial checks.
- 5.22 We welcome the help of a variety of people and organisations including:
- the public, local business community and media;
 - our suppliers, contractors, consultants and service providers;
 - the external auditor, who make sure that we have good arrangements in place to prevent and detect fraud and corruption;
 - central government departments and parliamentary committees, external service inspectorates, including the local government ombudsman;
 - HM Revenue and Customs
 - Durham Police; and
 - Department for Work and Pensions

5.23 There are a variety of arrangements in place, which assist and support the regular exchange of information with both internal and external bodies. This network includes:

- Durham Police – Serious and Organised Crime Directorate;
- National Anti-Fraud Network;
- CIPFA Better Governance Forum;
- networks of heads of internal audit;
- the Audit Commission and external auditors;
- the National Fraud Initiative data matching.

5.24 As technologies develop, there is an ever increasing need to take advantage of the processing and analysis of data stored through the County Council and beyond. This enables the information and intelligence to be generated, which is a recognised means of preventing fraud, corruption and bribery. Durham County Council has a data matching tool to assist in the prevention and detection of fraud. All data matching is carried out within the requirements of legislation and the Information Commissioner.

5.25 The Council is committed to exchanging information with other local and national agencies; activities such as these are carried out in full compliance with the Data Protection Act 1998 and with the codes of practice for National Fraud Initiative data matching exercises and includes provision of information to other agencies for data matching purposes.

6. DETERRANCE

6.1 There are a number of ways in which we deter the potential of fraud from being committed or attempted fraudulent or corrupt acts, whether they are inside or outside of the County Council. These include:-

- Publicising that Durham County Council does not tolerate fraud, corruption or bribery by promoting this at every opportunity.
- Acting quickly, efficiently, and decisively when fraud, corruption or bribery is suspected and proven
- Taking action to recoup the maximum recoveries (including losses and costs) for Durham County Council
- Having sound internal control systems, that still allow for innovation and calculated risk, to create opportunities for the County Council whilst minimising the potential risk for fraud, corruption and bribery.
- The Council confidential reporting code (whistleblowing policy).
- The operation and advertising of the Fraud hotline.
- Optimising publicity opportunities associated with counter fraud within the Council.

6.2 It is the responsibility of Corporate Directors to communicate the Counter Fraud, Corruption Strategy to all managers and employees and to promote greater awareness of the risk of fraud within their Service Groupings.

7. DETECTION AND INVESTIGATION

- 7.1 It is the responsibilities of all managers to maintain good control systems and procedures, and to ensure that all employees comply with the instructions contained therein.
- 7.2 The alertness of councillors, employees and members for the public are essential in the detection of any possible fraudulent activities. They are positively encouraged to raise any concerns in connection with any of the Councils activities. Concerns can be raised by any of the following means;
- Line managers
 - Corporate Fraud Team
 - Corporate Director, Resources
 - Chief Executive / Corporate Director
 - Chief Internal Auditor and Corporate Fraud Manager
 - Council complaints procedure
 - Confidential reporting Code(Whistleblowing policy)
 - Fraud hotline
 - Fraud email
- 7.3 Internal control systems and Internal Audit are part of the Council's preventative systems. These should be sufficient to deter fraud but are also designed to indicate any potential fraudulent activity. Within the scope of their work Internal Audit will:
- Endeavour to reveal serious defects in the internal controls which may lead to the perpetration of fraud
 - Be alert to the possibility of malpractice
 - Take nothing for granted
 - Be aware of the possibility of collusion
- 7.4 Information received relating to potential fraud, corruption or bribery obtained will be reviewed by the Corporate Fraud Team and investigated.
- 7.5 Depending on the nature and the extent of the information obtained the Corporate Fraud Team will work closely with:-
- Human Resources
 - Internal Audit
 - Service Grouping Management
 - Legal Services
 - Other agencies – DWP, Police, other Local Authorities
- 7.6 This is to ensure that all allegations and evidence are supplied are properly investigated and reported upon, and that where possible, losses are recovered for the County Council. Where appropriate this will include the use of Proceeds of Crime Act 2002.

- 7.7 Where a Durham County Council employee has been involved in fraudulent activity they will be subject to disciplinary action in line with the relevant policies and procedures.
- 7.8 Where financial non-compliance or wrongdoing is discovered relating to employees, members or grant aided external organisations; the matter may be referred to the police in accordance with the Fraud and Corruption Response Plan.
- 7.9 Referral to the police will not prevent any action under the internal disciplinary policies and procedures.

8. AWARENESS

- 8.1 It is recognised that the success and credibility of this strategy is dependent on how effectively it is communicated throughout the organisation and beyond. Every opportunity will be taken to bring it to the attention of the members, employees and stakeholders. The strategy will be published on the Council's website and Intranet.
- 8.2 Durham County Council encourages and supports induction training for all employees. Employees involved in internal control systems will be properly and regularly trained to ensure that their responsibilities and duties are highlighted and reinforced. The possibility of disciplinary action is made clear to any officers that ignore training and guidance.
- 8.3 Durham County Council's Corporate Fraud team will offer training sessions in Fraud Awareness, to promote the Counter Fraud and, Corruption Strategy and to give guidance on fraud prevention and detection. It is important to regularly highlight and reinforce each employee's role in this area.

9. CONCLUSION

- 9.1 Durham County Council has put into place a number of arrangements to protect itself from the risk of fraud. However in the current climate of change there are issues that increase the risk of loss. Changes in structures, systems and the reduction in employees as well as the external pressure due to the economy, all contribute to the risk of fraud.
- 9.2 The Counter Fraud and Corruption Strategy provides a framework for preventing and tackling anti-fraudulent and corruption acts against Durham County Council. The approval of the strategy by the Audit Committee, on behalf of Durham County Council demonstrates the Council's commitment to the protection of public funds and the minimising of losses.
- 9.3 Having made this commitment it is imperative that arrangements for the circulation of this strategy and promoting fraud awareness across the Council are maintained.

AUDIT COMMITTEE



20 May 2014

Confidential Reporting Code (Whistleblowing)

Report of Don McLure, Corporate Director Resources

Purpose of the Report

1. To request that the Committee approve the revised Confidential Reporting Code. The updates to this policy ensure, it is fit for purpose and reflects new legislation and is fully aligned to all other Council policies.

Background

2. The last update of this policy was completed in December 2011. In reviewing the policy this time it became apparent through research that the Confidential Reporting Code was not in line with updated best practice and did not fully align with other Council policies.
3. The updated version explains in more detail, who can use the policy, the scope and aims of the policy and examples of the types of concerns that could be raised and how an individual will be protected. It also ensures both its content and advice meets current requirements.
4. A revised incident reporting form has been produced, which will be supplied with the policy as a means of recording the required information. However, the method of investigating and responding to concerns has not been altered.
5. The revised policy is attached as Appendix 2 and the new incident reporting form as Appendix 3. Both have been updated in style and content to reflect Internal Audit and Human Resources recommendations.
6. In order that all employees are aware of the policy and of its content the intention is that the policy is communicated to all staff through 'Buzz Magazine' and other appropriate channels. Discussions have been held with the Internal Communications Manager with the formal communications planned to begin immediately following the policy's approval.

Recommendation

7. Audit Committee approves the revised Confidential Reporting Code attached at Appendix 2 and the new incident recording form at Appendix 3.

Contact:

Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager

Tel: 03000 269645

Kim Jobson, Head of Human Resources and Organisational Development

Tel: 03000 267308

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

All Corporate Directors and Heads of Service have been consulted.
Also the relevant Trade Unions have been consulted in the compilation of this policy.

Procurement

None

Disability Discrimination Act

None

Legal Implications

None

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Confidential Reporting Code



Please think before printing this document.

Where printing is necessary, please ensure that it is printed double sided and in greyscale.

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1 Introduction

Employees can sometimes be the first to realise that there may be something seriously wrong with procedures and/or processes within Durham County Council (the council). However, they may not always express their concerns because they feel that speaking up would be disloyal to their colleagues or to the council. They may also fear the threat of harassment or victimisation and in these circumstances they may feel it easier to just ignore their concern rather than report what may just be a suspicion of malpractice.

The council is committed to the highest possible standards of openness, honesty and accountability. In line with that commitment we expect employees, and others that we deal with, who have any serious concerns about any aspect of the council's work to come forward and voice those concerns. Wherever possible, employees are encouraged to use relevant council procedures to report issues in an open and transparent way, because that is the type of organisational culture we are trying to foster. It is recognised, however, that some cases will have to proceed on a confidential basis.

This document makes it clear that you can do so without fear of victimisation, subsequent discrimination or disadvantage. The Confidential Reporting Code is intended to encourage and enable employees to raise serious concerns within the council rather than overlooking a problem or 'blowing the whistle' outside.

This Code applies to all employees except for school-based employees, where schools need to give consideration to their own procedures.

The Code also applies to those contractors working for the council on council premises, for example, agency staff, builders, and drivers. It also covers suppliers and those providing Services under a contract within the council in their own premises, for example, care homes.

The Code is recommended as good practice to all other groups associated with the council who have the discretion in their employment to adopt our policies. Apart from schools, this will include such groups as voluntary sector organisations.

These procedures are in addition to the council's complaints procedures and other statutory reporting procedures applying to some Services. If asked, employees should make service users aware of the existence of these procedures.

This Code has been discussed with the relevant trade unions and professional organisations and has their support.

2 Aims and scope of the code

2.1 Aim of the code

This Code aims to:

- encourage you to feel confident in raising serious concerns and to question and act upon concerns about practice;
- provide avenues for you to raise those concerns and receive feedback on any action taken;
- ensure that you receive a response to your concerns and that you are aware of how to pursue them if you are not satisfied;
- reassure you that you will be protected from possible reprisals or victimisation if you have a reasonable belief that you have made any disclosure in the public interest.

2.2 Scope of the code

There are existing procedures in place to enable you to lodge a grievance relating to your own employment (see section 2.3 below). The Confidential Reporting Code is intended to cover major concerns that are in the public interest that fall outside the scope of other procedures.

These include:

- conduct which is an offence or a breach of law
- disclosures related to miscarriages of justice
- health and safety risks, including risks to the public as well as other employees
- damage to the environment
- the unauthorised use of public funds
- negligence
- breach of internal policies/procedures including breach of the code of conduct
- conduct likely to affect the reputation of Durham County Council
- unauthorised disclosure of confidential information
- possible fraud and corruption
(NB. The council's counter fraud and corruption strategy is also accessible on the Intranet and Extranet)
- sexual or physical abuse of children and/or vulnerable young people/adults
- other unethical conduct
- conflict of interest
- inducements and offers of hospitality
- offers and requests for sponsorship from and to suppliers
- deliberate concealment of the above matters

Thus, any serious concerns that you have about any aspects of service provision or the conduct of officers or members of the council or others acting on behalf of the council can be reported under the Confidential Reporting Code.

This must be about something that is in the public interest which may:

- make you feel uncomfortable in terms of known standards, your experience or the standards you believe the council subscribes to;
or
- is against the council's constitution and policies;
or
- falls below established standards of practice;
or
- amounts to improper conduct.

2.3 Other procedures

This Code covers concerns outside of the following areas and does not replace the following procedures.

2.3.1 The council's complaints procedure

Complaints by an individual customer or group of customers about the standard of service, actions or lack of actions by the council should be managed under the council's complaints procedure.

The council deals with two main types of complaint:

- **Statutory.** A complaint which arises from the duties placed on a local social services authority to provide assessments and care services under the provisions of relevant adult and children's social care legislation. The process for managing such complaints is prescribed in Regulations.
- **Non-Statutory.** All other complaints.

The council's service standards for dealing with non-statutory complaints are:

- Acknowledge all complaints within 2 working days;
- Respond to stage 1 complaints within 10 working days
- Respond to stage 2 complaints within 20 working days.

After exhausting stage 2 of the complaints process, a complainant may obtain advice on pursuing their case through the Local Government Ombudsman.

2.3.2 Financial Procedure Rules and Financial Management Standards

Under the council's financial procedure rules Chief Officers and Heads of Service are ultimately responsible to the council for ensuring that financial procedures are correctly applied and observed by staff and contractors providing services on the council's behalf. They are also responsible for reporting any known breach or suspected breach of procedures or any failures of financial controls to the Chief Finance Officer. In practice the

Head of Finance – Corporate Finance or the Head of Finance – Financial Services should be notified of any such incident.

The Chief Internal Auditor and Corporate Fraud Manager (the Head of Internal Audit) must be notified immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the council's property of resources.

2.3.3 Arrestable offences

In any case where a Corporate Director has reason to believe that an employee of the council may have committed an arrestable offence, the Corporate Director of Resources or representative must be informed and where it is considered an arrestable offence has occurred, the Corporate Director of Resources or representative will inform the police.

2.3.4 Grievance procedure

The Council's Grievance Policy is designed to ensure that concerns, problems and complaints arising in the course of employment can be raised and resolved quickly and in a fair and reasonable manner. The Grievance procedure exists to provide a mechanism for employees to raise concerns that are not covered by other procedures. Further information on the policy and the type of issues that can be raised as a grievance can be found in the [Grievance Policy](#).

If it is unclear which procedure the employee wishes to pursue, the manager should seek advice from the Human Resources, Advice and Guidance Team.

2.3.5 Contract Procedure Rules

The Contract Procedure Rules (CPRs) provide the framework for procurement activity across the Council setting out how contracts for goods, works, services and utilities should be put in place and managed, and detailing the record keeping and reporting requirements related to procurement activity. They apply to all Service groupings across the council.

The CPRs should not be seen in isolation, but rather as part of the overall regulatory framework of the council as set out in the Constitution.

The content of these CPRs is supported by additional guidance and documentation contained in the Advice Centre within the 'Procurement and Purchasing' section of the council's intranet.

All procurement procedures must:

- realise value for money by achieving the optimum combination of whole life costs and quality of outcome;
- be consistent with the highest standards of integrity;
- operate in a transparent manner;
- ensure fairness in allocation of public contracts;
- comply with all legal requirements including European Union (EU) treaty principles;

- support all relevant council priorities and policies including the Medium Term Financial Plan, and
- comply with the council's Corporate Strategy for Commissioning and Procurement, and the Sustainable Commissioning and Procurement Policy.

If you become aware that there has been a breach of the contract procurement rules you can report such a breach using the Confidential Reporting Code.

3 Safeguards

The council is committed to good practice and high standards and wants to be supportive of employees.

The council recognises that the decision to report a concern can be a difficult one to make. If you believe what you are saying is true and the statement being made is in the public interest, you should have nothing to fear because you will be doing your duty to your employer and those for whom you are providing a service.

It is understandable that whistleblowers are sometimes worried about possible repercussions. The Council aims to encourage openness and will support employees who raise genuine concerns under this policy, even if they turn out to be mistaken.

The council will not tolerate any harassment or victimisation [including informal pressures] and will take appropriate action to protect you when you raise a concern in the public interest. This action will depend on the type of concern and specific service arrangements.

Employees must therefore not suffer any detrimental treatment as a result of raising a concern. Detrimental treatment includes dismissal, disciplinary action, threats or other unfavourable treatment connected with raising a concern.

Employees must not threaten or retaliate against whistleblowers in any way. If you are involved in such conduct you may be subject to disciplinary action.

On very rare occasions, you may be asked whether you would be prepared to obtain further information. This would be entirely at your discretion and a full risk assessment would be completed, prior to such a course of action being agreed.

Any investigation into allegations of potential malpractice will not influence or be influenced by any disciplinary or redundancy procedures that already affect you.

4 Confidentiality

All concerns will be treated in confidence and every effort will be made not to reveal your identity if you so wish. Any breach of confidentiality will be regarded as a serious matter and will be dealt with accordingly. At the appropriate time, however, you may need to come forward as a witness.

All information will be handled sensitively and used only for its proper purpose.

Under the Data Protection Act 1998 individuals have the right to see their own personal data held subject to the rights of confidentiality of any third parties involved in that information.

5 Anonymous allegations

This Code encourages you to put your name to your allegation whenever possible.

Concerns expressed anonymously can be more difficult to investigate. When considering an investigation into an anonymous complaint, the following will be taken into consideration:

- the seriousness of the issues raised;
- the credibility of the concern; and
- the likelihood of confirming the allegation from attributable sources.

6 Untrue allegations

If you make an allegation in the public interest but it is not confirmed by the investigation, no action will be taken against you. If, however, you make an allegation frivolously, maliciously or for personal gain, disciplinary action may be taken against you.

7 How to raise a concern

As a first step, you should normally raise concerns with your immediate manager or their superior. This can be done verbally or in writing. Wherever possible concerns should be made in writing direct by the person raising the concerns using the template attached.

The completed form should then be reviewed by the manager to whom the concern has been raised and any points of clarity or additional information noted following any discussion with the person raising the concern.

The completed form should then be sent to the Chief Internal Auditor and Corporate Fraud Manager by the service manager.

The Chief Internal Auditor and Corporate Fraud Manager will log the concern for monitoring purposes and in consultation with the service manager, and any other relevant officers, agree how the concern should be investigated.

In certain circumstances, you may feel unable, or it may not be appropriate, to raise your concerns with your immediate line manager due to the seriousness and sensitivity of the issues involved and who is suspected of the malpractice. If this is the case, the concern can be reported direct to one of the following officers using the same form:

- Head of Service
- Corporate Director, Resources
- Assistant Chief Executive
- Chief Executive
- Chief Internal Auditor and Corporate Fraud Manager (Head of Internal Audit).

The earlier you express the concern the easier it is to take action.

Although you are not expected to prove beyond doubt the truth of an allegation, you will need to demonstrate to the person contacted that there are reasonable grounds for your concern.

Advice/guidance on how to pursue matters of concern may be obtained from:

Colette Longbottom Head of Legal and Democratic Services	☎ 03000 269 732 email: colette.longbottom@durham.gov.uk
Kim Jobson Head of Human Resources	☎ 03000 267 308 email: kim.jobson@durham.gov.uk
Don McLure Corporate Director, Resources	☎ 03000 261 945 email: don.mclure@durham.gov.uk
Paul Bradley Chief Internal Auditor and Corporate Fraud Manager	☎ 03000 269 645 email: paul.bradley@durham.gov.uk
Darren Knowd Corporate Procurement Manager	☎ 03000 265416 email: darren.knowd@durham.gov.uk

Alternatively, you may wish to seek advice from a person independent of the council. In this case you should contact the council's **External Auditors, Mazars**:

Catherine Banks Senior Manager	☎ 03000 267452 (County Hall) 0191 3836317 (Rivergreen) email: Catherine.Banks@mazars.co.uk
Cameron Waddell Director	☎ 0191 3836314 e-mail: Cameron.Waddell@mazars.co.uk Address: The Rivergreen Centre, Aykley Heads, Durham, DH1 5TS ☎ 020 7404 6609

Or alternatively concerns can be raised at:

Public Concern at Work	<p>Address: Public Concern at Work Suite 306, 16 Baldwin Gardens, London, EC1N 7RJ.</p> <p>Website: www.pcaw.co.uk email: helpline@pcaw.co.uk (helpline) email: whistle@pcaw.co.uk (enquiries)</p>
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You may wish to consider discussing your concern with a colleague first and you may find it easier to raise the matter if there are two [or more] of you who have had the same experience or concerns.

You may invite your trade union, professional association representative or a friend to be present during any meetings or interviews in connection with the concerns you have raised.

Do not forget that testing out your concerns is not the same as either accepting or rejecting them.

8 How the council will respond

The council will respond to your concerns. Following the recording of the concern, either directly by the 'whistleblower' or the line manager to whom it was reported, the completed form should then be immediately forwarded to the Chief Internal Auditor and Corporate Fraud Manager for logging and monitoring purposes.

The Chief Internal Auditor and Corporate Fraud Manager is independent and has unlimited access to any officer, member or information within the council and, in consultation with the appropriate officer, can agree the most appropriate way of investigating the concern.

Where appropriate, the matters raised may:

- be investigated by management, internal audit, or through the disciplinary process;
- be referred to the police;
- be referred to the external auditor;
- form the subject of an independent inquiry.

In order to protect individuals and those accused of misdeeds or possible malpractice, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. The overriding principles, which the council will have in mind, are your well-being and the public interest. Concerns or allegations that fall within the scope of specific procedures [for example, child protection or discrimination issues] will normally be referred for consideration under those procedures.

Some concerns may be resolved by agreed action without the need for investigation. If urgent action is required this will be taken before any investigation is conducted.

Within ten working days of a concern being raised, the person with whom you have raised your concerns will respond to you in writing:

- acknowledging that the concern has been received;
- indicating how we propose to deal with the matter;
- giving an estimate of how long it will take to provide a final response;
- telling you whether any initial enquiries have been made;
- supplying you with information on staff support mechanisms; and
- telling you whether further investigations will take place and if not, why not.

A copy of the response will be forwarded to the Chief Internal Auditor and Corporate Fraud Manager for monitoring purposes.

The amount of contact between the officers considering the issues and you will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, the council will seek further information from you. However, should this further information need to be gleaned by you, from another person, without them being made aware of your involvement in the confidential reporting process, specific procedures will need to be applied.

Should a manager believe that this additional information may assist the enquiry, and that the information can only be obtained by you, no action will be taken until the matter has been referred to the relevant person(s) for a decision to be made as to whether such a course of action is both necessary and proportionate.

Important:

Managers must not, under any circumstances attempt to obtain any further information covertly either directly or indirectly without first having complied with the Council's procedures in relation to staff surveillance which can be found in the Regulation of Investigatory Powers (RIPA) Policy – a copy of this is available on the intranet. Failure to do so may infringe Human Rights and render the Council liable to legal action.

Where any meeting is arranged, off-site if you so wish, you can be accompanied by a trade union or professional association representative or a friend.

The council will take steps to minimise any difficulties which you may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings the council will arrange for you to receive advice about the procedure.

The council accepts that you need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, we will inform you of the outcome of any investigation.

9 The responsible officer

The Corporate Director - Resources has overall responsibility for the maintenance and operation of the Code. The Corporate Director – Resources, via the Chief Internal Auditor and Corporate Fraud Manager, will maintain a record of concerns raised, appoint investigating officers, monitor the progress and record the outcomes (but in a form which does not endanger your confidentiality) and will report as necessary to the Audit Committee.

10 Further information

10.1 How the matter can be taken further

This Code is intended to provide you with an avenue within the council to raise concerns. The council hopes you will be satisfied with any action taken. If you are not, and if you feel it is right to take the matter outside the council, the following are possible contact points:

- the council's External Auditors, Mazars
- your local Citizens' Advice Bureau
- relevant professional bodies or regulatory organisations
- a relevant voluntary organisation
- the police
- the independent whistleblowing charity Public Concern at Work – telephone 020 7404 6609 or further details are available at www.pcaaw.co.uk

If you do take the matter outside the council, you should ensure that you do not disclose confidential information. Check with the contact point about that.

10.2 Reporting documentation

The following document can be downloaded from the intranet by clicking 'Strategies, Policies and Procedures' under the 'popular pages' column.

A	Confidential Reporting Code Form
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10.3 Review of the policy

The operation of this policy will be kept under review and such changes will be made to the policy as deemed appropriate following necessary consultation with the trade unions.

The Audit Committee will review the effectiveness of this policy and recommend any material changes required.

10.4 Equality and diversity

The council's vision is of an Altogether Better Durham comprising two key components of an Altogether Better Place which is Altogether Better for People. Within this vision are three key equality objectives, set out in the Single Equality Scheme, to provide high quality accessible services to all, be a diverse organisation and work with others to promote equality countywide. These objectives apply both in the delivery of services and in relation to the council's employment practices. The council is committed to including equalities in everything that it does. This includes the elimination of unlawful discrimination, promoting diversity as a positive force and valuing and celebrating a diverse workforce and community.


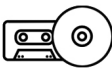

10.5 Contact details

If you would like any further advice or would like the document in an alternative format, please contact the Human Resources Advice and Guidance Team using the following contact details on the next page.

Please ask us if you would like this document summarised in another language or format.

العربية (Arabic) (中文 (繁體字)) (Chinese) اردو (Urdu)
 polski (Polish) ਪੰਜਾਬੀ (Punjabi) Español (Spanish)
 বাংলা (Bengali) हिन्दी (Hindi) Deutsch (German)
 Français (French) Türkçe (Turkish) Melayu (Malay)

hradviceandguidance@durham.gov.uk
03000 265367

 **Braille**  **Audio**  **Large Print**

Private and Confidential

A - Confidential Reporting Code Form

To be completed by the person initially raising the concern and/or the manager to whom the concern was raised.

Name of person raising concern: (may be anonymous)	
Job Title and Service Area:	
Service grouping:	
Contact details:	Tel: Place of work or home address: Email:
Relationship with subject of allegations (for example line manager, colleague, none, etc.)	

Brief outline of nature of concern and dates.
(Please outline nature of concern providing details of suspected wrong doing including name(s), job title(s), date(s), timescale(s), place and other relevant information).

Please use additional sheets if necessary

Declaration (may be anonymous)

Signature
(of person raising initial concern)

Please print name

Date

To be completed by the manager to whom the concern was raised:

Name:

Job Title and Service Area:

Service grouping:

Contact details

Tel:

Place of work:

Email:

Relationship with subject of allegations (for example line manager, colleague, none, etc.)

Additional information obtained from the person raising the concern to help clarify the nature of the concern, if applicable.

Signature
(of person to whom
complaint is raised)

Please print name

Date

Please send the completed form to Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager

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AUDIT COMMITTEE



20 May 2014

External Audit: Audit Strategy Memorandum Durham County Council - Year Ended 31 March 2014

Report of the External Auditor

Purpose of the Report

1. This report details the external auditors (Mazars) Audit Plan which notifies the Council of the work that they are proposing to undertake in respect of the audit of the financial statements and the value for money conclusion for the financial year 2013/2014 in relation to Durham County Council.

Background

2. The Memorandum (attached at Appendix 2) advises on the scope and nature of this work together with the scale of fee for the 2013/2014 audit and the assumptions that help to inform this charge to the Council.

Audit Plan 2013/14

3. The Audit Plan identifies the specific areas for the planned audit work based upon a risk assessment process. These areas of work are set out in the attached document on Pages 5 to 7 of the document and have been discussed with senior officers.
4. The document also sets out the protocol the auditors will follow in completing their planned work by providing an audit timeline of key phases of their work and also sets out their proposed methods of communication at each stage.

Recommendation

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

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

The Corporate Director, Resources has been consulted in developing the Audit Strategy.

Procurement

None

Disability Discrimination Act

None

Legal Implications

None

Audit Strategy Memorandum

Durham County Council – year ended 31 March 2014

April 2014



Mazars LLP
The Rivergreen Centre
Aykley Heads Durham
DH1 5TS

Members of the Audit Committee
Durham County Council
County Hall
Durham
DH1 5UE

April 2014

Dear Sirs/Madams

Audit Strategy Memorandum for the year ending 31 March 2014

We are delighted to present our Audit Strategy Memorandum for Durham County Council for the year ending 31 March 2014.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. It is a fundamental requirement that an auditor is, and is seen to be, independent of its clients and Appendix A summarises our considerations and conclusions on our independence as auditors.

We value two-way communication with yourselves and we see this document, which has been prepared following our initial planning discussions with officers, as being the basis for a discussion through which we can also understand your expectations.

This document will be presented at the Audit Committee meeting on 20 May 2014. If you would like to discuss any matters in more detail please do not hesitate to contact me on 0191 383 6314.

Yours faithfully

Cameron Waddell

Mazars LLP

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

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

01 Purpose and background

Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of Durham County Council for the year ending 31 March 2014, and forms the basis for discussion at the Audit Committee meeting on 20 May 2014.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.

We see a clear and open communication between ourselves and you as important in:

- Reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- Sharing information to assist each of us to fulfil our respective responsibilities;
- Providing you with constructive observations arising from the audit process; and
- Ensuring as part of the two-way communication process that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Durham County Council which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

Appendix C outlines the form, timing and content of our communication with you during the course of the audit. Appendix D sets out forthcoming accounting and other issues that will be of interest.

Scope of engagement

We are appointed to perform the external audit of Durham County Council for the year to 31 March 2014. The scope of our engagement is laid out in the Audit Commission's Code of Audit Practice for Local Government bodies.

Responsibilities

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

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

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

- Audit Commission Act 1998; and
- Code of Audit Practice for Local Government bodies.

We, as auditors to the Council, are responsible for forming and expressing an opinion on the financial statements and reaching a conclusion on the arrangements you have put in place to secure economy, efficiency and effectiveness in the use of your resources (the Value for Money conclusion).

We are also required to report on the consistency of your Whole Government Accounts submission with the audited financial statements. Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK and Ireland) we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud, we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

02 Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide you with an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards of Auditing (UK and Ireland) and in accordance with the Code of Audit Practice for Local Government Bodies. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

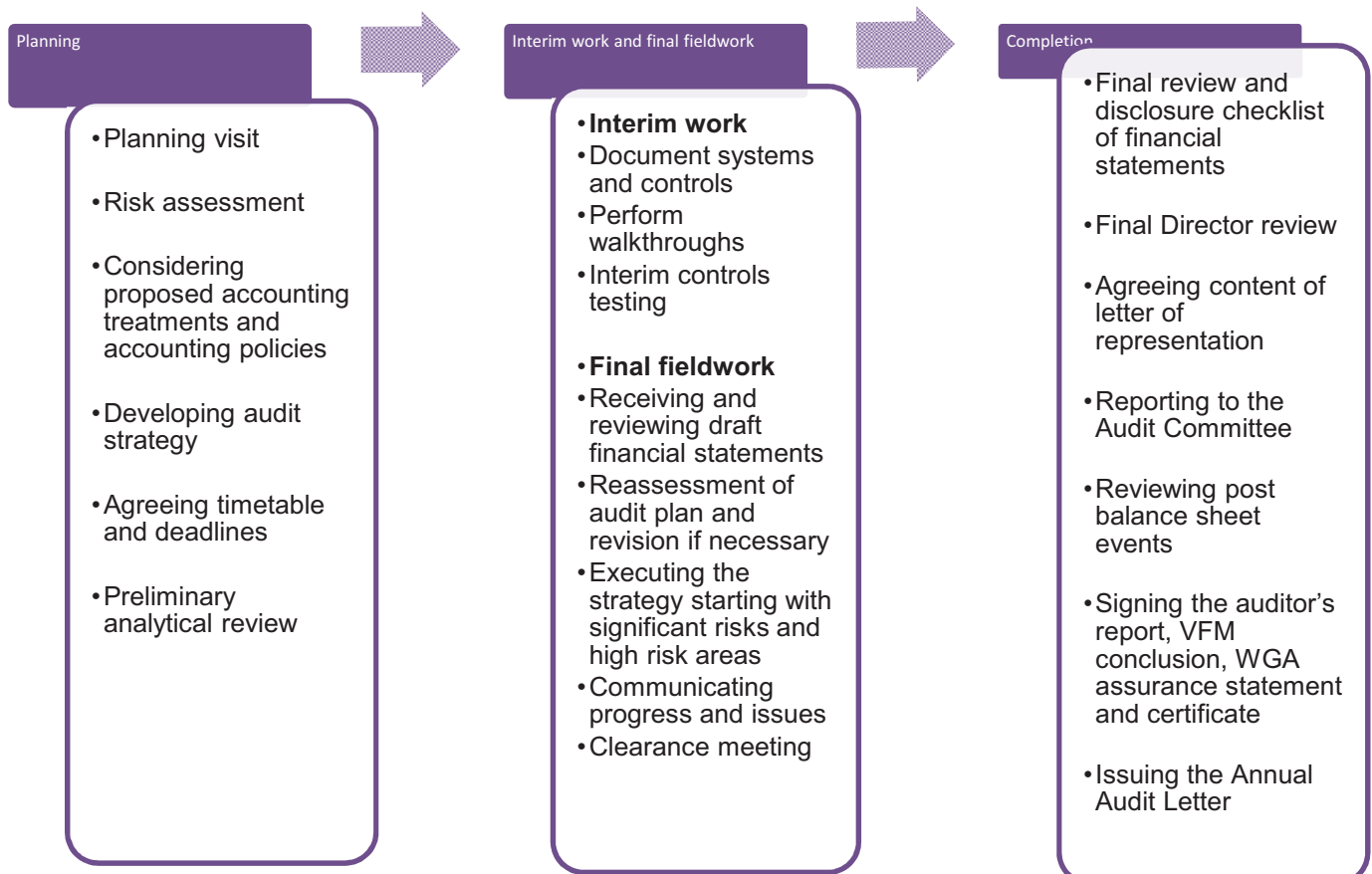
Our audit approach is a risk based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment we develop our audit strategy and design audit procedures in response to this assessment. The work undertaken will include a combination of the following as appropriate:

- Testing of internal controls;
- Substantive analytical procedures; and
- Detailed substantive testing.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Materiality and misstatements are explained in more detail in Appendix B.

The diagram below outlines the procedures we perform at the different stages of the audit.



Group financial statements

Local authorities are required to consider interests in other entities and whether those interests might necessitate the production of group financial statements. The Council has determined that group financial statements are not required. We will revisit your assessment and consider whether the Council's decision not to prepare group accounts remains reasonable for 2013/14.

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Reliance on other auditors

There are material entries in your financial statements where we will seek to place reliance on the work of other auditors.

Items of account	Other auditor	Nature of assurance to obtain from the auditor
Defined benefit liability and associated IAS 19 entries and disclosures relating to the Council's participation in the Durham County Pension Fund.	Mazars LLP is the appointed auditor for the Durham County Pension Fund.	We have agreed a programme of work that aims to provide assurance over the accuracy of source data used by the actuary.

Service organisations

There are material entries in your financial statements where the Council is dependent on an external organisation. We call these entities service organisations. The table below outlines our approach to understanding the services the Council receives from each organisation and the effectiveness of controls in place to reduce the risk of material misstatement in the financial statements.

Nature of services provided and items of account	Name of service organisation	Audit approach to be adopted
Arms Length Management Organisations (ALMOs) responsible for the management of the Council's housing stock	Dale and Valley Homes	Substantive testing of the transactions recorded in the financial statements
	East Durham Homes	

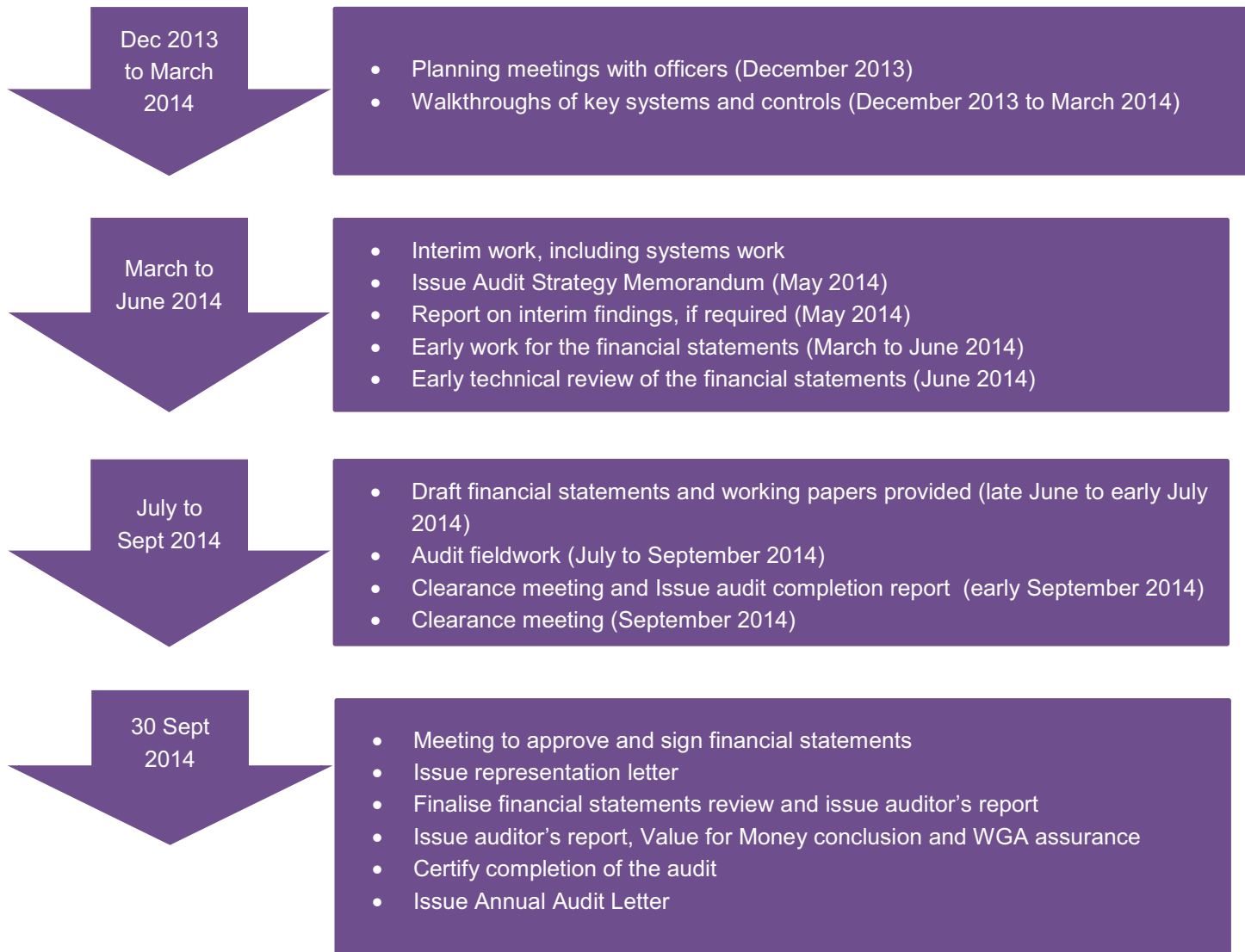
Reliance on experts

We plan to place reliance on the work of the following experts:

Items of account	Management's expert	Our expert
Defined benefit pension liability and associated IAS 19 entries and disclosures.	The Council uses Aon Hewitt Ltd as its expert in respect of the Local Government Pension.	Audit Commission's consulting actuary (PWC).
Property, plant and equipment valuations.	The Council uses an in-house valuer.	Audit Commission's consulting valuer (Gerald Eve).
Disclosure of the fair value of financial instruments.	The Council uses Capita (formerly Sector) to provide estimates of the fair value of some financial instruments.	We do not routinely use our own expert in respect of fair value disclosures.

Timeline

The diagram below sets out the timing of the key phases of our audit work. We will communicate with management throughout the audit process and will ensure significant issues identified are communicated to those charged with governance on a timely basis.



03 Significant risks and key judgement areas

We have performed our planning procedures, including risk assessment, as detailed in section 2. In addition, we met with management as part of the audit planning process to discuss the risks that, in management's opinion, the Council faces and have considered the impact on our audit risk. The risks that we identify as significant for the purpose of our audit are the risks of material misstatement that in our judgement require special audit consideration.

We set out below the significant audit risks and the areas of management judgement identified as a result of these meetings and planning procedures which we will pay particular attention to during our audit in order to reduce the risk of material misstatement in the financial statements.

Audit risks

Management override of controls

Description of the risk

Auditing standards state that management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on *all* audits.

How we will address this risk

We have updated our understanding and evaluation of internal controls procedures as part of our audit planning, including completion of a fraud risk assessment. As part of this, we will seek written assurances from the Audit Committee and management on their controls and processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud.

We will address this risk through performing audit work over:

- journals recorded in the general ledger and other adjustments made in preparation of the financial statements;
- consideration and review of material accounting estimates impacting amounts included in the financial statements;
- consideration and review of any unusual or significant transactions outside the normal course of business; and
- consideration of any other local factors.

Revenue recognition

Description of the risk

International Standards on Auditing include a rebuttable presumption that a risk of fraud in relation the recognition of revenue always exists. We have decided not to rebut this presumption and as such there is a risk that revenue will be recognised in the incorrect accounting period. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.

How we will address this risk

We will address this risk by performing audit work relating to journals recorded in the general ledger and other adjustments which recognise revenue, made in the preparation of the financial statements.

In addition to these procedures, we will increase the level of substantive testing performed on revenue items included in the ledger for the 2013/14 and 2014/15 financial years to confirm they have been accounted for in the correct accounting period.

Expenditure recognition

Description of the risk

In the public sector the risk of fraudulent expenditure recognition is of equal likelihood as the risk of fraudulent revenue recognition. As such there is a risk that expenditure will be recognised in the incorrect accounting period. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.

How we will address this risk

We will address this risk by performing audit work relating to:

- accounting estimates impacting on amounts included in the financial statements; and
- journals recorded in the general ledger and other adjustments which recognise expenditure, made in the preparation of the financial statements.
- In addition to these procedures, we will increase the level of substantive testing performed on expenditure items included in the ledger for the 2013/14 and 2014/15 financial years to confirm they have been accounted for in the correct accounting period.

Pensions entries (IAS 19)

Description of the risk

The financial statements contain material entries in a number of primary statements as well as material disclosure notes in relation to the Council's participation in the Local Government Pension Scheme. These entries arise from complex estimates used by the Council's actuary as well as information provided to the actuary from the Council and the administering body for the Local Government Pension Scheme.

How we will address this risk

We will address this risk by considering the Council's arrangements (including the existence of any relevant controls) for making estimates in relation to pension entries within the financial statements. We will also consider the reasonableness of the actuary's assumptions used in providing the Council with relevant entries in the financial statements through use of our expert commissioned by the Audit Commission.

Key areas of management judgement

Property, Plant and Equipment (including council housing)

Description of the area of judgement

As in previous financial years, the Council will engage its in-house valuer to carry out a valuation of a proportion of the Council's property and land assets. The valuation of property, plant and equipment is a significant estimate that has a material impact on the financial statements.

Our planned audit approach

We plan to carry out a series of procedures in order to gain sufficient assurance that the carrying value of property, plant and equipment is fairly stated and that the valuation programme carried out by the Council complies with the proper accounting practice. These procedures will include:

- an assessment of the valuation results using information provided to us by our valuation expert as commissioned by the Audit Commission;
- substantive testing of individual properties to review the appropriateness of the valuation basis applied by the valuer and the results of that valuation exercise.

04 Value for Money Conclusion

We are required to conclude whether or not there are any matters arising from our value for money work that we need to report.

Our conclusion on your arrangements is based on two criteria, specified by the Audit Commission:

- securing financial resilience – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- challenging how you secure economy, efficiency and effectiveness – focusing on whether you are prioritising your resources within tighter budgets and the need to improve productivity and efficiency.

Identified risks

We have considered the risks that are relevant to our value for money conclusion and have not identified any significant risks that need to be addressed specifically through additional work.

The focus of our audit will be how you are addressing the increasing pressures and challenges over the next three to five years given the reductions in central government support and restrictions on council tax increases. Securing financial resilience into the medium term is one of the Council's top priorities.

05 Your audit team

Below are your audit team and their contact details.

Engagement lead /
Director

- Cameron Waddell
- Email: cameron.waddell@mazars.co.uk
- Tel: 0191 383 6314

Engagement Senior
Manager

- Catherine Banks
- Email: catherine.banks@mazars.co.uk
- Tel: 0191 383 6410

Team Leader (Assistant
Manager)

- James Collins
- Email: james.collins@mazars.co.uk
- Tel: 0191 383 6331

In addition to the above, an independent partner has been appointed for this engagement.

Independent Partner

- Suresh Patel
- Email: suresh.patel@mazars.co.uk
- Tel: 020 7063 4609

06 Fees for audit and other services

Our audit fees for the audit of the financial statements and for any assurance or other services are outlined in the tables below.

Area of work	2013/14 Planned Fee (scale fee)	2012/13 Actual Fee
Opinion and Value for Money conclusion	£333,180	£333,180
Grant certification work	£32,900	£53,200
Total fee	£366,080	£386,380

Non-audit services

At this stage we do not currently plan any non-audit services, and no audit or non-audit services are provided to the Council by Mazars LLP associated entities.

Appendix A – Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement:

- there are no relationships between us and any of our related or subsidiary entities, and
- you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement lead.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell, Engagement Lead.

Prior to the provision of any non-audit services the Engagement Lead will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Appendix B - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

Appendix C – Key communication points

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

- We will present to the Audit Committee the following reports:
- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Annual Audit Letter.

These documents will be discussed with management prior to being presented to the Audit Committee and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our independence;
- Responsibilities for preventing and detecting errors;
- Materiality; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Unadjusted misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix D – Forthcoming accounting and other issues

The 2013/14 CIPFA Code of Practice on Local Authority Accounting (the Code) has made several changes, of which you should be aware. Officers from the Authority's finance function attended workshops that provided full details of the changes in the 2013/14 Code as well as a forward look to potential future accounting changes that may be of relevance to the Authority. If you require detailed information on any of these changes or any other emerging issues, please contact any member of the engagement team.

Forthcoming accounting issues, technical developments or sector specific issues	How this may affect your business
<p>Business rates appeals</p> <p>As a result of the introduction of the business rates retention scheme from 1 April 2013, local authorities are now responsible for meeting the costs of successful rating appeals from local businesses.</p>	<p>It is likely that the Council will recognise a provision in its accounts to recognise the cost of funding future successful rating appeals by local businesses.</p>
<p>Employee benefits (IAS19)</p> <p>The Code includes changes as a result of the adoption of the amended IAS 19 Employee Benefits.</p>	<p>The main potential impacts of the changes are:</p> <ul style="list-style-type: none"> ▪ changes in terminology used for some entries in the Authority's CIES and disclosure notes; ▪ minor changes to the recognition point for termination benefits that may either delay or bring forward the recognition of expenses such as redundancy payments; ▪ significant changes to the format and content of relevant disclosure notes; and ▪ changes to the classification, recognition and measurement of post-employment benefits. <p>Where these changes have a material impact on the accounts, it is likely that the Authority will need to restate its 2012/13 comparative entries in their accounts.</p>
<p>Property, plant and equipment (PPE) valuations</p> <p>The 2013/14 Code aligns its provisions in relation to the periodic revaluation of PPE more closely with the relevant underlying accounting standard IAS 16.</p>	<p>The Council will need to consider whether its current valuation programme for PPE will meet the revised requirements of the Code.</p>

AUDIT COMMITTEE



20 May 2014

External Audit: Audit Strategy Memorandum Durham County Council Pension Fund - Year Ended 31 March 2014

Report of the External Auditor

Purpose of the Report

1. This report details the external auditors (Mazars) Audit Plan which notifies the Council of the work that they are proposing to undertake in respect of the audit of the financial statements and the value for money conclusion for the financial year 2013/2014 in relation to Durham County Council Pension Fund.

Background

2. The Memorandum (attached at Appendix 2) advises on the scope and nature of this work together with the scale of fee for the 2013/2014 audit and the assumptions that help to inform this charge to the Fund.

Audit Plan 2013/14

3. The Audit Plan identifies the specific areas for the planned audit work based upon a risk assessment process. These areas of work are set out in the attached document on Pages 5 to 7 of the document and have been discussed with senior officers.
4. The document also sets out the protocol the auditors will follow in completing their planned work by providing an audit timeline of key phases of their work and also sets out their proposed methods of communication at each stage.

Recommendation

5. The Committee is requested to note the contents of the Audit Strategy Memorandum.

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

The Corporate Director, Resources has been consulted in developing the Audit Strategy.

Procurement

None

Disability Discrimination Act

None

Legal Implications

None

Audit Strategy Memorandum

Durham County Council Pension Fund – year ended 31 March 2014

April 2014



Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Members of the Audit Committee
Durham County Council Pension Fund
County Hall
Durham
DH1 5UE

April 2014

Dear Sirs/Madams

Audit Strategy Memorandum for the year ending 31 March 2014

We are delighted to present our Audit Strategy Memorandum for Durham County Council Pension Fund for the year ending 31 March 2014.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. It is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, and Appendix A summarises our considerations and conclusions on our independence as auditors.

We value two-way communication with yourselves and we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion through which we can also understand your expectations.

This document will be presented at the Audit Committee meeting on 20 May 2014. If you would like to discuss any matters in more detail please do not hesitate to contact me on 0191 383 6314.

Yours faithfully

Cameron Waddell

Mazars LLP

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01 Purpose and background

Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of Durham County Council Pension Fund (the Fund) for the year ending 31 March 2014, and forms the basis for discussion at the Audit Committee meeting on 20 May 2014.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.

We see a clear and open communication between ourselves and you as important in:

- Reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- Sharing information to assist each of us to fulfil our respective responsibilities;
- Providing you with constructive observations arising from the audit process; and
- Ensuring as part of the two-way communication process that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Fund which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

Appendix C outlines the form, timing and content of our communication with you during the course of the audit. Appendix D sets out forthcoming accounting and other issues that will be of interest.

Scope of engagement

We are appointed to perform the external audit of Durham County Council Pension Fund for the year to 31 March 2014. The scope of our engagement is laid out in our engagement letter the Audit Commission's Code of Audit Practice for Local Government bodies.

Responsibilities

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

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

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

- Audit Commission Act 1998; and
- Code of Audit Practice for Local Government bodies.

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The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK and Ireland) we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

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Audit scope

Our audit approach is designed to provide you with an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards of Auditing (UK and Ireland) and in accordance with the Code of Audit Practice for Local Government Bodies. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

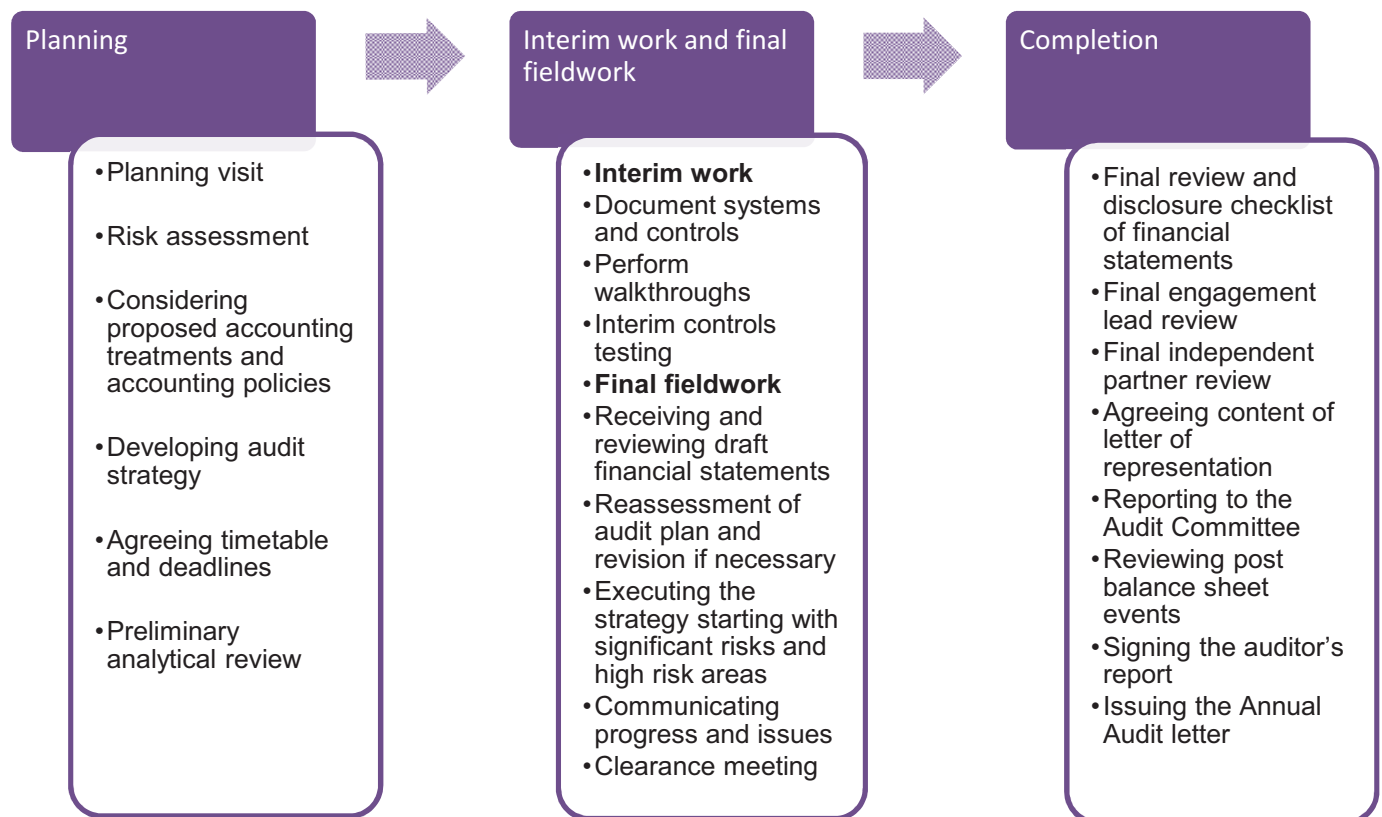
Our audit approach is a risk based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment we develop our audit strategy and design audit procedures in response to this assessment. The work undertaken can include a combination of the following as appropriate:

- testing of internal controls;
- substantive analytical procedures; and
- detailed substantive testing.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Materiality and misstatements are explained in more detail in Appendix B.

The diagram below outlines the procedures we perform at the different stages of the audit.



Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Service organisations

There are material entries in your financial statements where the Council is dependent on an external organisation. We call these entities service organisations. The table below outlines our approach to understanding the services the Authority receives from each organisation and the effectiveness of controls in place to reduce the risk of material misstatement in the financial statements.

Nature of services provided and items of account	Names of service organisations	Audit approach to be adopted
<p>Investment managers provide information for the following areas of the accounts:</p> <ul style="list-style-type: none"> Investment values Purchases and sales Classification of assets into levels 1,2 and 3 for the financial instrument disclosure note. 	<p>AllianceBernstein Barings Asset Management BlackRock CBRE Royal London Asset Management</p>	<p>At the year end fund managers provide confirmation of the purchases and sales in year, and the market value of investments at the year end. We will substantively test transactions undertaken by the service organisations during the year, and the valuations applied to investments at the year end.</p>
<p>Custodian does not provide any information which feeds directly into the financial statements. Their role includes transaction settlement, collection of income, exercising corporate actions and cash management</p>	<p>JP Morgan</p>	<p>At the year end the custodian provides a report showing the holding and market value of investments held. This will be compared to the fund manager market valuation reports to provide assurance on holding and value of investments.</p>

Reliance on experts

We plan to place reliance on the work of the following experts.

Items of account	Management's expert	Our expert
<p>Defined benefit liability and associated IAS 19 entries and disclosures</p>	<p>Aon Hewitt</p>	<p>Audit Commission's consulting actuary (PWC)</p>
<p>Disclosures on the nature and extent of risk arising from financial instruments</p>	<p>River & Mercantile (following merger with P-Solve)</p>	<p>None</p>
<p>Valuation of unquoted investments not traded on active markets</p>	<p>Barings</p>	<p>None</p>
<p>Purchases and sales of investments</p>	<p>AllianceBernstein Barings Asset Management BlackRock CBRE Royal London Asset Management</p>	<p>None</p>

Reliance on other auditors

There are material entries in your financial statements where we will seek to place reliance on the work of other auditors.

We plan to rely on the work of PWC to provide assurance on the accuracy of pension contributions calculated by Darlington Borough Council. This work falls within the Audit Commission's IAS19 Protocol in accordance with ISA (UK&I) 600 and Appendix 2 to Appendix 7 4 of the Audit Commission's Standing Guidance to Auditors in Local Government.

Timeline

The diagram below sets out the timing of the key phases of our audit work. We will communicate with management throughout the audit process and will ensure significant issues identified are communicated to those charged with governance on a timely basis.



03 Significant risks and key judgement areas

We have performed our planning procedures, including risk assessment, as detailed in section 2. In addition, we met with management as part of the audit planning process to discuss the risks that, in management's opinion, the Council faces and have considered the impact on our audit risk. The risks that we identify as significant for the purpose of our audit are the risks of material misstatement that in our judgement require special audit consideration.

We set out below the significant audit risks and the areas of management judgement identified as a result of these meetings and planning procedures which we will pay particular attention to during our audit in order to reduce the risk of material misstatement in the financial statements.

Audit risks

Management override of controls

Description of the risk

Auditing standards state that management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on *all* audits.

How we will address this risk

We have updated our understanding and evaluation of internal controls procedures as part of our audit planning, including completion of a fraud risk assessment. As part of this, we will seek written assurances from the Audit Committee and management on their controls and processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud.

We will address this risk by performing audit work covering:

- Accounting estimates impacting amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Valuation of unquoted investments for which a market price is not readily available

Description of the risk

The fair value of investments in the Net Assets Statement includes unquoted investments, the fair value of which totalled £1,088 million (52.2% of total assets) at 31 March 2013, of which £301.2 million were regularly traded. £787 million of these investments are not quoted in an active market for securities and unlisted investments. The values used in the accounts are those provided by fund managers mostly based on Net Asset Value statements, although in some cases based on forward looking estimates and judgements involving many factors. This results in an increased risk of material misstatement.

How we will address this risk

We will address this risk by undertaking the following audit procedures:

- evaluate management controls over the valuation process;
- agree holdings from fund manager reports to the global custodian's report; and
- agree the price to independent evidence.

04 Your audit team

Below are your audit team and their contact details.

Engagement lead /
Director

- Cameron Waddell
- cameron.waddell@mazars.co.uk
- 0191 383 6314

Engagement Senior
Manager

- Catherine Banks
- catherine.banks@mazars.co.uk
- 0191 383 6410

Team leader
(Assistant Manager)

- Sharon Liddle
- sharon.liddle@mazars.co.uk
- 0191 383 6410

In addition, an independent partner has been appointed for this engagement.

Independent Partner

- Alistair Fraser
- Email: alistair.fraser@mazars.co.uk
- 020 7063 4272

05 Fees for audit and other services

Audit fees

As communicated to you in our letter dated 18 September 2013, the Audit Commission has set a scale fee for your audit and our proposed fee is in line with this. The Audit Commission scale fee and our proposed fee for the audit of your financial statements is shown below.

Area of work	2013/14 Proposed Fee	2013/14 Scale Fee	2012/13 Actual Fee
Code audit work	£25,918	£25,918	£25,919

Non-audit services

We do not currently plan any non-audit services, and no audit or non-audit services are currently provided to the by Mazars LLP associated entities.

Appendix A – Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement:

- there are no relationships between us and any of our related or subsidiary entities, and
- you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement lead.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with the Engagement Lead.

Prior to the provision of any non-audit services the Engagement Lead will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No principal threats to our independence and associated safeguards have been identified.

Appendix B - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

Appendix C – Key communication points

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present to the Audit Committee the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Annual Audit Letter.

These documents will be discussed with management prior to being presented to the Audit Committee and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our independence;
- Responsibilities for preventing and detecting errors;
- Materiality; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Unadjusted misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix D – Forthcoming accounting and other issues

The 2013/14 CIPFA Code of Practice on Local Authority Accounting (the Code) has made several changes, of which you should be aware. Officers from the Fund's finance function have been invited to workshops that will provide full details of the changes in the 2013/14 Code as well as a forward look to potential future accounting changes that may be of relevance to the Fund. If you require detailed information on any of these changes or any other emerging issues, please contact any member of the engagement team.

There are no forthcoming accounting or other issues to report at this stage.

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Audit Committee

20 May 2014



**Consideration of 'Going Concern Status'
for the Statement of Accounts for the year
ended 31 March 2014**

Don McLure, Corporate Director Resources

Purpose of the Report

1. Each year, Durham County Council assesses whether it should be considered as a 'going concern' organisation, and whether the accounts should be prepared on that basis. This report considers the County Council's status as a going concern and asks Members to agree this.

Background

2. The general principles adopted in compiling the Statement of Accounts are in accordance with the 'Code of Practice on Local Authority Accounting 2013/14' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code defines proper accounting practices for local authorities in England, Wales, Scotland and Northern Ireland.
3. The Code requires that a local authority's Statement of Accounts is prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the authority will continue in operational existence for the foreseeable future. This means that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to curtail significantly the scale of the operation.
4. An inability to apply the going concern concept can have a fundamental impact on the financial statements.
5. However, it is highly unusual that a local authority would have a going concern problem. There may be cases where part of an authority's operations cease to be viable or affordable. However, this will not give rise to a going concern issue for the authority; the impact would be restricted to only that part of the operation.
6. Transfers of services under combinations of public sector bodies similarly do not negate the presumption of going concern

Key Issues

7. The assumption that a local authority's services will continue to operate for the foreseeable future is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are therefore that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.
8. Local Authorities derive their powers from statute and their financing and accounting framework is closely monitored by primary and secondary legislation. It is a fundamental concept of local authority accounting that wherever accounting principles and legislative requirements are in conflict the legislative requirements apply.
9. An organisation must consider its financial performance to assess its ability to continue as a going concern. This assessment should cover historical, current and future performance.

Historical Position

10. The assets and liabilities of the seven former District Councils were transferred to the new Unitary County Council on 1 April 2009. The following table shows the Net Assets of the Council at each year end up to 31 March 2013:

Year ended 31 March	Net Assets £m
2009	1,240.742
2010	900,094
2011	856,994
2012	571,779
2013	440,362

11. External Audit also provide a 'Value For Money' conclusion at each year end which gives their opinion on the Council in two areas:
 - *Securing economy, efficiency and effectiveness* - The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness, by focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
 - *Financial Resilience* - The organisation has proper arrangements in place to secure financial resilience by focusing on whether the Council is prioritising its resources within tighter budgets and the need to improve productivity and efficiency.

12. In their last Annual Completion Statement for 2012/13, External Audit stated, as evidence of securing economy, efficiency and effectiveness:

“The Council has, like other councils, faced significant cuts in funding plus other changes in how it works, including the localisation of business rates, the local council tax benefit scheme and the transfer of public health responsibilities from 1 April 2013. Other significant changes are likely in the near future.

The Council has risen to the challenge well despite staff restructures and on-going retirements. The forward planning which has underpinned the MTFP process to date has been extremely effective and has enabled the Council to maintain its financial strength whilst still investing in key front line services and priorities including the capital programme. Effective forward planning and robust assurance frameworks have ensured that the Council has been successful in delivering the necessary savings required to date. Key issues the Council has recognised for the future include continued work on a strategic plan for the achievement of the savings required for 2014/15 to 2015/16 and beyond.”

13. External Audit further stated, as evidence of financial resilience:

“The Council’s track record in delivering the savings required in recent years has been successful. The arrangements underpinning this track record have been maintained in 2012/13, with savings targets being met and £26.6m of savings being achieved. The latest Medium Term Financial Plan update sets out how the Council intends to achieve the savings required over the next few years. By 31 March 2013, £93m of savings have been delivered for 2011/12 and 2012/13, with excellent progress being made in realising the £20.9m savings target in 2013/14. Total savings achieved will be £113.9m by the end of 2013/14, but estimated additional savings of £25.9m are going to be required for 2014/15 and a further £62.7m for 2015/16 to 2016/17 to reach the revised £202m total savings target.

The Council regularly reviews its level of reserves. As at 31 March 2013, the Council had total usable reserves of £139.8m. This comprised £105.9m of earmarked reserves of which £19.4m relates to schools and £1.1m for the Housing Revenue account (HRA). The majority of the remaining reserves relate to General fund balances of £24.4m and HRA balances of £7.2m.

The level of general fund balances is considered prudent in the financially challenging austere times the Council is facing over the coming years. The years 2014/15 onwards present an even greater challenge as savings and efficiencies become more difficult to achieve. The Government announced in the March 2013 Budget that local authorities will face an extra 1% budget cut in 2014/15 and an additional 10% funding cut for local authorities in 2015/16. It is now

expected that cuts will continue until at least 2017/18 with a possibility that the cuts could continue until 2020.

Key areas of focus in maintaining on-going financial resilience include:

- consistent and clear reporting to Members of the cumulative financial position (revenue and capital) and progress in achieving savings throughout the year; and
- maintaining the rigorous budgetary control of previous periods, particularly as staff rationalisations continue and savings become harder to achieve.”

Current Position

14. The Council holds general reserves of £24.410m at 31 March 2013 and reserves earmarked for specific future purposes of £105.874m.
15. The Net Assets of the Council at 31 March 2013 amounted to £440.362m, a decrease of £131.714m, which is mainly due to the increase in the Pensions Liability, for which statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.
16. Current forecasts of the likely position as at 31 March 2014 were reported to Cabinet in March 2014. At that time it was anticipated that the Council will hold general reserves of £26.821m and reserves earmarked for specific future purposes, including those held for schools will be £134.114m.
17. The Housing Revenue Account (HRA) forms part of the Council’s main accounting statements. General reserves held by the HRA as at 31 March 2013 amounted to £7.155m, and those held for specific purposes were £1.150m.

Future Plans

18. The County Council approved its budget for 2014/15 and Medium Term Financial Plan to 2017/18 in February 2014.

Medium Term Financial Plan (MTFP) – 2014/15 to 2017/18

19. The council has faced unprecedented reductions in Government grants since the 2010 Comprehensive Spending Review (CSR) when the expectation for local government was a 28% cut in Government grant for the period 2011/12 to 2014/15. Since that time the majority of the Chancellor of the Exchequer’s March Budget and Autumn Statement announcements have included additional cuts to local government funding culminating in the 2015/16 Spending Round announcement of June 2013 which detailed a further 10% funding reduction for local

government in 2015/16. It is now forecast that Government grant to local government will have reduced by over 40% by the end of 2015/16.

20. The Chancellor of the Exchequer also announced the need for a further £25bn of public expenditure reductions for 2016/17 and 2017/18. With £12bn expected to be found from Welfare budgets, £13bn will therefore need to be found from Government Departments. It is expected that Health, Education and Aid budgets will continue to be protected resulting in increased pressure upon the remaining Government Departments. It is therefore forecast that the Government grant reductions for local government in 2016/17 and 2017/18 will be similar in magnitude to those of 2014/15 and 2015/16.
21. It is apparent therefore that the financial landscape for local authorities will remain extremely challenging until at least 2017/18. The challenges faced are exacerbated in Durham for a range of reasons:
 - (i) Government grant reductions are not evenly distributed across the country as evidenced by the Government's Spending Power figures. For 2014/15 and 2015/16 the cumulative Spending Power reduction for the council is 6.3% and for the twelve North East councils 7.5%. This compares with a national average reduction of 4.7%, whilst many affluent areas are seeing an actual increase in Spending Power e.g. Surrey +3% and Buckinghamshire +2.5%;
 - (ii) Government funding is now inextricably linked to the performance of the local economy via Business Rate Retention and Local Council Tax Support Schemes. The link to a 'Needs Assessment' is no longer the key determinant of local authority funding. The current economic recovery is centred very much around the South and South East which is benefitting local authorities in those areas;
 - (iii) demand for services from local authorities is increasing with the impact of Welfare Reforms continuing to have an impact. Deprived areas are particularly impacted and this issue will continue to be a high priority as the Government plans to remove an additional £12bn from welfare budgets during 2016/17 and 2017/18.
22. The council's final finance settlement for 2014/15 was announced by the Government on 5 February 2014. The council's Settlement Funding Assessment (SFA) for 2014/15 is £252.085m which is £26.285m less than the 2013/14 SFA. Funding is forecast to reduce by a further £36.916m in 2015/16.

23. The main issues to note are as follows:
- (i) RSG will reduce by 41% between 2013/14 and 2015/16;
 - (ii) these reductions in RSG are partially offset by the inflationary increases (RPI) in Business Rates and Business Rates Top Up Grant;
 - (iii) overall, the SFA will reduce by 22.7% between 2013/14 and 2015/16.
24. Overall as at February 2014, it was forecast that the council will need to save £224m over the 2011/12 to 2016/17 period. A sum of £113.9m was saved by 31 March 2014 resulting in a £110.1m savings requirement for the three year period 2014/15 to 2016/17. The 2014/15 budget required savings of £23m to be delivered to achieve a net budget requirement of £438.765m.
25. The following assumptions have been utilised in developing the MTFP Model:
- (i) Government grant reductions for the MTFP period have been developed utilising information from the December 2013 Autumn Statement and the Local Government Finance Settlement which included provisional figures for 2015/16. The estimated grant reductions for 2015/16 and 2016/17 are as follows:

Forecast Government Grant Reduction in 2015/16 and 2016/17

Year	Basis	Amount £m
2015/16	Net Reduction in all Government Funding	40.315
2016/17	Net Reduction in all Government Funding	30.000

- (ii) forecast Pay and Price Inflation levels have taken into account the Government's 1% public sector pay cap assumptions for 2014/15 and 2015/16. They have also taken into account the reducing level of price inflation in the economy at the moment with the price inflation allowance being retained at 1.5% for both 2015/16 and 2016/17:

Pay and Price Inflation Assumptions

Year	Pay Inflation	Price Inflation
2014/15	1.0%	1.0%
2015/16	1.0%	1.5%
2016/17	1.5%	1.5%

- (iii) continuing budget pressures in relation to Employer Pension Contributions, Concessionary Fares, Energy Prices and CAS Demographic and Hyper-Inflation in relation to adult social care;
- (iv) costs associated with the Council Housing Stock Transfer if the bid is successful and the tenants vote in favour of stock transfer;
- (v) increased Employer National Insurance costs when the Government's national 'Single Pension' is introduced in 2016/17;
- (vi) additional costs associated with the implementation of Single Status. These additional costs are presently being met from the Equal Pay Reserve which is forecasted to run out in 2015/16;
- (vii) continuing need to support both the current and additional capital programme;
- (viii) Council Tax increases are assumed to be 2% across the MTFP period.

26. When the budget was set in February 2014, detailed savings plans needed to be developed to achieve the following savings targets for 2015/16 and 2016/17.

Savings to be Identified

Year	Amount
	£m
2015/16	39.321
2016/17	47.712

27. Service Groupings are currently developing plans for £22.073m of additional savings for 2015/16 which will be brought before Cabinet in the early summer of 2014. Additional work will continue to identify savings for the forecasted budget gap for 2015/16 and 2016/17.

28. A balanced MTFP Model has been developed after taking into account the assumptions above. The MTFP model is summarised in the following table.

MTFP Summary Position

	2014/15	2015/16	2016/17	TOTAL
	£m	£m	£m	£m
Reduction in Resource Base	14.871	28.164	26.578	69.613
Budget Pressures	8.154	11.157	21.134	40.445
Savings required	23.025	39.321	47.712	110.058
Savings to be identified	-	39.321	47.712	87.033

29. The strategy the council has deployed to date has been to seek savings from management, support services, efficiencies and increase income from fees and charges to minimise the impact of reductions on frontline services.
30. Throughout the period 2011/12 to 2014/15, the amount of savings required has risen from £123m to £224m up to 2017. It is clear therefore that it will become increasingly difficult to protect frontline services.
31. To date the council has implemented the agreed strategy very effectively.
- £113.9m savings delivered by the end of 2013/14.
 - savings have been delivered on time, or in some areas ahead of time. This is critical since slippage would mean that the council would have to deliver higher savings over time;
 - 64% of savings to date have been from non-frontline services, exceeding the council's initial aspiration that at least half would be from non-frontline services;
 - by the midpoint of 2013/14, the number of employees earning over £40k had been reduced by 29%. This has significantly reduced management costs.
 - proportionally more than three times as many manager posts have been removed than frontline staff;
 - whilst income from fees and charges has been increased, this has not taken the council to a position of having the highest levels of fees and charges in the region or nationally which is important given the socio-economic make-up of the county;
 - 1,520 posts have been removed to date which is in line with the original projections of 1,950 posts by the end of 2014/15. Management of change policies and HR support have ensured that this degree of change has been managed effectively.
32. The importance of delivering savings early if practicable cannot be over emphasised. The generation of reserves in the form of cash limits has been essential in ensuring delivery of the savings, enabling a 'smoothing' of implementation from year to year.
33. In general, the fact that the council has been accurate in forecasting the level of savings required, has developed strong plans and robustly managed implementation, including high volumes of consultation and communication, has put us in as strong a position as possible to meet the continued and enhanced challenges.

34. It is clear that austerity will continue over the lifetime of the three years of the current MTFP up to 31 March 2016. Where the savings targets were declining year on year from the huge reduction of £66m in 2011/12, the council now faces several years where the targets are growing year on year from 2014/15. Obviously, the fact that each year's reduction is on top of those of previous years leading to a cumulative £224m since 2011/12 up to 2016/17 means that the council continues to face a very considerable financial challenge.
35. In addition, local government generally is facing more uncertainty about future funding and absorbing more risks from central Government. Increased risk arises from several sources:
- under the Local Council Tax Reduction Scheme, national risk arising from any increased numbers of benefits claimants has been transferred in the case of council tax support to local authorities since 2013/14. The risk is greater for authorities like Durham that serve deprived areas and have weaker economic performance than the national average;
 - Business Rates Retention was introduced in 2013/14 to incentivise local authorities to focus on economic regeneration. This has always been the top priority for the council. Unfortunately, the changes again shift risk once managed nationally to local authorities if there is a downturn in the local economy and local business rate yield reduces;
 - Welfare Reform carries increased financial risk to the council in areas such as the Benefits Services, homelessness and housing. Similarly council tax may become more difficult to collect, creating increased financial pressure;
 - ongoing Council Tax capping restrictions – the MTFP is predicated on an annual 2% Council Tax increase; any Government imposed percentage reduction in this cap will create a pressure of circa £800k per 0.5% reduction;
 - forecasts for public health and social care allocations are not known for the full period covered by MTFP4. Similarly, it is not known whether the national health formula review will have a knock on effect on health and social care budgets. The future of the Dilnot review on the funding of adult social care is not yet clear but will have financial implications for one of the council's largest budgets;
 - normal risks such as price and pay inflation beyond MTFP forecasts obviously still apply.

36. Since clarity is expected to emerge throughout 2015, outline savings plans have yet to be fully developed beyond 2014/15. Planning work for MTFP5 for 2015/16 to 2017/18 began in April 2014.
37. The MTFP for 2013/14 to 2016/17 agreed by council on 20 February 2013 identified a range of forecast base budget pressures for 2014/15. Throughout the intervening period Cabinet has approved updated MTFP reports which have reviewed and updated estimates. The table below details the final forecasted position on the 2014/15 Base Budget pressures:

2014/15 Base Budget Pressures

Pressure	Amount
	£m
Carbon Reduction – Carbon Tax	0.370
Expiry of LGR Disturbance Allowances	(0.220)
Pay Inflation – 1%	1.950
Price Inflation – 1%	1.475
Corporate Risk Contingency Budget	0.093
Reduced Employer Pension Contributions	(0.700)
Energy Price Increases	0.200
Insurance Claims	1.000
Housing Benefit Admin Grant Reduction	0.500
Reduction in Community Buildings Running Costs	(0.180)
Delay in Realising Leisure/Culture Saving	0.616
CAS Demographic and Hyper Inflationary Pressures	1.000
Reduction in Borrowing Costs for Current Capital Programme	(0.250)
TOTAL	5.854

Consultation and Additional Investment

38. The council has a strong track record of involving the public in setting its budget. A major prioritisation exercise was conducted in late 2010 which identified the areas of spend that the public most wanted to see protected from cuts and those which the public prioritised for cuts. This strongly influenced the MTFP for the period 2011 to the present.
39. Recognising that Participatory Budgeting (PB) events attract a wide range of people including families, children and young people as well as older people, the council decided to use PB events to consult on the next phase of savings. Whilst the first public consultation on the budget in 2010 covered the original £123m savings to be delivered over the four years to March 2015, the council now faces further substantial savings to March 2017. It was therefore decided to ask the public their priorities once again.
40. The 2013 consultation built on the council's experience to ensure it developed a better understanding of residents' views about the financial pressures to be faces over the coming years. The council's

task was to create and implement an engagement process that reflected the debates and the difficult decisions that need to be taken by this council.

41. Because of the scale of savings required and the complex range of services the council delivers, the primary means of consultation was designed to comprise deliberative focus groups held at the 14 AAP PB events.
42. In total almost 1,300 of forum event attendees also took part in one of the 270 budget consultation sessions that took place there.
43. Since not everyone had time to attend specific local events, there was also the opportunity for residents to take part through either paper based, or an on-line self-completion questionnaire. Paper based surveys were handed out to people attending the forum events and resulted in 2,074 responses. The online questionnaire was promoted through the council's consultation webpages and received 517 responses.
44. The council noted the consistency of response from MTFP consultation responses in relation to the winter maintenance budget. With this in mind the council reviewed the winter maintenance budget, especially in light of the significant expenditure incurred over the last two winters. To ensure sufficient funding is available to finance a 'normal' winter's maintenance cost, additional investment of £1.3m was required.
45. The council continues to invest in infrastructure. An additional £2m of revenue will be provided in the 2014/15 budget to finance Prudential Borrowing to continue the support for new projects within the capital programme. A key priority of the capital programme is to stimulate regeneration and job creation within the local economy.

Savings

46. The savings plans for each Service Grouping for 2014/15 to 2016/17 are detailed in the following table. Service Groupings have received savings targets of £22.073m for 2015/16 and savings plans are being worked up and will be reported to Cabinet during the development of MTFP5 for 2015/16 to 2017/18.

Service Grouping Savings Plan 2014/15 – 2016/17

Service Grouping	2014/15	2015/16	2016/17	TOTAL
	£m	£m	£m	£m
ACE	0.410	0.606	-	1.016
CAS	12.430	13.966	-	26.396
NS	3.767	5.581	-	9.348
RED	1.092	1.280	-	2.373
RES	2.893	1.574	-	4.467
Other	2.434	-	-	2.434
Savings to be identified	-	16.315	47.712	64.108
TOTAL	23.025	39.321	47.712	110.058

47. In addition to ongoing work in relation to the 2015/16 savings, work will also begin and continue to be worked up over the MTFP process to identify the required savings for 2016/17.
48. The revised forecast saving for the period 2011/12 to 2016/17 is detailed below:

Total Savings 2011/12 to 2016/17

Period	Saving
	£m
2011/12 to 2013/14	113.9
2014/15 to 2016/17	110.1
TOTAL	224.0

2014/15 Net Budget Requirement

49. After taking into account base budget pressures, additional investment and savings targets, the council's recommended Council Net Budget Requirement for 2014/15 is £438.765m. The financing of the Net Budget Requirement is detailed below:

Financing of the 2014/15 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	138.710
Business Rates	52.342
Business Rates – Top Up Grant	59.357
Council Tax	168.844
New Homes Bonus	6.784
New Homes Bonus Reimbursement	0.390
Education Services Grant	7.237
Section 31 – Small Business Rate Relief	2.194
Section 31 – Settlement Funding Adjustment	1.204
Section 31 – Empty Property and Retail Relief	1.703
TOTAL	438.765

Capital Funding

50. The need to invest in Capital Infrastructure during the economic downturn is seen as an essential means of regenerating the local economy and for job creation. Additional investment will maintain and improve infrastructure across the County, help retain existing jobs, create new jobs and ensure the performance of key council services are maintained and improved.
51. After considering all relevant factors, the Capital Member Officer Working Group (MOWG) have recommended that the following value of schemes be approved for inclusion in the Capital Programme. The additional 2014/15 schemes can be afforded by utilising unapplied capital grants and utilising the 2014/15 prudential borrowing allowance not already committed in MTFP for 2013/14. The new 2015/16 schemes can be afforded by utilising capital grants, capital receipts and prudential borrowing.
52. The new schemes will ensure the council continues to invest in priority projects and essential maintenance programmes.
53. The 2014/15 to 2016/17 capital budget will be as follows:

Capital Programme 2014/15 to 2016/17

Service Grouping	2014/15	2015/16	2016/17	TOTAL
	£m	£m	£m	£m
Assistant Chief Executives	3.471	3.255	-	6.726
Children and Adult Services	56.839	20.890	0.087	77.816
Neighbourhoods	38.840	23.008	11.429	73.277
Regeneration and Economic Development.	56.269	22.806	0.263	79.338
Resources	10.873	10.456	2.604	23.933
TOTAL	166.292	80.415	14.383	261.090
Financed by:				
Grants and Contributions	69.055	28.342	1.515	98.912
Revenue and Reserves	4.993	-	-	4.993
Capital Receipts	10.000	-	-	10.000
Capital Receipts - BSF/Schools	10.474	11.600	-	22.074
Borrowing	71.770	40.473	12.868	125.111
TOTAL	166.292	80.415	14.383	261.090

54. The council has been able to set a balanced budget for 2014/15 and has a plan in place to continue to deliver local services up to 2018. Based on this, it is clear that the County Council is a going concern.

Financial Reserves

55. Reserves are held:
- (i) as a working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserve.
 - (ii) as a contingency to cushion the impact of any unexpected events or emergencies e.g. flooding and other exceptional winter weather – this also forms part of General Reserves;
 - (iii) as a means of building up funds, earmarked reserves to meet known or predicted future liabilities.
56. The council's current reserves policy is to:
- (i) set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should continue to be authorised to establish such reserves as required, to review them for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Member for Finance and to Cabinet;
 - (ii) Aim to maintain General Reserves in the medium term of between 5% and 7.5% of the Net Budget Requirement which in cash terms equates between £22m and £33m.
57. Each earmarked reserve, with the exception of the Schools' reserve, is reviewed on an annual basis. The Schools' reserve is the responsibility of individual schools with balances at the year end which make up the total reserve.
58. A Local Authority Accounting Panel Bulletin published in November 2008 (LAAP77) makes a number of recommendations relating to the determination and the adequacy of Local Authority Reserves. The guidance contained in the Bulletin "represents good financial management and should be followed as a matter of course".
59. This bulletin highlights a range of factors, in addition to cash flow requirements that councils should consider. These include the treatment of inflation, the treatment of demand led pressures, efficiency savings, partnerships and the general financial climate, including the impact on investment income. The bulletin also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term option. If Members were to choose to use general reserves as part of this budget process appropriate action would need to be factored into the MTFP to ensure that this is addressed over time so that the base budget is not reliant on a continued contribution from general reserves.

60. The forecast balance on all reserves are reported to Cabinet every quarter as part of the Forecast of Outturn reports. An adjustment to Reserves was reported to Cabinet during 2013/14 in relation to the MTFP Redundancy and ER/VR Reserve. In addition a range of reserves are being utilised to support the MTFP 2014/15 to 2016/17. These are detailed below:

- (i) **MTFP Redundancy and ER/VR Reserve** – this reserve was originally created in 2010 with a balance of £26.9m with the aim of covering the cost of all ER/VRs up to 31 March 2015. The forecast balance at the end of 2013/14 on this reserve is £2.558m. Although detailed plans are yet to be developed across the MTFP it was deemed prudent to replenish this reserve to provide confidence in the authority’s ability to finance future severance costs. Cabinet agreed on 18 December 2013 to transfer £15m into this reserve. Having this reserve in place will be a major factor in managing the savings realisation process effectively across the MTFP period. This reserve will continue to be closely monitored.

Reserve Transfers to Replenish MTFP Redundancy and ER/VR Reserve

Reserve	Amount
	£m
Service Grouping Cash Limits	10.000
General Reserve	5.000
TOTAL	15.000

- (ii) **Adult Demographic Reserve** – this reserve continues to be utilised to delay the impact of cost pressures, thus delaying the need to achieve additional savings. A sum of £3.15m is to be utilised in 2014/15.
- (iii) **Equal Pay Reserve** – the cost of successfully implementing Single Status in order to put in place a new pay and grading structure that satisfies all equal pay legislation has proven to be greater than the £6.5m budget that was made available. The Equal Pay Reserve is being utilised to delay the impact of this cost pressure thus delaying the need to achieve additional savings in the short term. A sum of £3.475m is utilised in 2014/15.
- (iv) **Cash Limit Reserves** – Service Groupings continue to utilise Cash Limit Reserves to enable reprofiling of when MTFP savings are realised. A sum of £2.617m is to be utilised in 2014/15.

- (v) **General Reserves** – the implementation of Garden Waste charging is to be introduced from 1 April 2015 rather than 1 April 2014, General Reserves of £0.933m will be utilised in 2014/15 on a ‘one off’ basis to finance this delay.
- (vi) **Procurement Reserve** – procurement savings of £0.640m have been identified to support the MTFP. Originally it was expected that these would be achieved in 2014/15. However, it is now envisaged that £0.104m of these identified savings will not be delivered until 2015/16 and the Procurement Reserve will cover the cost of this shortfall on a ‘one off basis’ in 2014/15.
- (vii) **Other Earmarked Reserves** – Service Groupings have plans to expend £1.409m of other Earmarked Reserves in line with each Earmarked Reserves protocol.

61. The table below details the forecast Reserves position as at 31 March 2014. School Reserves are not included below as they can only be utilised for schools.

Forecast Reserves Position

Reserves	Quarter 2	ER/VR	MTFP (4) Support	Planned Expenditure	Revised Balance
	£m	£m	£m	£m	£m
General Reserve	29.314	(5.000)	(0.933)	-	23.381
Cash Limit	31.151	(10.000)	(2.437)	(0.180)	18.534
Earmarked Reserves	54.768	15.000	(6.732)	(1.409)	61.627
TOTAL	115.233	-	(10.102)	(1.589)	103.542

62. Based on the level of reserves held, the County Council has demonstrated robust financial management that underpins its status as a going concern.

Risk

63. The council had previously recognised that a wide range of financial risks needed to be managed and mitigated across the medium term. The risks faced are exacerbated by the localism of business rates and the localisation of council tax support. All risks will be assessed continually throughout the MTFP period. Some of the keys risks identified include:

- (i) ensure the achievement of a balanced budget and financial position across the MTFP period;
- (ii) ensure savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and staff;

- (iii) Government funding reductions are based upon the 2015/16 indicative figures included in the Local Government Finance Settlement with the 2016/17 assumptions based upon Government funding cuts continuing in the future in line with recent years. This level of reduction will be required to achieve the £25bn of public expenditure reductions in 2016/17 and 2017/18 recently detailed by the Chancellor of the Exchequer.
- (iv) the localisation of council tax support passes the risk for any increase in council tax benefit claimants onto the council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers.
- (v) the council retains 49% of all business rates collected locally but is also responsible for settling all rating appeals including any liability prior to 31 March 2013. Increasing business rate reliefs and appeals settlements continue to make this income stream highly volatile and will require close monitoring to fully understand the implications upon the MTFP;
- (vi) the MTFP model builds in estimates of pay and price inflation. Although price inflation levels are reducing, there could be a significant impact if the Low Pay Commission agrees to large increases in the Minimum Wage. Many council contractors would be likely to request above inflation contract price increases if the Minimum Wage increased at a level above inflation;
- (vii) the Government has indicated that consideration is being given to introducing revised methodologies for apportioning health funding across the country. Whilst this could impact significantly upon Clinical Commissioning Groups (CCGs), there could also be a detrimental impact upon the council due to the significant health income streams but particularly the Public Health Grant.

64. Based on the above there are no risks which would indicate that the County Council is not a going concern.

Conclusion

65. When approving the accounts, the Audit Committee members being those charged with governance for the County Council will need to consider which of the following three basic scenarios is the most appropriate:
- the body is clearly a going concern and it is appropriate for the accounts to be prepared on the going concern basis;

- the body is a going concern but there are uncertainties regarding future issues which should be disclosed in the accounts to ensure the true and fair view;
 - the body is not a going concern and the accounts will need to be prepared on an appropriate alternative basis.
66. Based on the assessment undertaken, in my view:
- the County Council has a history of stable finance and ready access to financial resources in the future,
 - there are no significant financial, operating or other risks that would jeopardise the County Council's continuing operation.
67. Therefore the County Council is a going concern and it is appropriate for the Statement of Accounts to be prepared on that basis.

Recommendation

68. It is recommended that the Council should be considered as a going concern and that the Statement of Accounts should be prepared on that basis.

Background papers

- (a) County Council – 26 February 2014 – General Fund Medium Term Financial Plan, 2014/15 – 2016/17 and Revenue and Capital Budget 2014/15
- (b) County Council – 26 February 2014 – Budget 2014/15. Report under Section 25 of Local Government Act 2003
- (c) Cabinet - 19 March 2013 - Forecast of Revenue and Capital Outturn 2013/14 for General Fund and Housing Revenue Account – Period to 31 December 2013
- (d) Annual Completion Report – 2012/13 – Durham County Council

Contact: Hilary Appleton Tel: 03000 266239

Appendix 1: Implications

Finance -

The report considers the County Council as a 'going concern'.

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

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Audit Committee

20 May 2014

Strategic Risk Management Progress Report for the Quarter period January to March 2014



Report of Corporate Management Team

Don McLure, Corporate Director Resources

Purpose of the Report

1. The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period January to March 2014.

Background

2. Each Corporate Director has a designated Service Risk Manager to lead on risk management at a Service Grouping level. In addition, the Council has designated the Cabinet Portfolio Holder for Corporate Services, and the Corporate Director, Resources as Member and Officer Risk Champions respectively. Collectively, they meet together with the Risk and Governance Manager as a Corporate Risk Management Group (CRMG). A summary setting out how the Council deals with the risk management framework is included 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 March 2014, there were 31 strategic risks, a reduction of two since 31 December 2013. In summary, the key risks to the Council are:
 - If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.
 - Ongoing Government funding cuts, which now extend to at least 2017/18, will continue to have an increasing major impact on all Council services.
 - Potential restitution of search fees going back to 2005.
 - The Council could suffer significant adverse service delivery and financial impact if there are delays in the procurement and implementation of the new banking contract.

- If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data.

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 2014.
6. Management has identified and assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.

Recommendations and reasons

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

Contact: David Marshall Tel: 03000 269648

Appendix 1: Implications

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

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

Risk – None specific in this report

Equality and Diversity/Public Sector Equality Duty - None

Accommodation - None

Crime and disorder - None

Human rights - None

Consultation - None

Procurement – None.

Disability issues – None.

Legal Implications – None.

Appendix 2: How the Council manages the Risk Management Framework

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

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

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

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

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

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: Progress on the management of the Council's 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 March 2014, there were 31 strategic risks, a reduction of two since 31 December 2013.

The following matrix categorises the strategic risks according to their Net risk evaluation as at 31 March 2014. To highlight changes in each category during the last quarter, the number of risks as at 31 December 2013 is shown in brackets.

Overall number of Strategic Risks as at 31 March 2014

Impact					
Critical	2 (2)	1 (1)	3 (2)		1 (1)
Major		3 (3)	4 (4)	0 (1)	
Moderate			8 (9)	6 (4)	1 (1)
Minor				1 (2)	1 (2)
Insignificant					0 (1)
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

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

1 New Risks

Three new risks have been identified this quarter:

- *'The Council could suffer significant adverse service delivery and financial impact if there are delays in the procurement and implementation of the new banking contract (RES).*

- *'Risk of poor implementation of the Transforming Rehabilitation programme leading to fragmented offender management services and a rise in re-offending' (CAS).* The Transforming Rehabilitation programme sets out the Government's proposals for reforming the delivery of offender services, including the way in which offenders are managed in the community. Proposals include the creation of a new public sector National Probation Service and commissioning of regional probation services through Community Rehabilitation Companies.
- *'The continuation of weak economic conditions, financial austerity and reduced household incomes may see increased pressure on areas of lower housing demand with consequent negative impacts on communities, neighbourhoods and local environments' (RED).*

2 Increased Risks

Following transfer of responsibility for the *'Unauthorised Encampment'* risk from CAS to Neighbourhood Services, the risk assessment has been refreshed, including an increase in the net impact from Minor to Moderate. The description has also been changed, for clarification, to *'Gypsy Roma Travellers set up camp or events on Council land without permission'*.

3 Removed Risks

Due to effective management by the Services, and the completion of all mitigating actions to reduce them to a level where management now consider existing controls to be adequate, the following are no longer considered strategic risks and have been removed from the register:

- *'Failure to substantially deliver the Community Buildings Strategy by March 2014, leading to continuation of current issues' (ACE).* This risk has been removed because, although the planned delivery date has not been achieved for all buildings, the majority of transfers to social housing providers have been completed and this has resulted in significant financial savings. Most of the remaining centres have received formal approval to progress.
- *'Children and families experience a lack of interface between services for children & adults as a result of failure to work together' (CAS).* This risk has been removed as the controls for this risk are now well-established and the arrangements are subject to regular monitoring. These include a joint approach to transitions for disabled young people with dedicated staff working together, compliance with the Joint Working Protocol and implementation of the Think Family Strategy.

- *'Disused unmaintained Coal Authority mine workings on DCC land may lead to serious injury or financial claims against the Council' (RED)*. This risk has been removed because all priority sites have been identified and the services responsible have received training from the Coal Authority on how to inspect and monitor these sites. These mitigating actions have reduced this risk to a position where they can be monitored at operational level.
- *'Business Rates and Council Tax collection rates do not reach target set for 2013/14' (RES)*. This risk has been removed because the respective collection targets have been met within the tolerance levels allowed.
- *'Employment Services for young people (18-24 year olds) are unco-ordinated between service groups' (RED)*. This risk has been removed because the net likelihood is now considered to be remote, so it is no longer a significant risk.

4 Reduced Risks

The net likelihood of the following risk has been reduced from Probable to Possible following completion of all mitigating actions, *'If Local Authority Schools and other services choose not to take Council Services, together with the loss of community buildings, both Technical and Building Services could see a loss of business' (NS)*.

5 Key Risks

The Council's key risks are shown in the following two tables.

Key Risks Matrix

Net Impact					
Critical			Risk 1 MTFP Slippage		Risk 2 Ongoing Government funding cuts
Major			Risk 4 New Banking Contract		
			Risk 5 PSN Code of Connection		
Moderate					Risk 3 Restitution of Search Fees
Minor					
Insignificant					
Net Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

In this matrix, the key risks have been arranged according to the net impact and net likelihood evaluations to illustrate their relative severity. The full title of each risk is shown in the Key Risks Schedule on the following pages.

Key Risks Schedule

The schedule on the following pages contains information about how the key risks are being managed, including proposed key actions. Where there have been changes to the risk assessment during the last quarter, these are highlighted in the column headed 'Direction of Travel'. The final column states when it is anticipated that the risk will have been reduced to an acceptable level.

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	RES Risk Owner: Don McLure	Altogether Better Council	If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.	Critical	Possible	The Delivery plan implementation will be monitored by CMT and Cabinet.		This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage.
2	RES Risk Owner: Don McLure	Altogether Better Council	Ongoing Government funding cuts, which now extend to at least 2017/18, will continue to have an increasing major impact on all Council services.	Critical	Highly Probable	Sound financial forecasting is in place based on thorough examination of the Government's "red book" plans.		This will be a significant risk for at least the next 4 years.
3	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

Res	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
4	RES Risk Owner: Don McLure	Altogether Better Council	The Council could suffer significant adverse service delivery and financial impact if there are delays in the procurement and implementation of the new banking contract.	Critical	Possible	Pre-procurement meetings will be held with alternative providers to establish what services can and cannot be provided. Awareness-raising at Tier 4 Manager level that banking arrangements are due to change.	New Risk	The new contract is expected to be in place by September 2015 to ensure a smooth transition.
5	RES Risk Owner: Phil Jackman	Altogether Better Council	If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria, this would put some of our core business processes at risk, for example, Revenues and Benefits, which rely on the secure transfer of personal data.	Critical	Possible	An ongoing project is in place to ensure compliance. Servers that cannot be made compliant or effectively relocated will be switched off.		June 2014

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

Based on the **Net** risk assessment as at 31 March 2014, the following tables highlight the risks for each Corporate Theme.

Corporate Theme – Altogether Better Council

Ref	Service	Risk
1	RES	If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.
2	RES	Ongoing Government funding cuts, which now extend to at least 2017/18, will continue to have an increasing major impact on all Council services.
3	RES	Potential restitution of search fees going back to 2005
4	RES	The Council could suffer significant adverse service delivery and financial impact if there are delays in the procurement and implementation of the new banking contract.
5	RES	If the Council is not fully compliant with the Government's Public Services Network Code of Connection criteria then this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data.
6	RED	Increased demand for Housing Solution Service beyond current staffing capacity due to changes in Government Welfare legislation.
7	RED	The continuation of weak economic conditions, financial austerity and reduced household incomes may see increased pressure on areas of lower housing demand with consequent negative impacts on communities, neighbourhoods and local environments.
8	NS	If Local Authority Schools and other services choose not to take Council Services, together with the loss of community buildings both Technical and Building Services could see a loss of business.
9	RED	Adverse impact on Durham City Homes revenue, capacity and resources and tenants due to changes in Government legislation.
10	NS	The Council will not be able to maintain its non-educational and non-housing buildings to current repairs standards.
11	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
12	RES	Inconsistent approach to managing funding bids by Services could expose the Council to financial losses and reputational damage.
13	ACE	Risk that the Council does not respond to the Government's changes to Welfare Reform

Ref	Service	Risk
14	RES	Major Interruption to IT Service Delivery
15	RES	Serious breach of Health and Safety Legislation
16	RES	Following the proposed transfer of Housing Stock to an external organisation, the potential savings from downsizing/ reduced costs of Services currently recharged to the Housing Revenue Account under a Service Level Agreement (SLA) may be less than the corresponding loss of income from the SLA resulting in a budget shortfall.
17	ACE	Failure to consult with communities on major service and policy changes leading to legal challenge and delays in implementation
18	RES	Due to the current economic climate and amount of change occurring across the Council, there is potential for increases in fraud and error.
19	ACE	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation

Altogether Better for Children and Young People

	Service	Risk
20	CAS	School funding reforms & Dedicated Schools Grant reductions threaten viability of some centrally managed services for children and young people.

Altogether Safer

	Service	Risk
21	CAS	Failure to protect child from death or serious harm (where service failure is a factor or issue)
22	CAS	A service failure of Adult Safeguarding leads to death or serious harm to a service user.
23	NS	Damage to Highways assets as a result of a severe weather event.
24	NS	Gypsy Roma Travellers set up camp or events on Council land without permission
25	CAS	Risk of poor implementation of the Transforming Rehabilitation programme leading to fragmented offender management services and a rise in re-offending.
26	ACE	Failure to prepare for, respond to and recover from a major incident or interruption, and to provide essential services.
27	RED	Serious injury or loss of life due to Safeguarding failure (Transport Service)

Altogether Wealthier

	Service	Risk
28	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.
29	RED	Private housing stock condition worsens with adverse implications for local economy, health & neighbourhood sustainability.
30	NS	Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier isn't undertaken

Altogether Greener

	Service	Risk
31	NS	Failure to identify and effectively regulate Contaminated Land

Altogether Healthier

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

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Audit Committee

20 May 2014

**Internal Audit Progress Report
Quarter Ended 31 March 2014**



Report of the Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

- 1 To inform Members of work carried out by Internal Audit during the period January to March 2014.
- 2 The report aims to:
 - Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit
 - Advise you of issues where controls need to improve to effectively manage risks
 - Advise you of any other types of audit work carried out such as grant certification or consultancy reviews where an assurance opinion on the control environment may not be applicable
 - Advise you of amendments to planned work and unplanned work carried out or to be carried out
 - Track progress on the response to audit reports and the implementation of agreed audit recommendations
 - Advise you of any changes to the audit process
 - Provide an update on our performance indicators comparing actual performance against planned

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

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

Background

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

Progress against planned work

- 7 A summary of the approved annual plan for each service grouping, updated to reflect work in progress and/or brought forward from last year's plan, is attached at Appendix 3. The status of each audit as at 31 March 2014 is indicated.
- 8 The status of each type of audit, including work in progress carried forward from the 2012/13 plan and as shown in Appendix 3, is summarised below:

Status	Assurance	Advice & Consultancy	Proactive Fraud
Not Started	11	1	3
Planning & Preparation	9	2	0
Terms Of Reference Agreed	5	1	0
Fieldwork In Progress	15	17	4
Complete (Draft or Final Report)	57	14	12
Agreed to Defer/Cancelled	7	5	1
Total	104	40	20

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

Audit activity this quarter

Amendments to the approved 2013/14 Audit Plan

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

Service Grouping	Audit	Audit Type	Type of Amendment	Reason
Children and Adult Services (CAS)	Adult Learning and Skills Service	Assurance Review	Deferred to 2014 / 2015	A piece of consultancy and advice work has been completed on Learner Validation and highlighted areas for improvement. The intention is to allow these to be embedded before proceeding with the assurance review work.
Regeneration and Economic Development (RED)	ALMOs – Housing Rents	Assurance Review	Cancelled	Due to forthcoming stock transfer this will not add value. Assurance on the stock transfer is to be undertaken over the next 12 months.
Resources	Creditor Payments – Quarter 4	Proactive Fraud	Cancelled	The process for identifying potential duplicate payments has now been built into the service process. To be tested as part of main creditors audit assurance review.
Resources	Quotations	Assurance Review	Cancelled	The scope of this audit has now been included in the tendering system assurance review.
Resources	Strategic Procurement Network (SPN)	Advice and Consultancy	Cancelled	This group has been disbanded as it was deemed to be no longer required.
Resources	Merger of Durham and Sunderland ICT Services	Advice and Consultancy	Cancelled	The decision has now been made not to merge the ICT services of Durham and Sunderland.
Resources	Attendance Management Framework	Assurance Review	Deferred to 2014 / 2015	New processes have just been put into place and agreed to allow these to become embedded before the assurance review work is completed.

- 12 27 unplanned reviews have been added to the plan this quarter. Of these 18 relate to potential fraud or irregularity investigations. Details of the progress on all investigations will be included in the next fraud and irregularity update report which will be considered by the Committee at its meeting in July.

- 13 The 9 non-investigative reviews, which are to be resourced from the contingency provision within the plan, are detailed below:

Service Grouping	Audit	Audit Type	Reason
Children and Adult Services (CAS)	Adult Learning and Skills Service (Learner Validation)	Advice & Consultancy	To enable the Service to better gauge the accuracy of Adult Learner records for the 2012/13 academic year following the identification of errors in a recent SFA visit.
Neighbourhood Services (NS)	Gymnastic Club Inventory	Advice & Consultancy	Request from Head of Sport and Leisure to assess equipment in place prior to works at Spennymoor Leisure Facility.
Neighbourhood Services (NS)	Arrangements for the disposal of equipment and fixings.	Advice & Consultancy	Request from Head of Direct Services to verify the correct disposal procedures were to be followed regarding specific items of equipment and fixings.
Regeneration and Economic Development (RED)	Community Infrastructure Levy (CIL)	Advice & Consultancy	Representation at group to address the implications of the introduction of the CIL.
Resources	Banking Contract	Advice & Consultancy	Representation on the Project Group which has been established to put arrangements in place for a new bank contract.
Resources	Teachers' Pension	Advice & Consultancy	Assistance provided in developing an action plan to address the issues raised in the qualified Annual Auditor Certification.
Resources	Invoice Payment Improvement Group	Advice & Consultancy	Representation on the group which has been established to review and improve the creditor payment process.
Resources	Debtors Working Group	Advice & Consultancy	Representation on the group which is looking to improve invoice handling, collection and performance of sundry debt by strengthening procedures.
Resources	Payment Card Industry (PCI) Compliance Group	Advice & Consultancy	Representation on the group that has been established to ensure compliance with PCI Standards.

Outstanding Management Responses to Draft Reports

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

Response to audit findings and recommendations

- 15 Details of the numbers of High and Medium priority ranking recommendations raised and overdue, by Service Grouping and Audit Year, are given in Appendix 5.

16 A summary of progress on actions due by the 31 March 2014 is given below:

Service Grouping	Number of Actions Due to be Implemented	Number of Actions Implemented	Actions Overdue by Original Target Date	Actions with Agreed Revised Target Date	Actions Overdue by Revised Target Date
Assistant Chief Executive (ACE)	17	17	0	0	0
Children and Adult Services (CAS)	49	48	1	1	0
Neighbourhood Services (NS)	164	138	19	19	1
Regeneration and Economic Development (RED)	40	35	5	5	0
Resources	262	248	14	14	0
TOTAL	532	489	39	39	1

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

It is encouraging to note of the 532 actions due to be implemented that 489 (91%) have been implemented. The Chartered Institute of Public Finance and Accountancy (CIPFA), benchmarking exercise indicates that average performance in this area is 70 to 80%. At present the Council is delivering in excess of this target.

Limited Assurance Opinion Audits

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

Performance Indicators

18 A summary of our actual performance at the end of March 2014 compared to agreed target performance indicators is given in Appendix 8.

19 Your attention is drawn to our primary PI, which is an important measure of the ability to provide an annual audit opinion and is the % of planned assurance reviews complete. Actual performance stands at 68% at present against the full year target of 90%. Performance is therefore projected to achieve the target of 90% for the audit year.

Recommendations

20 Members are asked to note,:

- The amendments made to the 2013/14 Annual Audit Plan
- Work undertaken by Internal Audit during the quarter ended 31 March 2014 and the assurance on the control environments provided
- The performance of the service during the period
- Progress made by service managers in responding to the work of Internal Audit

Contact: Paul Bradley Tel: 03000 269645

Appendix 1: Implications

Finance

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

Staffing

None

Risk

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

Equality and Diversity / Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability Issues

None

Legal Implications

None

Findings

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

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

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

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

Priority of our recommendations

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

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

Overall Assurance Opinion

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

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

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

AUDIT TITLE	Audit Ref	CORPORATE DIRECTION	SERVICE	TYPE	STATUS	OPINION
AUDITS BROUGHT FORWARD FROM 2012 / 2013 AS WORK IN PROGRESS						
AAP Information Governance	11000/2012/03 bf	Assistant Chief Executive (ACE)	Parts and Comm Eng.	Assurance Review	Final Report	Moderate Assurance
Data Quality - Rolling Programme of PIs	11090/2013 bf	Assistant Chief Executive (ACE)	Planning & Perf	Assurance Review	Final Report	Moderate Assurance
Development of Intranet	11005/2012/02 bf	Assistant Chief Executive (ACE)	Policy & Comms	Assurance Review	In Progress	
Internet Development (Corporate Comms)	11017/2013/01 bf	Assistant Chief Executive (ACE)	Policy & Comms	Advice & Consultancy	In Progress	
Business Continuity Project Support	11001/2013 bf	Assistant Chief Executive (ACE)	Policy & Comms	Advice & Consultancy	In Progress	
Looked After Children - to perform follow-up on VFM study undertaken by Service	78463/2013 bf	Children and Adult Services (CAS)	Children's Care	Advice & Consultancy	In Progress	
Educational Support Services	78462/2013 bf	Children and Adult Services (CAS)	Education	Assurance Review	Final Report	Moderate Assurance
Caldicot Compliance	58809/2013 bf	Children and Adult Services (CAS)	Planning & Service Strategy	Assurance Review	Final Report	Moderate Assurance
One Point - Arrangements with the Health Service	70245/2013 bf	Children and Adult Services (CAS)	Early Intervention & Involvement	Assurance Review	Final Report	Moderate Assurance
Control Risk Self Assessment in Schools	70070/2013 bf	Children and Adult Services (CAS)	Education	Advice & Consultancy	Final Report	N/A
Pollution Control	12265/2012 bf	Neighbourhood Services (NS)	EHCP - Environmental Protection	Assurance Review	Final Report	Moderate Assurance
Enforcement & Education	13421/2013 bf	Neighbourhood Services (NS)	Direct Services - Streetscene	Assurance Review	Final Report	Moderate Assurance
Construction Services and Planned Maintenance Programme	60720/2013 bf	Neighbourhood Services (NS)	Direct Services - Building and Facilities	Assurance Review	Final Report	Moderate Assurance
Trade Waste - Systems testing	22010/2013/01 bf	Neighbourhood Services (NS)	Direct Services - Streetscene	Assurance Review	Final Report	Moderate Assurance
Highways Maintenance Self Assessment	25890/2012 bf	Neighbourhood Services (NS)	Technical Services	Assurance Review	Final Report	Limited Assurance
MTPP Savings - Use of Council Vehicles for home to work journey	20100/2013/02 bf	Neighbourhood Services (NS)	Direct Services - County Fleet	Advice & Consultancy	In Progress	Moderate Assurance
Business Durham	13561/2013 bf	Regeneration & Economic Development (RED)	Econ. Dev. & Housing	Assurance Review	Final Report	Moderate Assurance
Private Sector Housing	13562/2013 bf	Regeneration & Economic Development (RED)	Econ. Dev. & Housing	Assurance Review	Draft Report	Full Assurance
Housing Tenancies/Lettings	00820/2013 bf	Regeneration & Economic Development (RED)	Econ. Dev. & Housing	Assurance Review	Final Report	Substantial Assurance
Project Genesis	26045/2013 bf	Regeneration & Economic Development (RED)	Strat. Progs & Perf.	Advice & Consultancy	Final Report	N/A
Taxi contracts follow up	25895/2013 bf	Regeneration & Economic Development (RED)	Transport & Contract Services	Advice & Consultancy	Final Report	N/A
Income & Debt Recovery	10400/2013 bf	Resources	Finance Services	Assurance Review	Final Report	Moderate Assurance
Procurement Cards	10925/2013 bf	Resources	Finance Services	Assurance Review	Final Report	Moderate Assurance
Flexible working and contract variations	11021/2013 bf	Resources	Human Resources	Assurance Review	Final Report	N/A
Internet Security	98012/2013 bf	Resources	ICT	Assurance Review	Final Report	Limited Assurance
Income and Expenditure Project	98114/2013 bf	Resources	ICT	Assurance Review	Final Report	Moderate Assurance
Petty Cash Usage	10928/2013 bf	Resources	Corporate Finance	Assurance Review	Final Report	Moderate Assurance
Corporate Governance - Litigation Database	86530/2013 bf	Resources	Legal & Democratic	Assurance Review	Final Report	Moderate Assurance
Unix review	98004/2013 bf	Resources	ICT	Assurance Review	Final Report	Moderate Assurance
Invoice scanning and indexing	10465/2013 bf	Resources	Finance Services	Advice & Consultancy	Final Report	N/A
ICON v11 project	10460/2013/01 bf	Resources	Finance Services	Advice & Consultancy	Final Report	N/A
Cash Security	99900/2013/03 bf	All Directorates	All Services	Proactive Fraud	Final Report	N/A
Payroll IDEA	99900/2013/04 bf	All Directorates	All Services	Proactive Fraud	Final Report	N/A
Payroll timesheets	99900/2013/05 bf	All Directorates	All Services	Proactive Fraud	Final Report	N/A
Payroll overtime	99900/2013/06 bf	All Directorates	All Services	Proactive Fraud	Final Report	N/A
Payroll starters & leavers	99900/2013/07 bf	All Directorates	All Services	Proactive Fraud	Final Report	N/A
Payroll expenses & allowances	99900/2013/08 bf	All Directorates	All Services	Proactive Fraud	Final Report	N/A
Award of Contracts	99900/2012/05 bf	All Directorates	All Services	Proactive Fraud	Final Report	N/A
AUDITS THAT WERE DEFERRED FROM 2012 / 2013 AUDIT PLAN						
Data Protection - Data Access	11018/2013/02 bf	Assistant Chief Executive (ACE)	Planning & Perf	Assurance Review	ToP Issued	
Specialist Services - to focus upon Prevention and Early Intervention	78473/2013 bf	Children and Adult Services (CAS)	Children's Care	Assurance Review	Preparation	
Safeguarding of Children in Schools - consideration will be given to other third party	78475/2013 bf	Children and Adult Services (CAS)	Education / Children's Care	Assurance Review	In Progress	
County Durham Children and Families Trust	70050/2014	Children and Adult Services (CAS)	Early Intervention & Involvement	Assurance Review	Preparation	
POPIE system review	58802/2014	Children and Adult Services (CAS)	Planning & Service Strategy	Assurance Review	Draft Report	Moderate Assurance
Adult Learning and Skills Service	50065/2014/05	Children and Adult Services (CAS)	Education	Advice & Consultancy	Final Report	N/A
Markets	13350/2014	Neighbourhood Services (NS)	EHCP - Consumer Protection	Assurance Review	Deferred	N/A
Visit County Durham	14615/2014	Regeneration & Economic Development (RED)	Econ. Dev. & Housing	Assurance Review	Final Report	Full Assurance
MySOP Shopping (Planning applications)	26040/2014	Regeneration & Economic Development (RED)	Planning & Assets	Advice & Consultancy	Cancelled	N/A
PCI Compliance	10417/2014	Resources	Finance Services	Assurance Review	Final Report	Limited Assurance

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

AUDIT TITLE	Audit Ref	CORPORATE DIRECTION	SERVICE	TYPE	STATUS	OPINION
AUDITS SCHEDULED FROM THE STRATEGIC AUDIT PLAN 2013 / 2014						
Development of Joint Working Methodology on Corporate Programmes (Trans Change)	11060/2014	Assistant Chief Executive (ACE)	Policy & Comms	Advice & Consultancy	In Progress	
Data Quality - Rolling programme of PIs	11080/2014	Assistant Chief Executive (ACE)	Planning & Perf	Assurance Review	Final Report	Moderate Assurance
Data Protection - Rolling programme of reviews	11018/2014	Assistant Chief Executive (ACE)	Planning & Perf	Assurance Review	Preparation	
Information Governance Group	11010/2014	Assistant Chief Executive (ACE)	Planning & Perf	Advice & Consultancy	In Progress	
Partnerships - Rolling programme of reviews	11000/2014	Assistant Chief Executive (ACE)	Partners and Comm Eng.	Assurance Review	ToR Issued	
Secure Services - Contract with Youth Justice Board	78469/2014	Children and Adult Services (CAS)	Children's Care	Assurance Review	Preparation	
SEN Placement and Provision	78466/2014	Children and Adult Services (CAS)	Education	Assurance Review	Not Started	
Schools Organisations and Capital Programme	70501/2014	Children and Adult Services (CAS)	Education	Assurance Review	Not Started	
School's SLA funded Audit Programme	Various	Children and Adult Services (CAS)	Education	Assurance Review	In Progress	13 Substantial Assurance Moderate Assurance Limited Assurance
5 Nursery Schools					21 Final Report	
37 Primary Schools						
5 Secondary Schools						
5 Special Schools						
Troubled Families Programme	00611/2014	Children and Adult Services (CAS)	Children's Care	Assurance Review	Preparation	
Quarter 1	00611/2014/01			Grant Certification	Complete	
Quarter 2	00611/2014/02				Complete	
Quarter 3	00611/2014/03				Complete	
Quarter 4	00611/2014/04				In Progress	
Calclott Compliance	58809/2014	Children and Adult Services (CAS)	Planning and Service Strategy	Assurance Review	In Progress	N/A
Health and Well Being Board	58105/2014	Children and Adult Services (CAS)	Planning and Service Strategy	Assurance Review	Cancelled	
Strategic Waste Management	22001/2014	Neighbourhood Services (NS)	Projects and Business Services	Assurance Review	Draft Report	Full Assurance
Clean and Green Services - Housing Association Contracts	13124/2014	Neighbourhood Services (NS)	Direct Services - Streetscene	Assurance Review	Draft Report	Moderate Assurance
Building Compliance Assurance	25820/2014	Neighbourhood Services (NS)	Direct Services - Building and Facilities	Assurance Review	Not Started	
Inspection of Licensing - Taxis	13054/2014/01	Neighbourhood Services (NS)	EHCP - Public Safety	Assurance Review	Final Report	Substantial Assurance
Inspection of Licensing - Premises Requiring Alcohol License	13054/2014/02	Neighbourhood Services (NS)	EHCP - Public Safety	Assurance Review	Final Report	Substantial Assurance
Private Sector Housing - Complaints	13031/2014	Neighbourhood Services (NS)	EHCP - Environmental protection	Assurance Review	Preparation	
Winter Maintenance	25900/2014	Neighbourhood Services (NS)	Technical Services - Strategic Highways	Assurance Review	In Progress	
Gala - Stage School	14902/2014	Neighbourhood Services (NS)	Sport and Leisure	Assurance Review	Final Report	Moderate Assurance
Gala - Box Office	14901/2014	Neighbourhood Services (NS)	Sport and Leisure	Assurance Review	Final Report	Moderate Assurance
Stanley Bowls	12210/2014	Neighbourhood Services (NS)	Sport and Leisure	Advice & Consultancy	Preparation	
Ad hoc grant certification work	00601/2014	Regeneration & Economic Development (RED)	Strat. Progs & Perf.	Grant Certification	In Progress	
Planning System (Attendance at Steering Group)	26035/2014	Regeneration & Economic Development (RED)	Planning & Assets	Advice & Consultancy	In Progress	
Planning System	26030/2014	Regeneration & Economic Development (RED)	Planning & Assets	Assurance Review	Deferred	N/A
Building Control (Potential focus on 'Safety at Sports Grounds')	13093/2014	Regeneration & Economic Development (RED)	Planning & Assets	Assurance Review	Final Report	Substantial Assurance
Asset Management (Focus on disposal arrangements)	13551/2014	Regeneration & Economic Development (RED)	Planning & Assets	Assurance Review	Final Report	Moderate Assurance
Durham City Homes - Housing Rents	00800/2014	Regeneration & Economic Development (RED)	Econ. Dev. & Housing	Assurance Review	Final Report	Moderate Assurance
ALMOs Housing Rents	00805/2014	Regeneration & Economic Development (RED)	Econ. Dev. & Housing	Assurance Review	Cancelled	N/A
Civil Parking, Park and Ride, Off Street Parking (Potentially to focus on income)	25830/2014	Regeneration & Economic Development (RED)	Transport & Contract Services	Assurance Review	Final Report	Moderate Assurance
Sustainable Transport	25804/2014	Regeneration & Economic Development (RED)	Transport & Contract Services	Assurance Review	Not Started	
Supported Housing - CCTV	13025/2014	Regeneration & Economic Development (RED)	Transport & Contract Services	Assurance Review	Not Started	
Electoral Services	10940/2014	Resources	Legal & Democratic	Assurance Review	Not Started	
Electoral Services - verification of expenses	10940/2014/01	Resources	Legal & Democratic	Advice & Consultancy	Final Report	N/A
Homeworking	98024/2014	Resources	HR&OD	Assurance Review	Draft Report	Moderate Assurance
Pavoli - Governance and Key controls	10210/2014	Resources	HR&OD	Assurance Review	Not Started	
GL - Key controls and reconciliations	10609/2014	Resources	Corporate Finance	Assurance Review	Not Started	
MIFP (also need to liaise with ACE)	10801/2014	Resources	Corporate Finance	Assurance Review	Final Report	Substantial Assurance
Journal Transfers	10606/2014	Resources	Corporate Finance	Assurance Review	In Progress	
Bank Reconciliations	10602/2014	Resources	Corporate Finance	Assurance Review	Final Report	Substantial Assurance
Short Term Investments	10500/2014	Resources	Corporate Finance	Assurance Review	Final Report	Substantial Assurance
Quotation System	11052/2014	Resources	Corporate Finance	Assurance Review	Cancelled	N/A
Tendering System	11053/2014	Resources	Corporate Finance	Assurance Review	Cancelled	
Capital Accounting	10000/2014	Resources	Corporate Finance	Assurance Review	In Progress	
Central Establishment Recharges	10651/2014	Resources	Finance Services	Assurance Review	In Progress	
Revs & Bens reconciliations	00720/2014	Resources	Finance Services	Assurance Review	Final Report	Substantial Assurance

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

AUDIT TITLE	Audit Ref	CORPORATE DIRECORATE	SERVICE	TYPE	STATUS	OPINION
P2P Key Controls (include procurement cards)	10150/2014	Resources	Finance Services	Assurance Review	Not Started	
Housing Benefit (HB) and Council Tax Reduction (CTR) admin (incl. HB Subsidy and DHP)	00700/2014	Resources	Finance Services	Assurance Review	Final Report	Moderate Assurance
Welfare Assistance Scheme	00725/2014	Resources	Finance Services	Assurance Review	Final Report	Limited Assurance
NNDR	00550/2014	Resources	Finance Services	Assurance Review	Final Report	Moderate Assurance
Council Tax	00500/2014	Resources	Finance Services	Assurance Review	Final Report	Moderate Assurance
Cash Collection	10460/2014	Resources	Finance Services	Assurance Review	Preparation	
Debtors	10400/2014	Resources	Finance Services	Assurance Review	In Progress	
Information Security Policies - Part 1	98103/2014/01	Resources	ICT	Assurance Review	TOR issued	
Information Security Policies - Part 2	98103/2014/02	Resources	ICT	Assurance Review	TOR issued	
Information Security Policies - Part 3	98103/2014/03	Resources	ICT	Assurance Review	TOR issued	
Infrastructure/Networks	98005/2014	Resources	ICT	Assurance Review	Not Started	
Mobile Computing	98025/2014	Resources	ICT	Assurance Review	Draft Report	Moderate Assurance
SQL Server	98034/2014	Resources	ICT	Assurance Review	Not Started	
Software Licenses	98110/2014	Resources	ICT	Assurance Review	In Progress	
ICT Purchasing	98100/2014	Resources	ICT	Assurance Review	In Progress	
RIPA Working Group	11011/2014	Resources	Legal & Democratic	Advice & Consultancy	In Progress	
Strategic Procurement Network	11057/2014	Resources	Corporate Finance	Advice & Consultancy	Cancelled	N/A
Digital Durham	98112/2014	Resources	ICT	Advice & Consultancy	In Progress	
Declarations of Interest - Members	99900/2014/01a	All Directorates	All Services	Proactive Fraud	Draft Report	N/A
Declarations of Interest - Schools	99900/2014/01b	All Directorates	All Services	Proactive Fraud	In Progress	
Declarations of Interest - Employees	99900/2014/01	All Directorates	All Services	Proactive Fraud	In Progress	
Grants Payable	99900/2014/02	All Directorates	All Services	Proactive Fraud	Final Report	N/A
Housing Tenancy	99900/2014/03	All Directorates	All Services	Proactive Fraud	Not Started	
Creditor Payments (IDEA) - Q1	99900/2014/04a	All Directorates	All Services	Proactive Fraud	Final Report	N/A
Creditor Payments (IDEA) - Q2	99900/2014/04b	All Directorates	All Services	Proactive Fraud	Final Report	N/A
Creditor Payments (IDEA) - Q3	99900/2014/04c	All Directorates	All Services	Proactive Fraud	Final Report	N/A
Creditor Payments (IDEA) - Q4	99900/2014/04d	All Directorates	All Services	Proactive Fraud	Cancelled	N/A

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

AUDIT TITLE	Audit Ref	CORPORATE DIRECORATE	SERVICE	TYPE	STATUS	OPINION
Personal Budgets	99900/2014/05	All Directorates	All Services	Proactive Fraud	Not Started	
Procurement	99900/2014/06	All Directorates	All Services	Proactive Fraud	Not Started	
NFI	99903/2014	All Directorates	All Services	Proactive Fraud	In Progress	
Ethical Culture	66530/2014	All Directorates	All Services	Corporate Governance	Not Started	
AUDITS / REVIEWS COMPLETED AT SERVICE REQUEST						
AAPs - Performance Management Framework	11025/2014	Assistant Chief Executive (ACE)	Parts and Comm Eng.	Advice & Consultancy	ToR Issued	
Participatory Budgets Model	11027/2014	Assistant Chief Executive (ACE)	Parts and Comm Eng.	Advice & Consultancy	In Progress	
Community Buildings	11019/2014	Assistant Chief Executive (ACE)	Parts and Comm Eng.	Advice & Consultancy	In Progress	
Review of Supported Housing linked to Staff Houses	50215/2014	Children and Adult Services (CAS)	Adult Care	Assurance Review	Draft Report	Moderate Assurance
School Benevolent Fund - Annual Audit of Financial Statements	70107/2014	Children and Adult Services (CAS)	Children's Care	Advice & Consultancy	Cancelled	N/A
Gypsies & Travellers Un-authorised Encampments	66630/2014	Children and Adult Services (CAS)	Early Intervention & Involvement	Advice & Consultancy	Cancelled	N/A
Youth Offending Service Financial Management arrangements	85819/2014	Children and Adult Services (CAS)	Early Intervention & Involvement	Advice & Consultancy	Draft Report	N/A
Domestic Abuse Forum Executive Group (Partnership Governance Framework Review)	58100/2013 bf	Children and Adult Services (CAS)	Early Intervention & Involvement	Assurance Review	Draft Report	Moderate Assurance
High Needs Students	70219/2014	Children and Adult Services (CAS)	Education	Advice & Consultancy	Final Report	N/A
Blue Badge Scheme	50180/2014	Children and Adult Services (CAS)	Planning and Service Strategy	Assurance Review	Draft Report	Substantial Assurance
Capita One	70227/2014	Children and Adult Services (CAS)	Planning and Service Strategy	Assurance Review	Final Report	Moderate Assurance
Tees, Esk & Wear Valley (TEWV) NHS Truist Partnerships	50216/2014	Children and Adult Services (CAS)	Public Health	Assurance Review	Final Report	Limited Assurance
Stop Smoking Service - Nicotine Replacement Therapy Voucher Scheme	50217/2014	Children and Adult Services (CAS)	Public Health	Assurance Review	Preparation	
Support to the Director of Public Health on providing assurance on Health Protection Environment Partnership (Support in developing the Performance Management Framework)	50217/2014	Children and Adult Services (CAS)	Public Health	Assurance Review	Preparation	
QMS (Quarterly Visit)	11000/2014/02	Neighbourhood Services (NS)	Customer Relations, Policy & Performance	Advice & Consultancy	Preparation	
Quarter 1	13125/2014/01	Neighbourhood Services (NS)	Direct Services - Building and Facilities Maintenance	Assurance Review	Final Report	N/A
Quarter 2	13125/2014/02	Neighbourhood Services (NS)	Direct Services - Building and Facilities Maintenance	Assurance Review	Final Report	N/A
Quarter 3	13125/2014/03	Neighbourhood Services (NS)	Direct Services - Building and Facilities Maintenance	Assurance Review	ToR Issued	
Quarter 4	13125/2014/04	Neighbourhood Services (NS)	Direct Services - Building and Facilities Maintenance	Assurance Review	ToR Issued	
GLUK Income Share Agreement	20730/2014	Neighbourhood Services (NS)	Sport and Leisure	Advice & Consultancy	In Progress	N/A
County Durham Sport	12211x/2013 bf	Neighbourhood Services (NS)	Sport and Leisure	Grant Certification	Final Report	N/A
Carbon Reduction Commitment	64050/2014	Regeneration & Economic Development (RED)	Planning & Assets	Assurance Review	Final Report	Substantial Assurance
Community Infrastructure Levy (CIL)	26031/2014	Regeneration & Economic Development (RED)	Planning & Assets	Advice & Consultancy	Not Started	
Appraisals	11022/2014	Resources	HR&OD	Assurance Review	ToR Issued	
Attendance Management Framework	64446/2014	Resources	HR&OD	Assurance Review	Deferred	N/A
Comensura (request from CAS)	11023/2014	Resources	HR&OD	Assurance Review	In Progress	
ST7 payments - Safeguarding welfare of children	70071/2014	Resources	Finance Services	Assurance Review	Final Report	Substantial Assurance
Public Health (Financial arrangements)	50076/2014	Resources	Finance Services	Assurance Review	Final Report	Substantial Assurance
School Financial Performance Management (Part 1 & 2)	70072/2014/01	Resources	Finance Services	Assurance Review	In Progress	
70072/2014/02	70072/2014/02	Resources	Finance Services	Assurance Review	Not Started	
UNPLANNED WORK						
Direct Payments	50030/2014	Children and Adult Services (CAS)	Commissioning	Assurance Review	ToR Issued	
Out of Hours Safeguarding arrangements in Secure Services	53401/2014	Children and Adult Services (CAS)	Children's Care	Assurance Review	Draft Report	Substantial Assurance
Mobile Box Office Grant	14901/2014/02	Neighbourhood Services (NS)	Sport and Leisure	Advice & Consultancy	In Progress	
Events Management	13430/2014	Neighbourhood Services (NS)	EHP/Sport and Leisure	Assurance Review	In Progress	
Gala - Variation Order	14901/2014/01	Neighbourhood Services (NS)	Sport and Leisure	Assurance Review	Final Report	Moderate Assurance
Spenningmoor Gymnastic Club Inventory	13064/2014	Neighbourhood Services (NS)	Sport and Leisure	Advice & Consultancy	Final Report	N/A
Disposal of Fixings and Equipment	14901/2014/01	Neighbourhood Services (NS)	Direct Services	Advice & Consultancy	Final Report	N/A
Empty Homes Loans Fund	00612/2014	Regeneration & Economic Development (RED)	Econ Dev & Housing	Assurance Review	Preparation	
Proposal to merge Durham and Sunderland ICT	98190/2014	Resources	ICT	Advice & Consultancy	Cancelled	N/A
Cost of transactions	00721/2014	Resources	Finance Services	Advice & Consultancy	Final Report	N/A
BACS	10115/2014	Resources	Finance Services	Advice & Consultancy	Final Report	N/A
Banking Contract	10907/2014	Resources	Corporate Finance	Advice & Consultancy	In Progress	

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

AUDIT TITLE	Audit Ref	CORPORATE DIRECTION	SERVICE	TYPE	STATUS	OPINION
Teachers Pension Fund	10318/2014	Resources	HR&OD	Advice & Consultancy	Final Report	N/A
Invoice Payment Improvement Group	10160/2014	Resources	Finance Services	Advice & Consultancy	In Progress	
Debtors Working Group	10418/2014	Resources	Finance Services	Advice & Consultancy	In Progress	
PC Compliance Group	10419/2014	Resources	Finance Services	Advice & Consultancy	In Progress	
Employees Paid via Accounts Payable	99900/2014/07	All Directorates	All Services	Proactive Fraud	In Progress	
FRAUD / INVESTIGATIONS						
Procurement Rules	99901/2013/47	Children and Adult Services (CAS)	Education - Schools	Fraud / Investigations	Complete	N/A
Procurement of Adult Learning Contracts	99901/2013/56	Children and Adult Services (CAS)	Education	Fraud / Investigations	Complete	N/A
School Admission Application	99901/2013/69	Children and Adult Services (CAS)	Education	Fraud / Investigations	Complete	N/A
School Admission Application	99901/2013/70	Children and Adult Services (CAS)	Education	Fraud / Investigations	Complete	N/A
School Admission Application	99901/2013/71	Children and Adult Services (CAS)	Education	Fraud / Investigations	Complete	N/A
School Admission Application	99901/2013/72	Children and Adult Services (CAS)	Education	Fraud / Investigations	Complete	N/A
School Admission Application	99901/2013/75	Children and Adult Services (CAS)	Education	Fraud / Investigations	Complete	N/A
Data control and disposal of equipment	99902/2013/26	Children and Adult Services (CAS)	Children's Care	Fraud / Investigations	Complete	N/A
School Admission Application	99901/2014/02	Children and Adult Services (CAS)	Education	Fraud / Investigations	Complete	N/A
Theft of money	99901/2014/03	Children and Adult Services (CAS)	Adult Care	Fraud / Investigations	Complete	N/A
Missing money	99901/2014/10	Children and Adult Services (CAS)	Education	Fraud / Investigations	Complete	N/A
Missing money	99901/2014/11	Children and Adult Services (CAS)	Education - Schools	Fraud / Investigations	Complete	N/A
Cash discrepancies	99901/2014/14	Children and Adult Services (CAS)	Education	Fraud / Investigations	Complete	N/A
Internet Misuse	99901/2014/17	Children and Adult Services (CAS)	Adult Care	Fraud / Investigations	Complete	N/A
Home to School Transport Application	99901/2014/18	Children and Adult Services (CAS)	Education	Fraud / Investigations	Complete	N/A
Car Mileage	99901/2014/20	Children and Adult Services (CAS)	Children's Care	Fraud / Investigations	Complete	N/A
Missing monies	99901/2014/23	Children and Adult Services (CAS)	Adult Care	Fraud / Investigations	Complete	N/A
Alleged income discrepancy	99901/2014/25	Children and Adult Services (CAS)	Education - Schools	Fraud / Investigations	Complete	N/A
False invoices	99901/2014/27	Children and Adult Services (CAS)	Education - Schools	Fraud / Investigations	Complete	N/A
School banking discrepancy	99901/2014/28	Children and Adult Services (CAS)	Education - Schools	Fraud / Investigations	Complete	N/A
Employment	99901/2014/29	Children and Adult Services (CAS)	Education - Schools	Fraud / Investigations	In Progress	
Employee Timesheet	99901/2014/32	Children and Adult Services (CAS)	Commissioning	Fraud / Investigations	Complete	N/A
Missing money	99901/2014/33	Children and Adult Services (CAS)	Education - Schools	Fraud / Investigations	In Progress	
Theft of money	99901/2014/34	Children and Adult Services (CAS)	Adult Care	Fraud / Investigations	Complete	N/A
Service Users Property	99901/2014/37	Children and Adult Services (CAS)	Adult Care	Fraud / Investigations	Complete	N/A
Missing money	99901/2014/38	Children and Adult Services (CAS)	Children's Care	Fraud / Investigations	Complete	N/A
Private school fund money irregularity	99901/2014/39	Children and Adult Services (CAS)	Education - Schools	Fraud / Investigations	Complete	N/A
Private school fund money irregularity	99901/2014/40	Children and Adult Services (CAS)	Education - Schools	Fraud / Investigations	In Progress	
Missing money	99901/2014/45	Children and Adult Services (CAS)	Education - Schools	Fraud / Investigations	In Progress	
School banking discrepancy	99901/2014/47	Children and Adult Services (CAS)	Education - Schools	Fraud / Investigations	Complete	N/A
Cash discrepancies	99901/2014/48	Children and Adult Services (CAS)	Education - Schools	Fraud / Investigations	In Progress	
Theft of money	99901/2014/51	Children and Adult Services (CAS)	Adult Care	Fraud / Investigations	Complete	N/A
Breach of Procurement Rules	99901/2014/52	Children and Adult Services (CAS)	Public Health	Fraud / Investigations	In Progress	
Cash discrepancies	99901/2014/54	Children and Adult Services (CAS)	Education - Schools	Fraud / Investigations	Complete	N/A
Employee Timesheet	99901/2014/58	Children and Adult Services (CAS)	Children's Care	Fraud / Investigations	In Progress	
Care Assessment	99901/2014/59	Children and Adult Services (CAS)	Children's Care / Commissioning	Fraud / Investigations	Complete	N/A
Employee Timesheet	99901/2014/60	Children and Adult Services (CAS)	Children's Care	Fraud / Investigations	In Progress	
Procurement Rules	99901/2012/23	Neighbourhood Services (NS)	Direct Services	Fraud / Investigations	In Progress	
Internet Misuse	99901/2013/09	Neighbourhood Services (NS)	Projects & Business Services	Fraud / Investigations	Complete	N/A
Theft of materials	99901/2014/01	Neighbourhood Services (NS)	Technical Services - Strategic Highways	Fraud / Investigations	Complete	N/A
Theft of materials	99901/2014/04	Neighbourhood Services (NS)	Direct Services	Fraud / Investigations	In Progress	
Claims	99901/2014/05	Neighbourhood Services (NS)	Fraud / Investigations	Fraud / Investigations	Complete	N/A
Employee Conduct	99901/2014/07	Neighbourhood Services (NS)	EHCP - Consumer Protection	Fraud / Investigations	Complete	N/A
Employee Conduct	99901/2014/08	Neighbourhood Services (NS)	EHCP - Consumer Protection	Fraud / Investigations	Complete	N/A
Employee Timesheets	99901/2014/09	Neighbourhood Services (NS)	EHCP - Consumer Protection	Fraud / Investigations	Complete	N/A
Breach of Procurement Rules	99901/2014/15	Neighbourhood Services (NS)	EHCP - Consumer Protection	Fraud / Investigations	Complete	N/A
Theft of materials	99901/2014/19	Neighbourhood Services (NS)	Direct Services	Fraud / Investigations	Complete	N/A
Theft of materials	99901/2014/22	Neighbourhood Services (NS)	Direct Services	Fraud / Investigations	Complete	N/A

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

AUDIT TITLE	Audit Ref	CORPORATE DIRECTION	SERVICE	TYPE	STATUS	OPINION
Misuse of Work Mobile Phone	99901/2014/26	Neighbourhood Services (NS)	Direct Services	Fraud / Investigations	Complete	N/A
Breach of Confidentiality	99901/2014/30	Neighbourhood Services (NS)	Projects & Business Services	Fraud / Investigations	Complete	N/A
Missing Money	99901/2014/35	Neighbourhood Services (NS)	Projects & Business Services	Fraud / Investigations	Complete	N/A
Employee Timesheets	99901/2014/43	Neighbourhood Services (NS)	Direct Services	Fraud / Investigations	In Progress	
Employee Timesheets	99901/2014/44	Neighbourhood Services (NS)	Direct Services	Fraud / Investigations	In Progress	
Complaint - Provision of Leisure Services	99902/2014/01	Neighbourhood Services (NS)	Sport and Leisure	Fraud / Investigations	Complete	N/A
Misappropriation of Grant Monies	99901/2014/46	Neighbourhood Services (NS)	Projects & Business Services	Fraud / Investigations	In Progress	
Hired Vehicle - Theft	99901/2014/56	Neighbourhood Services (NS)	Technical Services	Fraud / Investigations	Complete	N/A
Hired Plant Machinery - Theft	99901/2014/57	Neighbourhood Services (NS)	Technical Services	Fraud / Investigations	In Progress	
Fleet Private Works Charging	99901/2014/61	Neighbourhood Services (NS)	Direct Services	Fraud / Investigations	Complete	N/A
Income Irregularity	99901/2013/34.bf	Regeneration & Economic Development (RED)	Trans. & Cont. Serv.	Fraud / Investigations	Complete	N/A
Access to Documents	99902/2013/14.bf	Regeneration & Economic Development (RED)	Econ Dev & Housing	Fraud / Investigations	Complete	N/A
Data Investigation	99901/2014/12	Regeneration & Economic Development (RED)	Planning & Assets	Fraud / Investigations	Complete	N/A
Taxi contracts	99901/2014/13	Regeneration & Economic Development (RED)	Trans. & Cont. Serv.	Fraud / Investigations	Complete	N/A
Caravan Park	99901/2014/16	Regeneration & Economic Development (RED)	Planning & Assets	Fraud / Investigations	Complete	N/A
Employee Timesheets	99901/2014/36	Regeneration & Economic Development (RED)	Planning & Assets	Fraud / Investigations	In Progress	
Employee Conduct	99901/2014/53	Regeneration & Economic Development (RED)	Planning & Assets	Fraud / Investigations	Complete	N/A
Internet Misuse	99901/2014/55	Regeneration & Economic Development (RED)	Econ Dev & Housing	Fraud / Investigations	In Progress	
Theft of Mobile Phone	99901/2014/06	Resources	Legal Services	Fraud / Investigations	Complete	N/A
Unauthorised Direct Debits	99901/2014/21	Resources	Corporate Finance	Fraud / Investigations	Complete	N/A
Access to Records (1)	99901/2014/24	Resources	Finance Services	Fraud / Investigations	Complete	N/A
Unauthorised Direct Debit	99901/2014/31	Resources	Corporate Finance	Fraud / Investigations	Complete	N/A
Supplier Bank Details	99901/2014/41	Resources	Finance Services	Fraud / Investigations	Complete	N/A
Access to Records (2)	99901/2014/42	Resources	Finance Services	Fraud / Investigations	Complete	N/A
Breach of Procurement Rules	99901/2014/49	Resources	Corporate Finance	Fraud / Investigations	Complete	N/A
Unauthorised Direct Debits	99901/2014/50	Resources	Finance Services	Fraud / Investigations	Complete	N/A

FINAL REPORTS ISSUED IN QUARTER ENDING 31 MARCH 2014

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
ASSISTANT CHIEF EXECUTIVE (ACE)		
Records Management – Corporate Review	Assurance review of the arrangements in place to mitigate the risk of: Non-compliance with information legislation, standards and codes of practice. Data is retained for longer than necessary Data can not be retrieved quickly/easily Information, data and supporting documentation are not held securely.	Limited Assurance
CHILDREN AND ADULT SERVICES (CAS)		
Capita One	An assurance review that evaluated the Capita One IT system to ensure data was secure.	Moderate Assurance
S17 Payments	An assurance review that evaluated payments made under Section 17 of the Education Act to ensure they comply with legislation and that payments were made correctly.	Moderate Assurance
Records Management	As per ACE above – specific recommendations made to CAS for improve controls	Limited Assurance
Adult Learning & Skills Service (Learner Validation)	This was a service request to validate on a sample basis that the service was compliant with Skills Funding Agency (SFA) funding rules and was eligble to the funding claimed in 2012/2013.	N/A
NEIGHBOURHOOD SERVICES (NS)		
Construction Services and Planned Maintenance Programme	An assurance review on the risks associated with construction services and planned maintenance	Moderate Assurance
Inspection of Licensing – Taxis	An assurance review of the management of licensing taxis operating in County Durham.,	Substantial Assurance
Inspection of Licensing – Premises Requiring Alcohol License	An assurance review of the management of licensing premises across County Durham	Substantial Assurance
QMS – Quarter 1	An advice and consultancy review of the Quality Management System and procedures prior to external inspection.	N/A
QMS – Quarter 2	An advice and consultancy review of the Quality Management System and procedures prior to external inspection.	N/A
Durham Crematorium	An assurance review of the key systems in operation at the Crematorium. Provided as part of an SLA with the joint committee.	Full
Spennymoor Gymnastics Club Inventory	An advice and consultancy review at the request of the service to complete an inventory check and to ensure equipment between the two organisations can be adequately identified.	N/A
Disposal of equipment and fixings	An advice and consultancy review at the services request to ensure that the disposal of redundant equipment and fixings were in compliance with financial rules and regulations	N/A

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
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REGENERATION AND ECONOMIC DEVELOPMENT (RED)		
REENERGY 4	Grant Certification – confirmation that all receipts and payments in relation to 'Regional Strategy for Energy Conscious Communities' (REENERGY) for the period 01/07/2013 to 31/12/2013.	N/A
Project Genesis	Advice and consultancy review to support the service and the board to ensure the system of land transferring is efficient and that receipts from land sales are transferred promptly to the trust.	N/A
Taxi Contract Arrangements	Advice and consultancy review on contractual arrangements in place for taxi contracts across the County Council.	N/A
Visit County Durham	An assurance review of the arrangements in place to ensure the board can exercise its responsibility and that there are effective Corporate Governance arrangements in place.	Full
Building Control – Safety and Sports Grounds	An assurance review to ensure that risks are mitigated, that valid certificates are in place for facilities and that sufficient resources are in place to manage the process.	Substantial
Asset Management	An assurance review on the arrangements in place to identify ownership of assets, that the disposal process is clearly defined and understood and that there is a clear asset strategy in place.	Moderate
Durham City Homes – Housing Rents	An assurance review of the systems in place that ensure rent is collected correctly from tenants and are in line with HRA legislation.	Moderate
Records Management	As per ACE above – specific recommendations made to RED for improve controls	Limited

RESOURCES		
Counter Fraud – Payroll authorisation of timesheets, overtime and expense claims	Planned counter fraud review to verify that timesheets, overtime and expense claim forms were completed by claimants and had been properly authorised.	N/A
Counter Fraud – Members Declaration of Interests	Planned counter fraud review to identify potential undeclared interests that could put DCC at risk of procurement or other fraud and corruption	N/A
Counter Fraud – Creditors Payments	Planned counter fraud review to identify potential duplicate payments.	N/A
Cost of Transaction	An advice and consultancy review to evaluate the costs of transactions for each method of payment currently available and an analysis of the most frequently used methods of payment.	N/A
Electoral Services – Verification of Expenses	An advice and consultancy review to verify the expenses incurred in respect of the May 2013 elections and the amounts recharged to Parish Councils in respect of undertaking elections on their behalf.	N/A
Revenues and Benefits – Reconciliations	An assurance review of the arrangements in place to ensure there are no material errors within feeder systems or the general ledger and to ensure performance is properly managed.	Substantial Assurance
Bank Reconciliation	An assurance review of the arrangements in place to ensure there are no material errors within the bank account or the general ledger, that any transaction errors made by the bank do not go unnoticed and that performance is properly managed.	Substantial Assurance

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPPINION
Treasury Management – Short Term Investments	An assurance review of the arrangements in place to ensure that the Treasury Management function complies with internal policies, professional guidance, statute and regulations. To ensure appropriate investments are made and that sufficient levels of investment income are achieved.	Substantial Assurance
Council Tax	An assurance review on all of the systems related to Council Tax including but not limited to, billing, the Council Tax system is up to date, that the general ledger reconciles and that payments and arrears are properly managed.	Moderate Assurance
Housing Benefit and Council Tax Reduction	An assurance review to ensure benefit claims are processed promptly and accurately. That legislation changes are properly implemented and that performance is managed.	Moderate Assurance
Welfare Assistance Scheme	An assurance review of the arrangements in place to ensure that awards are made in line with policy criteria, that performance is monitored and managed and that any credits relating to under performance are reclaimed from the contractor and discounts are received from suppliers.	Limited Assurance

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Progress on the Implementation of Audit Recommendations

Risk Category	Number of Actions Raised	Actions Due	Actions Implemented			Overdue Actions by original target date	Number of Actions where the original target has been revised	Overdue Actions following a revised target date	Total Revised Actions Due	Revised Total Recommendations Overdue
			Due	Not Yet Due	Total					
ASSISTANT CHIEF EXECUTIVE (ACE)										
2012 / 2013										
High	0	0	0	0	0	0	0	0	0	0
Medium	14	12	12	0	12	0	0	0	0	0
Total	14	12	12	0	12	0	0	0	0	0
2013 / 2014										
High	0	0	0	0	0	0	0	0	0	0
Medium	6	5	5	0	5	0	0	0	0	0
Total	6	5	5	0	5	0	0	0	0	0
Overall Total	20	17	17	0	17	0	0	0	0	0
CHILDREN AND ADULT SERVICES (CAS)										
2012 / 2013										
High	15	14	14	0	14	0	0	0	0	0
Medium	21	21	21	0	21	0	0	0	0	0
Total	36	35	35	0	35	0	0	0	0	0
2013 / 2014										
High	7	2	2	0	2	0	0	0	0	0
Medium	15	12	11	2	13	1	1	0	0	0
Total	22	14	13	2	15	1	1	0	0	0
Overall Total	58	49	48	2	50	1	1	0	0	0
NEIGHBOURHOOD SERVICES (NS)										
2011 / 2012										
High	7	7	6	0	6	1	1	0	0	0
Medium	56	56	49	0	49	7	7	0	0	0
Total	63	63	55	0	55	8	8	0	0	0
2012 / 2013										
High	8	8	7	0	7	0	0	0	0	0
Medium	73	73	58	0	58	3	9	1	1	1
Total	81	81	65	0	65	16	9	1	1	1
2013 / 2014										
High	1	1	1	0	1	0	0	0	0	0
Medium	26	19	17	1	18	2	2	0	0	0
Total	27	20	18	1	19	2	2	0	0	0
Overall Total	171	164	138	1	139	26	19	1	1	1
REGENERATION AND ECONOMIC DEVELOPMENT (RED)										
2012 / 2013										
High	13	12	12	0	12	0	0	0	0	0
Medium	12	12	10	0	10	2	2	0	0	0
Total	25	24	22	0	22	2	2	0	0	0
2013 / 2014										
High	1	1	1	0	1	1	1	0	0	0
Medium	34	15	12	0	12	2	2	0	0	0
Total	35	16	13	0	13	3	3	0	0	0
Overall Total	60	40	35	0	35	5	5	0	0	0
RESOURCES										
2011 / 2012										
2012 / 2013										
High	32	32	29	0	29	3	3	0	0	0
Medium	134	132	130	0	130	2	2	0	0	0
Total	166	164	159	0	159	5	5	0	0	0
2013 / 2014										
High	18	17	17	0	17	0	0	0	0	0
Medium	92	81	72	0	72	9	9	0	0	0
Total	110	98	89	0	89	9	9	0	0	0
Overall Total	276	262	248	0	248	14	14	0	0	0
TOTAL COUNCIL										
2011 / 2012										
High	7	7	6	0	6	1	1	0	0	0
Medium	56	56	49	0	49	7	7	0	0	0
Total	63	63	55	0	55	8	8	0	0	0
2012 / 2013										
High	68	66	62	0	62	3	3	0	0	0
Medium	254	250	231	0	231	13	13	1	1	1
Total	322	316	293	0	293	16	16	1	1	1
2013 / 2014										
High	27	21	21	0	21	1	1	0	0	0
Medium	173	132	117	3	120	14	14	0	0	0
Total	200	153	138	3	141	15	15	0	0	0
OVERALL TOTAL	585	532	486	3	489	39	39	1	1	1

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APPENDIX 6

**PLEASE SEE ITEM NO. 13
AS APPENDIX EXEMPT**

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APPENDIX 7

**PLEASE SEE ITEM NO. 13
AS APPENDIX EXEMPT**

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Performance Indicators as at March 2014

Objective: To provide maximum assurance to inform the annual audit opinion			
Efficiency	Measure of Assessment	Target & (Frequency of Measurement)	Actual
KPI			
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% Annually	68% 58 out of 85 estimated to be complete (including WIP)
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview	90% (Quarterly)	85% - 16 days on average
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response	95% (Quarterly)	96% - 5 days on average
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100%
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	100%
Quality	Objective: To ensure that the service is effective and adding value		
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Annually)	99%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (4 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	100% - Average score 4.36
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	61%
Cost	Objective: To ensure that the service is cost effective		
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	Yes (2012-13)

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of the Local Government Act 1972.

Agenda Item 13

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