



Audit Committee

Date **Thursday 26 June 2014**
Time **9.30 am**
Venue **Committee Room 1B, County Hall, Durham**

Business

Part A

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

1. Apologies for absence
2. Minutes of the meeting held on 20 May 2014 (Pages 1 - 8)
3. Declarations of interest, if any
4. Annual Review of the System of Internal Audit - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 9 - 22)
5. Annual Audit Opinion and Internal Audit Report 2013 / 2014 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 23 - 48)
6. Draft Annual Governance Statement 2013 / 2014 - Report of Corporate Director, Resources (Pages 49 - 68)
7. Compliance with International Auditing Standards - Report of Chair of the Audit Committee (Pages 69 - 92)
8. Bi-Annual Report to Council - work of the Audit Committee (November 2013 to May 2014) - Report of Chair of the Audit Committee (Pages 93 - 102)
9. Internal Audit Strategy, Charter and Plan 2014 / 2015 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 103 - 142)
10. Forward Plan of Audit Committee Business - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 143 - 154)
11. External Audit: Audit Progress - June 2014 - Report of the External Auditor (Pages 155 - 164)
12. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration

13. 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)

14. Direct Payments Update - Report of Head of Commissioning and Chief Internal Auditor and Corporate Fraud Manager (Pages 165 - 170)
15. Annual Fraud Report 2013 / 2014 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 171 - 198)
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
18 June 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

Tel: 03000269704

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Council Chamber, County Hall, Durham on **Tuesday 20 May 2014 at 11.30 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:

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

The Chairman referred to the Audit Committee visit to Comeleon House at Tanfield, that had taken place prior to this meeting and Members agreed that it had been a very successful and informative visit.

1 Apologies for absence

Apologies for absence were received from Councillors C Carr, J Rowlandson and Mr T Hoban and Ms K Larkin-Bramley.

2 Minutes of the meeting held on 28 February 2014

The minutes of the meeting held on 28 February 2014 were agreed and signed by the Chairman as a correct record.

The Chairman sought an update on the disaster recovery process, following a question by Mr Hoban at the last meeting. The Corporate Director Resources informed the Committee that the back-up plans had worked when tested recently, and officers on site were fully aware of the processes.

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.

The Corporate Director, Resources updated the Committee on Windlestone Hall. The Committee were informed that a planning application had been submitted for executive housing but that as it was Grade II listed building, profits would have to be put back into the Hall, a requirement of English Heritage.

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 Counter Fraud and Corruption Strategy

The Committee considered a report of Corporate Director, Resources that sought to review and approve the revised Counter Fraud and Corruption Policy (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager highlighted the changes to the policy, taking into account the Bribery Act 2010. He added that the policy would be communicated as widely as possible and that training would be arranged for the Committee members in July.

Resolved:

That the revised Counter Fraud and Corruption Policy be approved.

5 Confidential Report Code (Whistleblowing)

The Committee considered a report of Corporate Director, Resources that sought to approve the revised Confidential reporting Code (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager highlighted the changes to the policy and explained that it now aligns with other Council policies. He added that a revised incident reporting form had been produced and would be communicated as widely as possible together with the policy.

Councillor Temple said that it would be useful for the Committee to know some comparative data with other local authorities about records of whistleblowing per member of staff.

Councillor L Armstrong asked for assurance that schools policies were just as robust, as they were excluded from the policy. He also expressed concern as to how staff within schools could report any incident especially if involved the head teacher. The Chief Internal Auditor and Corporate Fraud Manager explained that the policy was circulated to schools and they could adapt to suit their requirements. He advised that schools receive accreditation from the DfE for having a Whistleblowing policy. He confirmed that staff within schools could report matters to the governing body of the school.

Resolved:

That the revised Confidential Reporting Code be approved.

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

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

The External Auditor highlighted the key points in his report including significant risks, value for money, fees and explained in detail the materiality section.

Resolved:-

That the report be noted.

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

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

Resolved:-

That the report be noted.

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

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

The Corporate Director, Resources assured the Committee that a robust medium term financial plan (MTFP) was in place and the authority were well on the way to agreeing MTFP 5. He added that the authority had a good track record of delivering value for money and had a prudent level of general reserves. This allowed for the authority being able to meet exceptional costs, such as, flooding and winter maintenance.

Councillor Smith endorsed the authority having large reserves as gives independence and flexibility. The Chairman added that the authority had needed to draw from them over the last couple of years with increases in winter maintenance and flooding incidences.

Resolved:-

That the recommendations contained within the report be agreed.

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

The Committee considered a report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and that gave an insight into the work carried out by the Corporate Risk Management Group during January to March 2014 (for copy see file of Minutes).

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

Resolved:

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

10 Internal Audit Progress Report Quarter Ended 31 March 2014

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 January to March 2014 (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager advised that 68% of reviews were complete to date so the service were well on the way to achieve the 90% target. He added that no draft reports were outstanding from management and 100% of recommendations had been accepted by management. This figure was up from 97% last quarter and the aim was to hit 100% in future. He informed the Committee that 532 actions had been raised and 91% had been implemented. This figure was way in excess of the CIPFA benchmarking data of 70-80%.

The Corporate Director, Resources commented that the current performance figures show how much Internal Audit had been improved and said that credit should also be given to service grouping management teams. They have encouraged their service delivery by advising where there are weaknesses. The profile of the Audit Committee had been raised with regular reports to full Council and holding senior officers to account.

With regards to the banking contract, the Corporate Director, Resources advised that the current contract with the Co-operative bank runs until March 2016 but that a new procurement exercise is well underway to secure a new provider. A preferred bidder would be nominated by November, allowing the authority ample time for the transition process. The Chief Internal Auditor and Corporate Fraud Manager said that since Internal Audit were involved with the Banking Contract team they had recommended some improvements to controls.

Members discussed in detail the social responsibility of the new contract and whether the new bank would consider raising awareness levels in schools about credit ratings, credit cards and money management. Members were concerned that it was a fine line balancing act between a reputational risk to the Council and the commercial aspect of why the new bank would win the contract. The External Auditor added that through the Social Value Act, Mazars offer training and work for young people in the Audit process.

The Chairman thanked all staff involved in the Internal Audit process and the Corporate Director, Resources for his guidance.

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.

11 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.

12 Internal Audit Progress Report Quarter Ended 31 March 2014

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 outstanding (for copy see file of Minutes).

Resolved:

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

13 Overdue Audit Recommendations

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

Resolved:

That any remaining actions outstanding be noted.

14 Protecting the Public Purse

The Committee considered a report of the External Auditor that presented a summary of the Audit Commission's publication 'Protecting the Public Purse' (for copy see file of minutes).

The Engagement Senior Manager informed the Committee that the report compares the County Council's fraud activity with its statistical neighbours.

The Chief Internal Auditor and Corporate Fraud Manager gave assurances about the work carried out in the Corporate Fraud team and what areas of work they would focus on next year. He added that he would report back with 6 monthly briefings.

Resolved:

That the contents of the publication be noted.

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

26 June 2014



Annual Review of the System of Internal Audit 2013 / 2014

Report of Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. The purpose of this report is for members to consider and comment on the Annual Review of the System of Internal Audit.

Background

2. The Accounts and Audit Regulations 2011 require that “a larger relevant body (the Council) must, at least once in each year, conduct a review of the effectiveness of its internal audit” and confirms that the findings of the review must “must be considered as part of the consideration of the system of internal control”.
3. Internal Audit is defined as the means by which the Council assesses its governance and assurance requirements, ensuring that an effective internal control system is in place. Outcomes from the current governance process are evaluated and reported in the Annual Governance Statement.
4. To address the Accounts and Audit Regulations requirement, an assessment of Internal Audit has been carried out and is presented for consideration by those charged with governance.
5. The review concluded that the service is effective and also identified some areas for further improvement.

Current Arrangements for Internal Audit

6. A dedicated Internal Audit Section forms part of the system of Internal Audit in the Council. The Section is part of the Internal Audit, Risk and Corporate Fraud Division of the Resources Service Grouping. It is led by the Chief Internal Auditor and Corporate Fraud Manager. It has strong links with the Risk, Insurance Claims and Corporate Fraud sections which form the division and works closely with others in the Council tasked with governance, assurance and risk management. Whilst part of a wider Division, the Section retains its own identity as Internal Audit for the Council.

7. The Chief Internal Auditor and Corporate Fraud Manager reports directly to the Corporate Director, Resources but also has direct access to the Chief Executive and the Audit Committee.
8. At the start of 2013/14 the team comprised of 20 approved posts (18.42FTE) plus the Manager of Internal Audit and Risk. The Manager of Internal Audit and Risk retired in January 2014 and the Chief Internal Auditor and Corporate Fraud Manager was appointed in November 2013 and took up post in January 2014 which involved a hand over with the Manager of Internal Audit and Risk. This team delivered work for the Council as well as work for external clients including Durham Police and Durham and Darlington Fire Authority.
9. The Vision and Strategy for Internal Audit is described in the Annual Internal Audit Plan and Strategy, the Internal Audit Service Terms of Reference (TOR) within the Internal Audit Charter and it outlines the status of the Section within the organisation and defines the principles of how it operates within the Council. The TOR provides appropriate arrangements to ensure that the Section is sufficiently independent and objective and that there is access to all information and people required to discharge its responsibilities. The requirements of the new Public Sector Internal Audit Standards (PSIAS) have been reflected in the most recent update to the Internal Audit Charter and refreshed TOR which was presented to the Audit Committee in February 2014.
10. Arrangements for investigation work are defined in the Council's policies and procedures for Counter Fraud and Confidential Reporting (Whistleblowing) and these are reported to Corporate Management Team and the Audit Committee in the Annual Fraud Report. The Council has also created a Corporate Fraud Team from the transfer of Housing Benefit Fraud employees into the Division.
11. To examine the effectiveness of the Internal Audit Section for the past year this annual review considered key elements and assessed their contribution to enabling the Section to fulfil its responsibilities. These were:
 - The structure and resourcing level, including qualifications and experience of the audit team.
 - The extent of conformance with the PSIAS in producing quality work.
 - Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis.
 - The overall performance of the Internal Audit team.

Resourcing, Qualifications and Experience

Resourcing

12. During 2013/14 there was little staff turnover other than the retirement of the Internal Audit and Risk Manager however this post was replaced by the Chief Internal Auditor and Corporate Fraud Manager. The establishment was increased with an additional Principal Auditor with specific expertise in Procurement and Contract Audit. As a result there were on average 20 audit employees available for audit work during the year.

13. Audit work was actively managed within the resource available and progress toward delivery reviewed regularly. The focus was maintained on clear scoping and coverage for assurance activity; timing of work and availability of clients; and control over the allocation of resources for investigation referrals and in-year requests for support. Alternative means for gaining assurance were assessed and used where appropriate to support audit opinions. Progress and outcomes were regularly reported to Clients, Service Grouping Management Teams, Corporate Management Team and to the Audit Committee.
14. The audit plan is on target for completion by year end and there will be minimum need to carry forward audit work from 2013/14 into next year except where draft reports still require management responses to enable final reports to be issued in July or where services have asked for timings and/or scope changes in work. Some work was deferred following review of the audit plan and these have been agreed at the Audit Committee throughout the year.
15. To supplement the in-house team, limited external resources were used as planned for specialist ICT audit work from colleagues at IT Audit North. This has provided additional technical expertise to complement the work of the Principal Auditor with responsibility for ICT.

Structure

16. The structure of the section reflects the configuration of the Council at Corporate Director level and allows for close client liaison during the year. The structure is intended to remain the same allowing the opportunity for auditors to continue to develop a depth of knowledge and client relationships. This wherever possible offers continuity to clients who can then regularly deal with the same auditors over a period of time. We consider this approach continues to be successful in building a better understanding of the Council and its business needs and objectives and the Section continues to receive positive feedback from management on this approach. There is a need for staff rotation for development purposes and to maintain objectivity.

Audit and Risk Management

17. The Division enables the objectives of Internal Audit to be more clearly articulated through the service planning process and is demonstrated in service plans. Key priorities, options for development and service delivery, service objectives assessments of performance and workforce plans are encapsulated in the annual Internal Audit Plan. Shared intelligence and some joint working has been undertaken to improve the assurance and support services offered to Service Groupings and Schools while maintaining Internal Audit's distinct identity.

Training and Experience

18. The training and development within the Division encourages development through both the Institute of Internal Auditors (IIA) qualification and continuing professional development.
19. During the year two auditors have progressed their IIA studies and one has progressed with CISA (IT Auditor Qualification). All other employees hold at least one audit qualification. For Continuous Professional Development all employees had access to and attended events selected from internal and external training events. Individuals keep records of their continuing professional development based on their professional requirements and a central record is held on the Internal Audit software package 'Galileo'. A training plan for the coming year is being constructed based on needs for the service, linked to the service improvement plan and individual appraisals training plans.
20. The following information about qualifications and experience of employees available for audit work demonstrates the experience and qualification mix.

Experience 2013/14

Auditing Experience	No	%	Local Government Auditing	%
Up to 1 Year	0	0	0	0
1 to 2 Years	0	0	0	0
2 to 5 Years	1	5	1	5
5 to 10 Years	5	24	5	24
Over 10 Years	15	71	15	71
Total Employees	21	100	21	100

Qualifications

Accountants (CCAB)	7
Institute of Internal Auditors – Training	2
Certified Information System Auditor – Training	1
Association of Accounting Technicians	10
Association of Accounting Technicians – part qualified	1
Total	21

21. The level of experience of audit employees was increased with those training who completed the IIA certificate course and experience log. Long standing experience was reduced slightly with the retirement of the Internal Audit and Risk Manager. The skills level available remains high based on the substantial number of employees with over 10 years' experience and competencies in specific areas.

22. At 31 March 2014 the Section will have one vacancy. This is equivalent to 1.0 full time post. This will be reflected in the audit plan proposed for 2014/15 with the intention of deleting this post as a contribution to Council savings. The composition and delivery of the audit plan for 2014/15 will not be affected by this reduction.

Conformance with UK Public Sector Internal Audit Standards (PSIAS)

23. Internal Audit completed a self-assessment against the key elements of the PSIAS and is attached as Appendix 2. For 2013/14 this demonstrated that the Section was meeting 92% of the applicable Code requirements and 8% partially met. A service improvement plan is attached at Appendix 2.
24. There is still some further work to be done to adjust current processes and documents: specifically related to the need to embed the development improvement plan known as the Quality Assurance Improvement Programme (QAIP). This has been developed and is due to be implemented in July 2014.
25. All employees were introduced to the ethics requirements (as described in PSIAS) in relation to the professional role of an auditor. While the basis of this remains the same as in previous years employees were also required to read and sign a document confirming they understand the ethics and behaviour requirements. All employees provided an annual declaration of interests for consideration to enable management to ensure that there was sufficient information to address any potential conflicts of interest which arise during audit activities. Employees are obliged to raise any conflicts or issues with management during the year. Records are maintained for this.
26. Quality of audit work was actively managed in year and the achievement of quality standards enabled the Chief Internal Auditor and Corporate Fraud Manager to confirm work has been completed in conformance with PSIAS. Individual audits had agreed and clear scope; activity was reviewed and assessed for its effectiveness and quality during and after completion of work; and customer feedback was received from post audit questionnaires. It is planned to also compile an annual report for service groupings and Corporate Directors next year and an online questionnaire to be sent to all Senior Management to gauge the effectiveness of the audit approach.
27. Liaison with the External Auditor was productive and audit plans were coordinated within this process. The two services continue to share information and to use this to inform risk assessments and direct audit activity.

Ensuring the Effective Prioritisation of Internal Audit Work

28. Prioritisation of the work of the Section is achieved by the development and delivery of an annual risk based audit plan. This describes the assurance plans for the Section and includes capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate. The plan is based on a mix of different types of audit and investigation work to ensure that assurance over the Council's systems of governance, risk management and internal control is obtained from a number of different directions and sources.
29. The section's methodology for establishing audit priorities is aligned with the Council's governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs to support the Council's overall objectives. The approach is set out in the Internal Audit Plan presented and agreed by the Audit Committee.
30. It is considered that the 2013/14 Internal Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with Senior Management and the Audit Committee. It was based on reasonable estimates of available resources and with management requests and fraud investigations and referrals the plan is largely on track to be delivered. The Internal Audit Plan for 2014/15 will be presented to Audit Committee in June 2014.

Performance Measures

31. Performance Management of the Section and for individual auditors is focused on deployment of auditor time to best effect. This has three main elements related to how much time is spent auditing, completion of audits within set timescales and effectiveness of time deployed. The key deliverable for the Section is the completion of the Internal Audit Plan within the year.
32. Performance and progress are monitored through Key Performance Indicators (KPIs). These are agreed with the Audit Committee as part of the Internal Audit Charter. And allow for benchmarking to assess effectiveness. Comparative figures are used to consider areas for closer review.

33. The key performance measures for the Section over the last 12 months are:

KPI	Measure of Assessment	Target	Actual as at 31 March 2014
Planned audits completed	% of planned assurance work from original plan complete to draft report stage	90%	68% - Annual target not yet due but on target at quarter 3
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure	90%	85% - 16 days on average
Timeliness of Final Reports	% of final reports issued within 14 Calendar days of receipt of management response	95%	96% - 5 days on average
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95%	99%
Post Audit Customer Surveys	% of customers scoring at least 4 out of 5	100%	100%
Customers providing feedback responses	% of customers returning satisfaction returns	70%	61%

34. The key performance indicator measures show how many planned assurance reviews have been completed against a target of 90% within the audit year. It is proposed that this indicator is amended slightly to take account of the increasing level of Advice and Consultancy and Proactive Fraud work that is carried out during the year which also delivers an element of assurance. This new indicator will show the percentage of available days spent directly on audit work and again will be a target of 90%. This will ensure active management of time, effective scoping and agreed timing for audit work which will reduce delays and any down time.

35. For customer satisfaction there has been positive feedback on a number of specific jobs and this is reflected in the results from customer satisfaction questionnaires. A number of other positive comments were received from Service Groupings who commended the flexibility of the audit team was supporting them in addressing emerging issues as well as adapting audit plans to better address Service risks.

36. However the Service is concerned about the low level of customer satisfaction questionnaire returns from Services and as a result the indicator was based on a small return. Plans to carry out a programme of follow up with Services are intended to be carried out.

37. The issuing of draft reports is an assessment of the timeliness of the audit activity from the completion of a piece of work to the issuing of a draft report for consideration and response.

38. No concerns have been raised in relation to the application of professional standards for audit work and there have been no formal complaints.
39. Internal Audit costs and coverage are benchmarked with other Councils through CIPFA. The latest available figures for example showed that the cost of Internal Audit in Durham County Council, as a percentage of Council turnover is below average. There are a range of other figures and measures that the service uses to inform planning and to ensure that ongoing actions are taken to deliver and demonstrate value for money in the work that is completed.

Implementation of Recommendations

40. The process for monitoring implementation of recommendations continued to build on improvements last year and there are good levels of engagement from all services across the Council. Working closely with managers allowed for greater understanding of the challenges faced and in ensuring practical recommendations were made and alternative solutions considered in order to address risk.
41. Internal Audit continue to engage with the Council's quarterly reporting process and deliver regular quarterly reports to Service Grouping Management Teams and to Corporate Management Team. This process has helped to ensure that the time spent on the Service is targeted on key issues and that appropriate support and advice is offered at the right time.
42. The Audit Committee are provided with regular updates from the Section during the year and have the opportunity to challenge progress and outcomes. This includes asking senior managers to provide updates as necessary where there is felt of be a significant risk or concern. This process has provided an effective method for obtaining assurance during 2013/2014.

Audit Committee

43. The system of Internal Audit includes the role of the Audit Committee and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in the ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for the Audit Committee remained the same during 2013/2014.
44. Audit Committee requested reports from management in response to issues raised in Audit reports, demonstrating the positive steps being taken by the Committee to seek assurance over actions being taken to respond to concerns.

Summary and key priorities

45. The Section continues to build on its strengths and enhance its reputation. Service delivery remains a key priority in support of the Council's priorities and to help identify and address any risks to the delivery of corporate objectives. The Section is on track to deliver a comprehensive plan for the year and it is considered that the Section has a sound base for carrying out its audit activities and meeting its objectives to provide audit assurance and advisory support to the Council.

Recommendation

46. Members are asked to note the findings and conclusions of the 2013/2014 review of the effectiveness of the system of Internal Audit contained within this report.
47. Members are also asked to note the Service Improvement Plan for Internal Audit as a result of this assessment detailed in Appendix 2.

Contact: Paul Bradley

Tel: 03000 269645

Appendix 1: Implications

Finance

None

Staffing

None

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Human Rights

None

Consultation

None

Procurement

None

Disability Discrimination

None

Legal Implications

Compliance with Accounts and Audit Regulations 2011

REF	AREA FOR IMPROVEMENT	PSIAS REF	ACTION REQUIRED	RESPONSIBLE OFFICER	TARGET DATE	PROGRESS UPDATE
1.	Audit responsibilities are to be rotated periodically	1130	Rotation of auditors to deliver assignments is routine however rotation at Principal Auditor level to be complete in April 2015	Paul Bradley	April 2015	
2.	Internal Auditors Programme of Continuing Professional Development (CPD)	1230	Programme of CPD activities to be developed, delivered and evidenced	Paul Bradley	March 2015	First CPD exercise planned for 12 June 2014 to be held quarterly thereafter.
3.	Terms of Reference to be drafted for all audit engagements	1220	Auditors and Managers to ensure Terms of Reference are created for all audit engagements	Paul Bradley Stephen Carter Paul Monaghan	Ongoing to be reviewed quarterly for compliance	
4	Development of a Quality Assurance and Improvement Plan	1300	Develop Quality Assurance and Improvement Plan and monitor its implementation	Paul Bradley	March 2015	Quality Assurance and Improvement Plan developed and to be implemented 1 July 2014 for 2014/15 audit year.

REF	AREA FOR IMPROVEMENT	PSIAS REF	ACTION REQUIRED	RESPONSIBLE OFFICER	TARGET DATE	PROGRESS UPDATE
5.	External Assessment to be completed once every five years	1312	Formally agree and external assessor and the date for the assessment. Formally agree the form and scope of the external assessment.	Paul Bradley	March 2015	Informal discussions have taken place with North Tyneside, South Tyneside and Newcastle to enter into a quadripartite agreement to complete external assessments. To be formally documented.
6.	Formally report the results of the Quality Assurance and Improvement Plan	1320	Present through the Annual Audit report to Corporate Management Team and Audit Committee on the results of the Quality Assurance and Improvement Plan	Paul Bradley	March 2015	Quality Assurance and Improvement Action Plan to be implemented 1 July 2014 and monitored across the 2014/15 audit year.

REVIEW OF SYSTEM OF INTERNAL AUDIT 2013/2014 – ACTION PLAN

APPENDIX 2

REF	AREA FOR IMPROVEMENT	PSIAS REF	ACTION REQUIRED	RESPONSIBLE OFFICER	TARGET DATE	PROGRESS UPDATE
7.	Development of the Council's Assurance Framework	2010	Whilst there is an Assurance Framework that supports the Annual Governance Statement. The Audit Plan 2015/16 is to be developed with reference to an 'Assurance Map' that details where the Council gets its assurance supported by the Council's Assurance Framework.	Paul Bradley	March 2015	
8.	The Chief Internal Auditor should share information and coordinate activities with internal and external providers of assurance	2050	Further development of the Assurance Map will identify those areas of assurance where further work should be developed e.g. Ofsted, Care Quality Commission etc.	Paul Bradley	March 2015	To support the Assurance Map. This work will also support the Annual Audit Report for 2014/2015
9.	Internal Audit to evaluate the design, implementation and effectiveness of the Councils ethics and its related objectives, programmes and activities	2110	Audit assignment to be completed	Paul Bradley	March 2015	Ethics review included in the 2014/15 audit plan. Training being completed in June 2015 to inform the review and begin to define the scope.

REF	AREA FOR IMPROVEMENT	PSIAS REF	ACTION REQUIRED	RESPONSIBLE OFFICER	TARGET DATE	PROGRESS UPDATE
10.	Audit reports to include acknowledgement of satisfactory and good performance where it is noted.	2410	To be consistently applied across all audit reports communicated to clients	Paul Bradley	To be monitored throughout the audit year for formal review in March 2015	

Audit Committee

26 June 2014



Annual Audit Opinion and Internal Audit Report 2013/2014

Report of Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. This report provides members with the Chief Internal Auditor and Corporate Fraud Manager's assurance opinion on the adequacy and effectiveness of the Council's internal control environment.
2. The report also presents the Annual Internal Audit Report for 2013/2014 in Appendix 2.

Background

3. The Public Sector Internal Audit Standards (PSIAS) established in 2013 are the agreed professional standards for internal audit in local government. PSIAS was the Code under which the Internal Audit Service operated during 2013/2014. It sets out the requirement for the Chief Internal Auditor and Corporate Fraud Manager ("Chief Audit Executive") to report to officers and the Audit Committee ("The Board") to help inform their opinions on the effectiveness of the Internal Control environment in operation within the Council.
4. The Annual Internal Audit Report should therefore be considered in the context of fulfilling the above requirement.
5. The annual internal audit opinion contributes to the completion of the Annual Governance Statement (AGS). It is specifically timed to be considered as part of the Council's annual review of governance and internal control and is reported alongside the Review of Effectiveness of Internal Audit.
6. Internal Audit therefore has a professional duty to provide an unbiased and objective view of the Council's Internal Control environment. Internal Audit is independent of the processes that it evaluates and as such reports to Corporate Management Team and the Audit Committee.

7. Based on the work undertaken during the year, Internal Audit is able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2013/2014. This moderate opinion ranking is the same as 2012/2013 and provides assurance that there is a sound system of control in place however there are some weaknesses and evidence of ineffective controls. Despite this similar opinion it is encouraging to note that fewer 'Limited Assurance' opinions have been made in 2013/2014 compared with previous years, which indicates a positive direction of travel and given the constant extent of change the Council continues to face and the reduction in resources the sustainment of this assurance opinion should be regarded as positive.
8. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
9. There are no adverse implications for the Authority's Annual Governance Statement arising from any of the work that Internal Audit has undertaken in 2013/2014. All of the risks raised within Internal Audit reports have been accepted. Internal Audits recommendations, or alternative proposed actions made by Management in response to the risk issues, have been agreed to be implemented. Full implementation of the agreed actions will realise the benefits of the control improvements detailed in each individual audit report. Internal Audit will follow up the implementation of its recommendations, or any agreed alternative actions, with the relevant responsible officers, as soon as is practically possible, after the target implementation dates. Progress on the implementation of audit recommendations will be reported through to this Committee in future progress reports on the 2014/2015 Internal Audit work.

Recommendation

10. Members are asked to note the content of the Annual Internal Audit Report and the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's Internal Control environment for 2013/2014.

Appendix 1: Implications

Finance

There are no direct financial implications arising for the Council as a result of this report, although we aim through 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

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

Compliance with the Accounts and Audit Regulations 2011

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INTERNAL AUDIT

ANNUAL REPORT

2013 / 2014

Altogether better



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1. Introduction and Background

- 1.1 This report summarises the work carried out by Internal Audit during the financial year ended 31/03/2014 and provides assurance on the effectiveness of the Council's control environment, risk management and corporate governance arrangements in place during the year.
- 1.2 The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires Local Authorities 'make arrangements for the proper administration of their financial affairs and ensure that one of its officers has responsibility for the administration of those affairs'.
- 1.3 The Accounts and Audit (England) Regulations 2011 requires the Council to, "undertake an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with proper practices in relation to internal control". The Council has delegated this responsibility to the Corporate Director, Resources and the Internal Audit and Risk service carry out the Internal Audit role.
- 1.4 From 1 April 2013 Public Sector Internal Audit Standards (PSIAS) define the proper internal control practices alongside the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note.
- 1.5 This report fulfils the requirement of PSIAS 2450 for the Chief Internal Auditor and Corporate Fraud Manager ("Chief Audit Executive") to provide an annual report to the Audit Committee ("The Board") timed to support the Annual Governance Statement (AGS).
- 1.6 The report sets out:
 - The annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment).
 - A summary of the audit work carried out from which the opinion is derived.
 - Details of the quality assurance arrangements in place during 2013/2014 which incorporates the outcomes of the last annual review of the effectiveness of Internal Audit carried out by the Audit Committee in June 2013. A review of effectiveness against compliance with the PSIAS.

2. Service Provided and Audit Methodology

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

- 2.2 The primary objective of Internal Audit is to provide an independent and objective opinion on the Council's control environment.
- 2.3 The Internal Audit Charter, agreed by the Audit Committee, establishes and defines the terms of reference and audit strategy for how the service is to be delivered. Audit services are also provided to a number of external clients including the Durham Police and Crime Commissioner and the Durham Constabulary, Durham and Darlington Fire and Rescue Authority and the Durham and Mountsett Crematoria Joint Committees.
- 2.4 The service is also responsible for the internal audit of the Durham County Pension Fund. The agreed audit strategy to provide independent assurance, as detailed in the Internal Audit Charter, is summarised as follows:
- To work in consultation with senior management teams and other providers of assurance to prepare strategic and annual audit plans.
 - To carry out planned assurance reviews of the effectiveness of the management of operational risks in all key service activities/systems over a rolling 5 year programme (Strategic Audit Plan).
 - To carry out assurance reviews of the management of strategic risks where the effective management of the risk is heavily dependent on identified controls.
 - To carry out annual reviews of key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial and non-financial systems.
 - To use a Control Risk Assessment (CRA) methodology to focus audit resources on providing assurance on key controls where there is little or no other independent assurance on their adequacy or effectiveness.

3. Types of Audit Work Carried Out in 2013/2014

Assurance Reviews

- 3.1 Assurance reviews are those incorporated into annual audit plans from strategic plans where the CRA methodology is to be applied. They also include service requests to provide assurance on more specific risks within a particular service activity.
- 3.2 On completion of each assurance review an opinion on the adequacy and / or the effectiveness of the control framework in place is provided to inform the annual audit opinion.

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

Advice and Consultancy Work

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

Counter Fraud Work

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

Grant Certification

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

4. Audit Quality Assurance Framework

- 4.1 The Internal Audit Charter sets out the performance and quality framework for the service. This reflects the requirements of the PSIAS.
- 4.2 Key elements of the quality assurance framework operating during 2013/2014 include:
- Independent quality reviews undertaken by audit managers as a matter of routine and periodically by the Chief Internal Auditor and Corporate Fraud Manager to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained.
 - Internal Audit was a member of the CIPFA Audit Benchmarking Club. The key outcomes from the most recent exercise were considered by the Audit Committee as part of the effectiveness of the service.
 - Key contacts, determined by appropriate Heads of Service, agree the Terms of Reference for each audit review and are able to challenge the findings and content of draft reports prior to them being finalised.
- 4.3 A summary of our performance against agreed indicators is provided in Appendix A.

- 4.4 It should be noted that the audit planning year was revised in 2011 and the approved audit plan for 2013/2014 covered work to be carried out in the period July 2013 to June 2014. The actual performance shown therefore does not relate to a whole year but to the period July 2013 to March 2014. Performance in relation to the whole year will however continue to be monitored and will be reported to the Audit Committee as part of the Internal Audit Progress as at 30 June 2014 (report to be presented in September 2014).
- 4.5 As at the 31 March 2014, the % of planned assurance work completed after 9 months indicated that the service is on track to deliver its target to complete 90% of planned assurance work.
- 4.6 The Accounts and Audit (England) Regulation 2011 requires the Council to carry out an annual review of the effectiveness of Internal Audit. The outcome is reported to Audit Committee.
- 4.7 The last review was carried out by the Corporate Director, Resources and considered by the Audit Committee in June 2013. It included the outcomes of an evaluation survey issued to all Heads of Service and Corporate Directors. The response to the survey was poor but the responses received were on the whole positive. An initial assessment against the requirements of PSIAS was also completed. Overall the Committee concluded that the service was effective and reliance could be placed on the audit opinion provided by the service.
- 4.8 A further review of the effectiveness of the internal audit service has been completed and is informed by a first formal review of the service in terms of its performance, skills and experience mix and against PSIAS completed by the newly appointed Chief Internal Auditor and Corporate Fraud Manager and has been reviewed by the Corporate Director, Resources. An action plan has been produced for areas of non or partial compliance and improvements required during 2014/2015 in order to strive towards full compliance. The outcomes of this latest review will be reported to Audit Committee.

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

- 5.1 The main areas of improvement were identified through the last annual review of the effectiveness of the service related to skills mix of the in-house team needing strengthening in relation to IT audit, Procurement and Contract audit and fraud investigation.

- 5.2 As a result the service appointed a trainee IT auditor to work alongside the services current in-house IT auditor and with the external contractor that supplemented the IT audit provision. It is with great pleasure to report that the trainee IT auditor continues to do well and hopefully will have gained the relevant qualification in December 2014.
- 5.3 A specialist Procurement and Contract Auditor was appointed and is in post in January 2014.
- 5.4 As a result of the transfer of benefit fraud employees from Revenues and Benefits the service has now established a Corporate Fraud Team that has is beginning to influence pro-active fraud work and promote the counter fraud strategy across the organisation.
- 5.5 Work continues to embed a risk based approach to audit work and further training and Continuous Professional Development (CPD) training programme is being developed with the first session planned for June 2014.
- 5.6 In addition one employee has successfully achieved the IIA Diploma in Internal Auditing qualification and is progressing to the next stage during the year adding to the professional diversity of the section.
- 5.7 It should be noted that the new PSIAS 1300 requires the Chief Audit Executive (Chief Internal Auditor and Corporate Fraud Manager) to develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of internal audit activity. Improvements to date, plus any further actions arising from the 2013/2014 annual review of effectiveness will be incorporated into an action plan that will be monitored during 2014/2015.

6. Summary of Audit Work Carried Out

Assurance Work

- 6.1 Our work programme for the financial year 2013/2014 was determined by work carried out in April to June 2013 from the 2012/2013 audit plan and work carried out between July 2013 and March 2014 from the approved 2013/2014 audit plan.
- 6.2 A summary of assurance work completed during the year is attached at Appendix E.

Advice and Consultancy Work

- 6.3 All planned reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks and the development of controls. This evaluation and challenge supports the effective and efficient use of resources and value for money (VFM).
- 6.4 Through our advice and consultancy work we are able to add value proactively and reactively.
- 6.5 Reactive work involves positively responding to ad-hoc requests for advice and reviews added to the audit plan to address new or emerging issues and risks. It also includes responding to potential fraud and irregularities and we ensure that all such incidents are properly investigated and that appropriate action is taken by managers, whether or not fraud or malpractice is proven. This work is delivered from the contingency provision within the audit plan.
- 6.6 As summary of key advice and consultancy work completed during the year is attached at Appendix B.

7. Key Areas for Opinion

- 7.1 The three main areas of the control environment considered when determining our assurance opinion are:
- Financial Management
 - Risk Management
 - Corporate Governance
- 7.2 Assurance has been provided on some aspects of all key financial systems during the year. It is acknowledged that good progress continues to be made during the year in improving the operational efficiency and performance of key financial systems. However, testing of the control environment in operation during the year still highlighted some weaknesses in controls.
- 7.3 Independent assurance on the effectiveness of the Council's risk management arrangements has been provided by consideration of the adequacy and effectiveness of operational risk management through the risk based audit approach and the CRA methodology applied to individual audit assignments. This in turn provides some assurance on the management of related strategic risks.

- 7.4 A number of audits have been carried out during the year to provide independent assurance on the effectiveness of specific key corporate governance arrangements. In addition, compliance with relevant key council policies and procedures has also been considered as part of the risk based approach to the audit service related planned assurance reviews.
- 7.5 Key issues arising from audit work where controls have improved or further improvements have been identified are summarised in Appendix C.
- 7.6 The implementation of audit recommendations made to improve the control environment helps to embed effective risk management and strengthen the effectiveness of the Council's corporate governance arrangements. Details of progress made on the implementation of all High and Medium ranking recommendations are reported quarterly to Corporate Directors and the Audit Committee. A summary of progress on actions due at 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

7.7 The % of audit recommendations implemented by service managers within agreed target dates continues to improve and the Council out performs many of its benchmarked comparators. This statistic stands at 92% before revised targets are incorporated, this increases to 99% if revised to include revised target dates.

8. Audit Opinion Statement

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

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

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

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

- All audit work undertaken during the year.
- Follow up action on audit recommendations.
- Any significant recommendations not accepted by management and the consequent risk.
- The effects of any significant changes in the Council's systems.
- Matters arising from previous reports to the Audit Committee.
- Any limitations which may have been placed on the scope of the internal audit.
- The extent to which resource constraints may impinge on internal audit's ability to meet the full audit needs of the Council.
- The outcomes of the audit quality assurance process.
- The reliability of other sources of assurance considering when determining the scope of audit reviews.

8.5 Consideration of the direction of travel on the adequacy and effectiveness of the control environment since becoming a unitary authority. We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's system of internal control. Based on the work undertaken, we are able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2013/2014. This moderate opinion ranking provides assurance that there is a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls.

- 8.6 This overall 'moderate' opinion reflects the same overall opinion as the last four years and reflects the widening scope of internal audit, with new audit areas being undertaken each year as part of the agreed audit strategy to review key service activities over a five year rolling programme.
- 8.7 The adequacy and effectiveness of key financial controls is a major consideration in our opinion. Whilst good progress has been continued to be made during the year to improve a number of key financial systems which has provided a better operational platform for effective financial risk management however some key controls were not operating effectively in 2013/2014 hence the same 'moderate' opinion on the financial control environment as the last four years. The expectation is that the financial control environment will continue to improve as new systems and processes become more robust and the recently refreshed and enhanced financial management standards become embedded.
- 8.8 All audits with a limited assurance opinion have disclosed at least one high risk finding and these are subject to more rigorous follow up and are reported to Audit Committee on an exception basis.
- 8.9 Where Internal Audit has identified areas for improvement, recommendations are made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within target dates is high, in many cases there is a time gap between a control weakness being reported and the date determined by management for when the action can practically and realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion.

PERFORMANCE INDICATORS

Appendix A

Efficiency	Objective: to provide maximum assurance to inform the annual audit opinion		
KPI	Measure of Assessment	Target (Frequency of Measurement)	Actual as at 31/03/2014
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% (Annually)	Annual target not yet due – on target at the end of quarter 3.
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)	Actual as at 31/03/2014
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 responses	% 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)	Actual as at 31/03/2014
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	Yes (Yes)

KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2013/2014

Information Governance

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

Grant Work

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

Review of Contracts (Ongoing)

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

Internet and Intranet Development

The service has worked closely with colleagues in Assistant Chief Executive to input into the development work that has been completed on both the Council's Internet Website and its Intranet.

Project Genesis

Prior to unitisation Derwentside District Council had entered into a land development arrangement for a site within the district which was named Project Genesis. The service has developed an agreed process for land transfer to the board of the project and ensured that the projects community trust can transparently see when and where money is due to be received so that planned community projects can be delivered effectively. This has involved work with developer, the Project Genesis Trust and colleagues from Regeneration and Economic Development and Legal and Democratic Services.

Oracle R12 (Ongoing)

The service is represented on the working group developing the upgrade to the Oracle financial system. This will ensure any upgrade and improvement work does not weaken the current control environment and ensures a proactive approach to auditing.

Debtors Working Group (Ongoing)

The service is represented on the working group to improve the sundry debtors processes, with a primary focus at present on recovery and streamlining and ensuring that monies are recovered in an efficient manner without increasing risk.

Invoice Payment Improvement Group (Ongoing)

The service is represented on the working group to improve the efficiency of payment to the Council's creditors and to ensure that all necessary steps are taken to avoid error in payments. This is again a proactive piece of work that should ensure when formal assurance work is completed on the key systems that improvements do not lead to any future control risks.

KEY CONTROL ISSUES

Key Financial Systems

It is acknowledged that good progress continues to be made to improve the financial management framework, including the recent refresh of financial management standards. However the overall assurance opinion on the financial control environment operating during 2013/2014 was, overall, still considered to be Moderate.

The main areas where improvements were identified through internal work related to cash collection, debt recovery and the timely payment of creditors. A number of control weaknesses were identified primarily due to procedures not being clear and the roles and responsibilities of those involved need to be clarified. This is being addressed.

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

Direct Payments – Social Care Personal Budgets

Weaknesses in procedures were still prevalent in 2013/2014 relating to the control of direct payments having been raised at audit and has maintained the risk of financial loss due to misuse of funds in this high risk fraud area.

Asset Disposal

Whilst improvements to the policies and procedures have been put in place assurance can still not be given until these can be evidenced through the disposal process. Given the continued public interest the full implementation of agreed actions to address the control weaknesses is being closely monitored by the Audit Committee.

Internet Security

Weaknesses in the use of webmail were identified in order to Public Sector Network (PSN) compliant. Not all of the actions in the penetration test and IT healthcheck plan have been implemented and it was found that a range of obsolete software was being used by Services.

Weaknesses in Control Identified through fraud and irregularity investigations

Since the launch of the Counter Fraud and Corruption Strategy in 2010 (recently revised in May 2014), the number of potential cases of suspected fraud and / or irregularity reported to Internal Audit continues to increase year on year. Details of cases reported and the work being undertaken to combat the strategic corporate risk of fraud are reported to Corporate Management Team and the Audit Committee in the Annual Fraud and Irregularity Report.

It should be noted that of the potential cases reported in 2013/2014, improvements in controls weaknesses were identified in many of the cases, irrespective of whether or not any wrong doing was substantiated.

Findings

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

Impact Rating	Assessment Rationale
Critical	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 of 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	M
	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 the risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

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

Summary of Assurance Work 2013 / 2014

Appendix E

Service Grouping	Service	Audit Activity	Assurance Opinion
Assistant Chief Executive (ACE)	Partnership and Community Engagement	AAP Information Governance	Moderate
Assistant Chief Executive (ACE)	Planning and Performance	Data Quality	Moderate
Children and Adult Services (CAS)	Adult Care	Supported Housing Linked to Staff Houses	Moderate
Children and Adult Services (CAS)	Children's Services	One Point (Arrangements with Health)	Moderate
Children and Adult Services (CAS)	Children's Services	Out of Hours Safeguarding Arrangements in Secure Services	Substantial
Children and Adult Services (CAS)	Children's Services	Integrated Services	Moderate
Children and Adult Services (CAS)	Education	Educational Support Services	Moderate
Children and Adult Services	Education	Award of Additional Pay	Moderate
Children and Adult Services (CAS)	Planning and Service Strategy	Caldicott Compliance	Moderate
Children and Adult Services (CAS)	Planning and Service Strategy	POPPIE System Review	Moderate
Children and Adult Services (CAS)	Planning and Service Strategy	Blue Badge Scheme	Substantial
Children and Adult Services (CAS)	Planning and Service Strategy	Capita One	Moderate
Children and Adult Services (CAS)	Planning and Service Strategy	Domestic Abuse Forum – Exec Group	Moderate
Children and Adult Services (CAS)	Planning and Service Strategy	Public Health Transition	Substantial
Children and Adult Services (CAS)	Planning and Service Strategy	SSID System Review	Moderate
Children and Adult Services (CAS)	Public Health	Smoking Service – Nicotine Replacement Voucher Scheme	Limited
Neighbourhood Services (NS)	Direct Services	Enforcement and Education	Moderate
Neighbourhood Services (NS)	Direct Services	Construction Services and Planned Maintenance	Moderate
Neighbourhood Services (NS)	Direct Services	Trade Waste	Limited
Neighbourhood Services (NS)	Direct Services	Clean and Green (Housing Association Contract)	Moderate
Neighbourhood Services (NS)	Direct Services	On Site Procedures for Stores Management – Disposal of Waste Materials	Limited
Neighbourhood Services (NS)	Direct Services	Mountsett Crematorium	Substantial
Neighbourhood Services (NS)	Direct Services	Quality Management System (QMS) – Third Visit	Substantial
Neighbourhood Services (NS)	Environmental Health & Consumer Protection	Pollution Control	Moderate
Neighbourhood Services (NS)	Environmental Health & Consumer Protection	Inspection of Licensing - Taxis	Substantial
Neighbourhood Services (NS)	Environmental Health & Consumer Protection	Inspection of Licensing – Premises (Alcohol)	Substantial
Neighbourhood Services (NS)	Projects and Business Services	Strategic Waste Management	Full
Neighbourhood Services (NS)	Sport and Leisure	Gala – Stage School	Moderate
Neighbourhood Services (NS)	Sport and Leisure	Gala – Box Office	Moderate
Neighbourhood Services (NS)	Sport and Leisure	Gala – Variation Order	Moderate
Neighbourhood Services (NS)	Technical Services	Highways Maintenance	Moderate
Neighbourhood Services (NS)	Technical Services	Budgetary Control Service Review	Moderate
Regeneration and Economic Development (RED)	Economic Development and Housing	Business Durham	Moderate

Service Grouping	Service	Audit Activity	Assurance Opinion
Regeneration and Economic Development (RED)	Economic Development and Housing	Private Sector Housing	Full
Regeneration and Economic Development (RED)	Economic Development and Housing	Housing Tenancies and Lettings	Substantial
Regeneration and Economic Development (RED)	Economic Development and Housing	Visit County Durham	Full
Regeneration and Economic Development (RED)	Economic Development and Housing	Durham City Homes – Housing Rent	Moderate
Regeneration and Economic Development (RED)	Planning and Assets	Building Control (Safety at Sports Grounds)	Substantial
Regeneration and Economic Development (RED)	Planning and Assets	Asset Management (Disposal Arrangements)	Moderate
Regeneration and Economic Development (RED)	Planning and Assets	Carbon Reduction Commitment	Substantial
Regeneration and Economic Development (RED)	Transport and Contract Services	Civil Parking, Park and Ride, Off Street Parking	Moderate
Resources	Corporate Finance	Petty Cash Usage	Moderate
Resources	Corporate Finance	Medium Term Financial Plan (MTFP)	Substantial
Resources	Corporate Finance	Bank Reconciliations	Substantial
Resources	Corporate Finance	Short Term Investments	Substantial
Resources	Corporate Finance	Procurement Governance Review	Moderate
Resources	Corporate Finance	Banking Arrangements	Limited
Resources	Corporate Finance	Taxation (VAT)	Limited
Resources	Financial Services	Income and Debt Recovery	Moderate
Resources	Financial Services	Procurement Cards	Moderate
Resources	Financial Services	Payment Card Industry (PCI) Compliance	Limited
Resources	Financial Services	Revenues and Benefits Reconciliations	Substantial
Resources	Financial Services	Housing Benefit and Council Tax Reduction Admin (including Housing Benefit Subsidy)	Moderate
Resources	Financial Services	Welfare Assistance Scheme	Limited
Resources	Financial Services	National Non Domestic Rates (NNDR)	Moderate
Resources	Financial Services	Council Tax	Moderate
Resources	Financial Services	Section 17 Payments – Safeguarding Welfare of Children	Substantial
Resources	Financial Services	Public Health (Financial Arrangements)	Substantial
Resources	Financial Services	ICON Cash Management	Moderate
Resources	Financial Services	Council Tax: Key Controls	Moderate
Resources	Financial Services	National Non Domestic Rates (NNDR): Key Controls	Moderate
Resources	Human Resources and Organisational Development	Homeworking	Moderate

Service Grouping	Service	Audit Activity	Assurance Opinion
Resources	Information Communication Technology (ICT)	Internet Security	Limited
Resources	Information Communication Technology (ICT)	Income and Expenditure Project	Moderate
Resources	Information Communication Technology (ICT)	Unix Review	Moderate
Resources	Information Communication Technology (ICT)	Mobile Computing	Moderate
Resources	Information Communication Technology (ICT)	Business Continuity for ICT	Limited
Resources	Information Communication Technology (ICT)	Design and Print	Moderate
Resources	Information Communication Technology (ICT)	Access Control	Moderate
Resources	Legal and Democratic Services	Corporate Governance – Litigation Database	Moderate
Resources	Legal and Democratic Services	RIPA	Substantial

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Audit Committee

26 June 2014

**Draft Annual Governance Statement for
April 2013 – March 2014**



Report of Don McLure, Corporate Director, Resources

Purpose of the Report

1. This report seeks approval of the draft Annual Governance Statement (AGS), attached in Appendix 2.

Background

2. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way which functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
3. The Council has approved and adopted a code of corporate governance which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – 'Delivering Good Governance in Local Government'. The AGS explains how the Council complies with this code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a Statement on Internal Control.

Presentation of the Annual Governance Statement

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

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

Consideration of corporate sources of assurance

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

Service assurance on the effectiveness of the governance framework

Corporate Directors and the Assistant Chief Executive were asked to complete an assurance statement, which noted any changes implemented during the 2013/14 year, and to identify any improvements required/ planned.

Recommendations and reasons

7. Audit Committee is requested to:
- approve the first draft of the AGS for 2013/14 attached in Appendix 2;
 - confirm that this report can proceed for information to full Council on 23 July 2014.

Contact: David Marshall Tel: 03000 269648

Appendix 1: Implications

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

Staffing - Ensuring the adequate capability of staff meets a core principle of the CIPFA/ SOLACE guidance.

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

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

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

Crime and Disorder – None.

Human Rights - None.

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

Procurement – None.

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

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

Appendix 2: Annual Governance Statement 2013/14

1. SCOPE OF RESPONSIBILITY

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

The Accounts and Audit (England) Regulations 2011 require the Council to prepare an annual governance statement, which must accompany the statement of accounts. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The Council has approved, adopted and published on its website, a code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – “Delivering Good Governance in Local Government”.

This statement explains how the Council has complied with the code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at the Council for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements are detailed in the Council's Local Code of Corporate Governance, which is documented in the Council's [Constitution](#). This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the six core principles of the CIPFA/ SOLACE Framework.

The Council considers the governance implications of its actions, and revised its Local Code of Corporate Governance in January 2014 to ensure that it remains consistent with the principles of the CIPFA/SOLACE Framework – “Delivering Good Governance in Local Government”. The Code also aims to ensure that the corporate governance arrangements help the Council to appropriately respond to sustained pressures from a variety of sources.

The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we have further improved our corporate governance arrangements during 2013/14.

The Six Principles of Good Governance

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

The [Sustainable Community Strategy \(SCS\) 2014 – 2030](#) which has been produced by the Council in conjunction with its partners on the County Durham Partnership, demonstrates its shared long-term vision for the future of County Durham. This vision for County Durham, namely ‘Altogether Better Durham’ outlines two areas of focus – **Altogether Better Place** and **Altogether Better for People** and five priority themes, which represent the major issues identified by residents:

- Altogether wealthier – focusing on creating a vibrant economy and putting regeneration and economic development at the heart of all our plans. This theme is supported by the [Regeneration Statement 2012 – 2022](#) and the [County Durham Plan](#);
- Altogether better for children and young people – ensuring children and young people are kept safe from harm and that they can ‘believe, achieve and succeed’. This theme is supported by the [Children, Young People and Families Plan 2014 - 2017](#);
- Altogether healthier – improving health and wellbeing, supported by the [Joint Health and Wellbeing Strategy 2013 – 17](#);
- Altogether greener – ensuring an attractive and ‘liveable’ local environment and contributing to tackling global environmental challenges. This theme is supported by the [County Durham Plan](#);
- Altogether safer – creating a safer and cohesive county, supported by the [Safe Durham Partnership Plan 2011 – 2014](#).

The latest three-yearly update of the SCS was approved by the Council in April 2014. This refreshed version of the strategy reflects changes in local priorities and the need to deliver services with fewer resources.

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

The [Council Plan 2014 – 2017](#) was approved in April 2014 and contains the Council's corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the Council's own improvement agenda. The [Council Plan](#) is supported by a series of Service Plans at a Service Grouping level which detail the planned actions to deliver the Council's vision.

The [Medium Term Financial Plan 2014 – 2017 \(MTFP4\)](#) was approved by the Council in February 2014. This provides a financial framework associated with the [Council Plan](#) that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes. It also enables the continued provision of value for money (VFM). The key risk facing the Council continues to be the challenge of managing unprecedented budget reductions in the current period of economic austerity. To meet this challenge, a comprehensive schedule of savings targets has been programmed to achieve the necessary savings to enable us to deliver a balanced budget and [MTFP](#). Assurance over the delivery of this programme is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT) and Cabinet and the target savings of £20.9m for 2013/14 have been delivered. These arrangements will equip the Council well for dealing with further austerity measures announced as part the latest central government spending review. The Council has maintained prudent levels of reserves enabling us to meet unanticipated expenditure as necessary whilst still achieving planned savings targets and meeting service level expectations.

Through good governance, the Council continues to improve the quality of services, and this is confirmed by external independent sources of assurance, including Ofsted, the Care Quality Commission, Housing Inspections and accreditation to professional standards. Further assurance on the performance and direction of travel of the Council was gained by winning the Council of the Year category at the 2014 Local Government Chronicle Awards, described as "the biggest celebration of innovation and talent across British councils". Judges were impressed by relations with local businesses, support for small and medium enterprises, real progress in community asset transfer and the contribution made to the wider area.

Assurance can also be taken from the positive conclusions of the [Peer Review](#) by the Local Government Association which was undertaken in 2012 and the actions taken since based on their findings and recommendations.

To manage and measure service improvement, the Council has a locally led performance management framework that links to the SCS and the [Council Plan](#), and ensures that attention is focused on Council priorities. Key target indicators are used in areas where improvements can be measured regularly and can be actively influenced by the Council and its partners. Where possible, performance is compared with that of other Councils using a recognised, online tool.

The Council continues to seek value for money (VFM) through its high level objective 'effective use of resources' under the Altogether Better Council theme. In this way, pursuit of VFM is built into the all of the Council's plans and activities, and numerous reviews have been undertaken across the Council to provide assurance that VFM services are being provided. Senior Management Teams have used benchmarking data from statutory returns, such as budget statements collected by the Department for Education and the Personal Social Services Expenditure Return, to inform programmes of VFM reviews and savings options in various service areas. Where necessary, this has been supplemented by data from commercial benchmarking clubs, such as Chartered Institute of Public Finance Accountants, to facilitate meaningful comparisons with other organisations. Independent assurance of our VFM was also gained from the Audit Commission, who issued an unqualified VFM conclusion for our 2012/13 Accounts.

The Council's Cabinet is responsible for monitoring performance and ensures that effective arrangements are put in place to deal with any failures in service delivery. Assurance is gained through quarterly performance reporting to Cabinet and through performance clinics between the Chief Executive and individual Directors during the year. Members have robustly scrutinised the performance of the Council, demonstrated by a number of key scrutiny reviews of Council services during 2013/14, which are outlined in the [Overview and Scrutiny Annual Report](#).

The Annual Statement of Accounts was approved by the Audit Committee in September 2013, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2011. Further independent assurance of the Council's financial management was provided by the Audit Commission in both their Annual Governance Report and Certification of Claims and Returns Annual Report. Governance reviews are also led by Services, such as the quality assurance team in Children and Adults Services, who carried out a number of audits during the year.

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

- The framework for managing the Council's financial affairs, namely the Financial Procedure Rules, was reviewed and reported to Council in April 2014;
- Financial Awareness training was given to budget holders;
- Business Intelligence software was implemented, providing budget holders with immediate access to tailored financial management information and improving budgetary control;
- ICON, the income management software, was rolled out, enabling the Council to comply with the Payment Card Industry Data Security Standards;
- A new role of Chief Internal Auditor and Corporate Fraud Manager was created to strategically align fraud and internal audit, and a Corporate Fraud Team was formed in December 2013, to provide access to trained investigators and allow greater coverage of counter fraud work;
- A new governance and performance framework to improve financial control of the capital portfolio was implemented;
- A corporate protocol for the governance of insurance and insurable risk was implemented;

- We utilised specialist independent actuaries in September 2013 to provide assurance that we are achieving value-for-money between external insurance cover and self-funding arrangements, and for those risks which we self-insure, providing assurance that the funds we have set aside to meet estimated future claims are appropriate.

A programme management approach for key corporate projects has been established and embedded including project management training across the Council. Examples which demonstrate that rigorous programme management has enabled effective delivery of major projects include the Council Tax Support Scheme and the transfer of Community Buildings. Moreover, a programme management approach to the changes introduced by the Welfare Reform Act has been put in place. Assurance is gained by regular monitoring of the delivery of these projects by Corporate Management Team. The effectiveness of these arrangements is also demonstrated by the Council being highly commended in the Local Government Chronicle awards for its programme on waste management, recycling and rubbish collection. The judges said:

“In June 2013, the Council completed one of its biggest transformational programmes – the Durham County Council Waste Programme. This has successfully transformed services to become more responsive and high-quality, while massively reducing cost, increasing value for money and introducing improved ways of working. The new arrangements generated £4m of savings and significantly increased landfill diversion and recycling performance”.

The Council’s [Corporate Asset Management Plan \(CAMP\)](#) and Property Strategy were approved by Cabinet in July 2013. The [CAMP](#) sets out the Council’s approach to ensuring that it makes best use of its assets in terms of service benefit, financial benefit and value for money. The Property Strategy sets out the main principles to ensure that opportunities to share the use of property are identified, and to make sure that assets are fit for purpose, cost effective and used to support regeneration and economic development. A major programme was undertaken to transfer control of around 100 public buildings to the local community, which has ensured continued provision of community facilities, significant reductions in maintenance costs, and continued support to and engagement from members of the community. Service Asset Management Plans are also in place and these include any heritage assets of the holding service.

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

The key governance documents supporting this principle are contained in the [Constitution](#). These arrangements are further strengthened by a number of formal member and officer working groups.

The [Constitution](#) sets out how the Executive is made up and how appointments to this committee are made. The roles and responsibilities allocated by the Leader under the terms of the [Constitution](#), to individual members and the committee as a whole, are set out in detail in the [Constitution](#) as well as the Scheme of Delegation for Senior Officers. The [Constitution](#) allows joint arrangements to be established for specific purposes such as the provision and maintenance of crematoria, and sets out details of existing joint arrangements, including purpose, parties and effective dates.

The Constitution Working Group, which consists of the lead members of each political party, and is chaired by the Leader of the Council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the Council in May 2014. Key changes include the transfer of the overview of customer complaints from the Standards Committee to the Corporate Issues Overview and Scrutiny Committee, and amendments to the Overview and Scrutiny Procedure Rules and the Petition Scheme to reflect changes in legislation.

The Health and Wellbeing Board, a Committee of the Council, was established as a consequence of the transfer of public health responsibilities from the NHS to the Council. Its functions include:

- Developing and agreeing the Joint Strategic Needs Assessment and Joint Health and Wellbeing Strategy; and
- Promoting integrated working between commissioners of health services, public health and social care services, for the purpose of advancing the health and wellbeing of people in its area.

The arrangements and rules of procedure for the Overview and Scrutiny function, including the membership, functions and scope of the Overview and Scrutiny Board and each Committee is set out in detail in the [Constitution](#). Terms of Reference for the Board and Committees are set within the context of the [Council Plan](#) and the [Sustainable Community Strategy](#).

Following the Council election in May 2013, under the terms of the [Constitution](#), the Council elected a Leader and made appointments to a number of committees with various regulatory and scrutiny responsibilities. The Leader has nominated nine other councillors, including a Deputy Leader, with specific responsibilities to form the Cabinet.

Members and Officers work together on the workload of the Cabinet which is managed through a system of Cabinet pre-agenda meetings. To support this, Corporate Directors have held regular briefing sessions with Cabinet Portfolio Members and their support Members. For example, a number of informal sessions took place throughout the [MTFP](#) planning process to ensure CMT and Cabinet have a shared understanding of the complexities in the [MTFP](#) process, and all Opposition parties were briefed during the development of the [MTFP](#). Other examples of Members and Officers working together include monthly meetings of the Capital Member/Officer Working Group and six-monthly updates on disposals of surplus property.

Member remuneration is overseen by an independent panel, and their report was approved by Council in February 2014.

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

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

The key governance documents supporting this principle are the [Constitution](#), the [Council Plan](#) and the Register of Gifts and Hospitality.

A climate of openness has been encouraged by the Council Leader who holds regular Cabinet meetings at various locations throughout County Durham. The key elements of the Council's approach to communicating and embedding the expected standards of behaviour for Members and staff are also detailed in the Council [Constitution](#). The Council's Codes of Conduct included in the [Constitution](#) also apply to its partnership working, and the revised Code of Conduct for Employees was implemented in May 2014. The [Constitution](#) also sets out a protocol for the Chairman and Vice-Chairman of the Council that includes an expectation of political neutrality and acting as the conscience of the Council

The values of the Council are further promoted in the revised Equality Policy, which was approved in January 2014 and includes 'protected characteristics' covered by the Equality Act. Supporting this scheme is an impact assessment process, which ensures that the impact on equality is considered in the Council's decision making. For example, in 2013/14, the [MTFP](#) was fully equality impact assessed. A schedule of impact assessments is monitored through the Equality, Diversity and Cohesion Working Group. The implementation of the Access Strategy is monitored by the Equality, Diversity and Cohesion Working Group and a programme is in place for making access improvements to identified priority buildings.

The Standards Committee has the key governance role of promoting and monitoring high standards of conduct by elected Members, independent Members and co-opted Members. The Localism Act 2011 introduced a new duty to promote and maintain high standards of conduct and a new ethical framework was adopted in July 2012. The [Annual Report of the Standards Committee](#) was presented to the Full Council in September 2013.

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

In response to amendments to the Protection of Freedoms Act 2012, the corporate guidance on investigations under the Regulation of Investigatory Powers Act has been updated.

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

The key governance documents supporting this principle are the [Constitution](#); the Corporate Complaints Policy and Procedure; the Risk Management Strategy and Policy; the Counter Fraud and Corruption Strategy; and the [Confidential Reporting Code \(Whistleblowing policy\)](#).

The Council's [Constitution](#) sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are effective, transparent and accountable to local people. This includes the Officer Scheme of Delegation, which is reviewed annually in line with the review of the [Constitution](#). For example, an amendment was made to the [Constitution](#) to reflect the revised scheme of delegation to officers for the Corporate Director, Resources.

All major decisions as identified in the officer delegations scheme are documented, with the reports and decisions made for those that are in the public domain being available on the website. All Cabinet reports must state that legal advice on proposals has been sought, as well as the source of the advice, and Chief Officers and Heads of Service were briefed on this by way of a refresher in February 2014 by the Head of Legal and Democratic Services.

A notice of key decisions covering a rolling period of four months is published on the Council's website. Decisions made by the Executive are published on the Council's website within two days of the respective meeting. Assurance over the adequacy and effectiveness of the control framework for the Committee Management System was provided by Internal Audit.

To maintain the accountability and integrity of the Council's decision-making, a number of further improvements to governance in this area have been implemented in 2013/14. For example:

- Face to face data protection training was provided to 130 officers in November 2013 to address identified training needs, in addition to all staff being covered by online training.
- The Potential Data Breach policy was updated and circulated;
- A training and awareness session was held in November 2013 for Records Champions.

The key mechanism provided for employees, and contractors and suppliers providing services for the Council, to raise concerns about potential breaches of conduct in decision-making is the [Confidential Reporting Code \(Whistleblowing policy\)](#), which is part of the Council's [Constitution](#), and is monitored by the Audit Committee. The policy is referenced in the Scheme of Financing of Schools, and the School Financial Value Standard requires schools to have appropriate whistleblowing procedures. A revised [Confidential Reporting Code](#) was approved by Audit Committee on 20 May 2014.

To further strengthen fraud awareness across the Council, 250 managers and staff have successfully completed fraud awareness training, and work has also progressed during the year to improve the effectiveness of the Council's Counter Fraud Strategy. This has been strengthened by the formation of the Corporate Fraud Team in December 2013.

Overview and Scrutiny, which consists of an Overview and Scrutiny Management Board and six committees, has the key role to make decision-making processes transparent, accountable and inclusive and to improve services for people by being responsive to their needs. Where appropriate, Members have scrutinised the decisions of the Council, demonstrated by a number of key reviews which are outlined in the [Overview and Scrutiny Annual Report](#). They also contributed to a number of consultations and policy development areas, such as:

- Stock Transfer proposals;
- The [County Durham Plan](#);
- Joint Health and Wellbeing Strategy;
- The Combined Authority proposals for the North East Local Enterprise Partnership; and
- The Council's [Medium Term Financial Plan](#).

A number of key projects and reviews have also been carried out by Overview and Scrutiny Committees including:

- Neighbourhood Wardens;
- Impact of Government Policy and Funding changes to the County Durham economy;
- The impact of flooding on our local communities;
- Customer First Strategy and customer services; and
- Alcohol and substance misuse by young people.

Further assurance on the effectiveness of the Overview and Scrutiny function can also be gained from the [Peer Review](#) in 2012, which concluded that it is making a useful contribution through influencing policy development in areas related to the [Council Plan](#).

As part of the annual review of the [Constitution](#), the Terms of Reference of the Overview and Scrutiny Management Board and Committees were updated in line with the refresh of the [Sustainable Community Strategy](#) and [Council Plan](#) priorities and actions. This demonstrates that the work of Overview and Scrutiny contributes to the strategic priorities of the Council and its partners, and reflects the legislative requirements placed on the Council in respect of scrutiny arrangements.

With regard to the Overview and Scrutiny Committees, key points to note during 2013/14 include:

- Following the Council elections in May 2013, 55 new Councillors were elected. To ensure continued effectiveness of the Council's Overview and Scrutiny function, a series of bespoke induction sessions were held across all Overview and Scrutiny Committees engaging all Councillors and co-opted members;
- The Adults Wellbeing and Health Overview and Scrutiny Committee has been conferred with the Council's powers of review and scrutiny in respect of NHS Service changes in accordance with the Health and Social Care Act 2012;
- Through the Council's various publications and regular updating of web pages, the profile and awareness of the Overview and Scrutiny function was raised;
- Cross party representation on all Overview and Scrutiny Committees serves to promote an independent, non-partisan approach in their activities;
- Established a Joint Health Scrutiny Committee with Hartlepool and Stockton Borough Councils to formally engage and respond to proposals to reconfigure emergency medical and critical care services at North Tees and Hartlepool NHS Foundation Trust.

The Police and Crime Panel has now reviewed the first annual report of the Police and Crime Commissioner, as well as the [Police and Crime Plan 2013 – 2017](#), to fulfil its legal requirements. An update on activity from the Panel is now presented to each meeting of the Council's Safer and Stronger Communities Overview and Scrutiny Committee.

The Council's Monitoring Officer oversees the arrangements for conflicts of interest, gifts and hospitality. Members are required to review their declarations of gifts and hospitality annually. Officers and members are required to declare annually any conflicts of interest.

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

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

During the year, a new Audit Charter was approved in line with Public Sector Internal Audit Standards. The Council's self-assessment against both the principles of the CIPFA Statement on the Role of Head of Internal Audit and the new Public Sector Internal Audit Standards, which were presented to Audit Committee in June 2013, illustrates a high degree of compliance.

A Corporate Complaints policy is in place for non-statutory complaints. From 2013/14 details of complaints, and of investigations by the Commissioner for Local Administration, have been reported to Corporate Issues Overview and Scrutiny Committee.

A Freedom of Information (FOI) Policy and Publication Scheme are in place, and details of how to make a FOI request for information can be found on the Council's website.

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

The key governance documents supporting this principle are the [Constitution](#); the Member Learning and Development Strategy; People and Organisational Development Strategy; and the Recruitment and Selection Policy.

The Council is committed to continually reviewing the development needs of Members and Officers. Our approach to Member development is outlined in the Member Learning and Development Strategy.

Other improvements to governance arrangements in this area during the year include:

- A review of the Corporate Induction programme was completed;
- Recruitment and Selection Policy was reviewed and implemented;
- A new system for maintaining staff records, which will be directly accessible by managers through the Intranet, was implemented, leading to improved efficiency and shortened processing timescales;
- The "The Durham Manager" development programme, which was rolled out to managers from September 2013, was enhanced after seeking feedback from managers through a course evaluation and focus groups programme;
- A revised Grievance Policy has been implemented, and the Disciplinary Policy is under review;
- Following extensive consultation, a revised Organisational Development Strategy will be finalised in October 2014. The Council continues to adopt the principles of the Investor in People Standard through the Organisational Development Strategy, without seeking accreditation under the scheme;
- Induction training was provided for new members following the election in May 2013;
- Individual training and development plans were produced for all members;
- The Mental Wellbeing in the Workplace Policy, which is based on the Health and Safety Executive Stress Standards, has replaced the Stress Management Policy and Toolkit;
- The Council's Occupational Health Service has been awarded Safe, Effective, Quality Occupational Health Service (SEQOHS) accreditation, which is the formal recognition that it has demonstrated the competence to deliver against the measures in the SEQOHS Standards developed by the Faculty of Occupational Medicine.
- Health and Safety unitisation and consequential review of health and safety policies and procedures; and
- A pilot scheme to improve the quality and accuracy of sickness absence data commenced in January 2014.

The Council also continues to support employees through the change process with, for example, Jobcentre Plus information sessions.

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

The key governance documents supporting this principle are the [Constitution](#); the [Consultation and Engagement Strategy](#); and the County Durham Partnership Community Engagement and Empowerment Framework.

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

The Council's approach to engaging stakeholders is outlined in the [Consultation and Engagement Strategy](#). This is complemented by the County Durham Partnership Community Engagement and Empowerment framework, which has shaped and supported a common vision and approach for community engagement by partners in County Durham. The County Durham Compact provides a framework for partnership and engagement with the voluntary and community sector, and most partners within the County Durham Partnership are signatories. E-learning on the Compact has been delivered to partners and [VCS](#) organisations. Attendance by the public at Council meetings and the protocols for asking questions are contained in the [Constitution](#).

The Council has a strong commitment to working with partners to meet the needs of its communities. There are 14 [Area Action Partnerships \(AAPs\)](#) in place across the County, who are each governed by a board comprising members of the public, partner organisations and elected Councillors. These are multi-agency partnerships that are fully engaged with the community in identifying and addressing local priorities, and utilise locality budgets to drive improvements to the local area. During 2013, through this network of [AAPs](#), the Council staged 23 'Your Money, Your Choice' consultation events across the county, working with parish councils and the community and voluntary sector. The events encouraged local people to vote for which community projects should be given a share of a community chest funded by the council and other public sector organisations. Residents were also asked to express a view on each area's local priorities. Nearly 10,700 people took part in the events, allocating £563,000 to 177 community projects.

As part of these events, the Council carried out a detailed consultation process during the development of [MTFP4](#), and 97% of the 3,300 respondents agreed with the plan. This process involved in depth exercises at 14 separate [AAPs](#) and the completion of online questionnaires. The key aim of the exercise was to assess public opinion on how to achieve its target savings, and the outputs from the exercise identified areas of the budget the public would wish to protect and those where higher levels of saving should be implemented. Partners and key agencies, including the Police and NHS County Durham and Darlington, were also consulted.

The Durham [Citizen's Panel](#) was consulted about various proposals, projects and issues of concern, including:

- Residential Care Homes;
- [Medium Term Financial Plan](#);
- Garden Waste;
- School Crossing;
- Customer First;
- Community Resilience;
- Fixed Play Provision; and
- Corporate Tree Management Policy.

Evidence of our community engagement includes:

- A [Voluntary and Community Sector \(VCS\) Strategy](#) was developed to help the council work in partnership with the [VCS](#) to realise the ambitions of individuals and to improve their quality of life;
- The [AAPs](#), voluntary sector organisations and a community buildings team funded by the council has worked with local community organisations to take on a number of community buildings, following targeted investment to improve the assets;
- Councillors and employees, particularly those in customer-facing roles, have received training to help them understand the welfare reform changes and how the council and partners can help;
- A comprehensive communications programme has been instigated to ensure that claimants understand proposed welfare reform changes;
- The corporate website is being re-designed, with views being sought from staff and members of the public, and it is planned to go live in 2014;
- Strengthening the remit, representation and focus of the Customer Focus Board that provides a multi service approach to developing and implementing a new Customer First Strategy for the Authority;
- All [AAPs](#) and the Terms of Reference were reviewed this year, during which the first four-year tenures of Public Representatives were completed.

In achieving Council of the Year at the 2014 Local Government Chronicle Awards, judges were impressed by community engagement arrangements across the Council:

The Council has made considerable efforts to engage the community and prides itself on being ambitious, open to trying new things and exhibiting a clear set of priorities. Its 'Altogether Better Council' plan is one example of the organisation's priorities and sets out a precedent for collaborative community strategies. Finally, its pioneering approach to engaging local communities through [area action partnerships](#), neighbourhood budgets and participatory budgeting has won international acclaim. Partnership is a key part of this organisation's success and Durham believes it has a huge amount to offer to its peers". (LGC article)

Assurance can also be gained from the [Peer Review](#) by the Local Government Association, which was undertaken in 2012, which highlighted that the Council is 'effectively engaging with stakeholders' and has 'communication channels with local communities'.

Through its partnership governance framework, the Council has gained assurance that:

- members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority;
- there is clarity about the legal status of the partnership; and
- representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.

4. REVIEW OF EFFECTIVENESS

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

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

Maintaining the effectiveness of the corporate governance framework involves the key Member and Officer roles outlined below, namely:

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

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

- The Corporate Director, Resources co-ordinates and oversees the Council's corporate assurance arrangements by:
 - Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the Council's governance arrangements;

- Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
 - Preparing an Annual Governance Statement to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
- Internal and External Audit provide independent assurance on the effectiveness of the corporate governance framework.

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

Based on the delivery of the internal audit plan, Internal Audit is able to provide a moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2013/14. This opinion ranking provides assurance that, whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk. Given the extent of change across the Council and the overall reduction in resources during the year, the sustainment of this assurance opinion should be regarded as a positive outcome.

5 SIGNIFICANT GOVERNANCE ISSUES

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

Update on improvements identified in the 2012/13 Annual Governance Statement

Following the production of the Annual Governance Statement for 2012/13, an action plan, containing the following recommendations was produced. Progress made in implementing each recommendation, as outlined below, was confirmed by the Corporate Director, Resources and formed the starting point of the work to produce the 2013/14 Annual Governance Statement.

1. Business Continuity

A backup ICT site, developed in partnership with Sunderland City Council, is now in place. The equipment has been installed and data has been transferred. Testing has taken place at a functional / equipment level and a full test is planned for June 2014.

2. Arrangements for ensuring Value for Money

The Audit Commission VFM profiles (adopted by the Local Government Association (LGA) on the demise of the Audit Commission) are used to provide assurance that the mechanisms that we currently have in place are identifying and addressing those areas where less than optimal VFM is being achieved. These are supplemented by CIPFA VFM benchmarking information for central services, where available, and this has been done in 2013/14. In Children and Adults Services, analysis of s251 (children and young people's budget statement) and PSSEX1 (Personal Social Services Expenditure) benchmarking data is well embedded and is used to inform VFM considerations in this service.

In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2013/14 were sound. As a result of the review of governance arrangements, and the work of both internal and external audit, we have not identified any further areas for significant governance improvement in 2014/15.

Signed:

Simon Henig
Leader of Durham County Council

George Garlick
Chief Executive

Don McLure
Corporate Director, Resources

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AUDIT COMMITTEE

26 June 2014



Compliance with International Auditing Standards

Report of Councillor Edward Bell, Chair of the Audit Committee

Purpose of the Report

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

Background

2. As part of the 2013/14 final accounts audit process, the external auditor is required to comply with a number of International Standards on Auditing and needs to obtain an understanding from, 'those charged with governance', of the processes regarding fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements. This covers the opinion on the Council's 2013/14 accounts including the pension fund accounts.
3. A copy of the letter from Mazars and a copy of the response provided by the Corporate Director Resources, in relation to a similar request, are attached for information as Appendices 2 and 3.
4. The response provided by the Chair on behalf of the Audit Committee, is attached at Appendix 4.

Recommendation

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

**Contact: Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager,
Tel 03000 269645**

Appendix 1: Implications

Finance

None

Staffing

None

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Human Rights

None

Consultation

None

Procurement

None

Disability Discrimination

None

Legal Implications

None

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

Direct line +44 (0)191 383 6317
Email catherine.banks@mazars.co.uk

28 May 2014

Dear Cllr Bell

Durham County Council (including the Pension Fund) 2013/14

Introduction

This letter aims to summarise for the Audit Committee the requirements under International Auditing Standards (UK and Ireland), also referred to as ISA+, in respect of preventing fraud in the annual accounts, and compliance with laws and regulations, litigation and claims, going concern and related parties. It sets out the information we will require from the Audit Committee before we give our opinion on the Durham County Council's 2013/14 accounts including the Pension Fund accounts.

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

Background

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

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

The ISA views fraud as either:

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

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INVESTOR IN PEOPLE



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GLOBAL ALLIANCE OF
INDEPENDENT FIRMS

What are we required to do?

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

- 1) How does the Audit Committee, in its role as those charged with governance, exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
 - identifying and responding to risks of fraud in the organisation, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
 - communicating to employees of views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the organisation's code of conduct); and
 - communicating to those charged with governance the processes for identifying and responding to fraud or error
- 2) How does the Audit Committee oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control? Is the Audit Committee aware of any breaches of internal control during 2013/14?
- 3) Has the Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2013 – 31 March 2014?
- 4) Has the Audit Committee any suspicion that fraud may be occurring within the organisation?
 - Has the Audit Committee identified any specific fraud risks within the organisation?
 - Does the Audit Committee have any concerns that there are areas within the organisation that are at risk of fraud?
 - Are there particular locations within the organisation where fraud is more likely to occur?
- 5) Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively? If 'yes', please provide details. If not:
 - where are the risk areas?
 - what other controls are in place to help prevent, deter or detect fraud?
- 6) How do you encourage staff to report their concerns about fraud and what concerns about fraud are staff expected to report?
- 7) From a fraud and corruption perspective, what are considered by the Audit Committee to be high risk posts within the organisation?
 - How are the risks relating to these posts identified, assessed and managed?

8) Is the Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud?

- How does the Audit Committee mitigate the risks associated with fraud related to related party relationships and transactions?

9) Is the Audit Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?

- Are there particular balances where fraud is more likely to occur?
- Is the Audit Committee aware of any assets, liabilities or transactions that it believes were improperly included or omitted from the accounts of the organisation?
- Could a false accounting entry escape detection? If so, how?
- Are there any external fraud risk factors which are high risk of fraud?

10) Is the Audit Committee aware of any organisational, or management pressure to meet financial or operating targets?

- Is the Audit Committee aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?

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

Background

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

What are we required to do?

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

11) How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with. For example:

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

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

Background

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

What are we required to do?

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

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

International Standard for Auditing (UK and Ireland) 550 – Related parties

Background

The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. For example:

- Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.
- Information systems may be ineffective at identifying or summarizing transactions and outstanding balances between an entity and its related parties.
- Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (UK and Ireland) 240,4 because fraud may be more easily committed through related parties.

What are we required to do?

Where the applicable financial reporting framework establishes requirements for related parties, the auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

Therefore we are making the following request from the Audit Committee:

13) What controls are in place to: identify, authorise, approve, account for and disclose related party transactions and relationships.

14) Confirmation that the Audit Committee have:

- disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware
- appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework

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

Background

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

What are we required to do?

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

15) How has the Audit Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

16) Has the Audit Committee identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?

The way forward

The information you provide will inform our understanding of the Council and its business processes, and to enable an opinion to be given on your 2013/14 financial statements.

I would be grateful for your responses, which should be formally considered and communicated to us on the Committee's behalf, by 30 June 2014. In the meantime, if you have any queries, please do not hesitate to contact me.

Yours sincerely

Catherine Banks
Senior Manager

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Contact: Don McLure
Direct Tel: 03000 261945
email: don.mclure@durham.gov.uk
Your ref: DM / PB / CM



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

6 June 2014

Dear Catherine

Audit of Durham County Council's Financial Statements 2013/14 including the Pension Fund Accounts – Compliance with International Auditing Standards

Thank you for your letter dated 28 May 2014. Please find below my responses to the questions that you have asked.

ISA+ 240 Management processes in place in relation to fraud

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

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

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

Internal Audit review key financial systems on an annual basis, using a risk based approach, to provide independent assurance that expected controls are effective in reducing the likelihood of material fraud error. Internal Audit will also consider financial risks as part of planned assurance reviews of key service activities agreed within the annual Internal Audit plan. The risk based approach used by Internal Audit involves working with service managers to agree and assess key risks, key controls and other assurance sources using a Control Risk Assessment (CRA) methodology.

Resources

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This enables Internal Audit resources to be targeted to high risk areas where there is little or no assurance. At the end of an audit, the CRA is updated with details of actual controls in place which provides a basis for responsible officers to carry out Control Risk Self Assessments (CRSA).

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

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

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

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

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

The Chief Internal Auditor and Corporate Fraud Manager is responsible for the development and effective implementation of the Council's Counter Fraud and Corruption Strategy which has recently been refreshed and leads on a number of initiatives to help combat fraud through raising awareness of the risks, supported through a dedicated Corporate Fraud Team which includes Housing Benefit and Council Tax Benefit investigations. Fraud and corruption risks will be considered in consultation with service managers as part of the CRA process outlined above.

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

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

All cases of suspected corporate fraud must be reported to the Chief Internal Auditor and Corporate Fraud Manager who will then agree, with the appropriate officers, how the matter will be investigated.

The Chief Internal Auditor keeps a register of all suspected cases of corporate fraud and monitors and reports upon counter fraud activities.

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

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

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

c) What arrangements does management have in place to communicate to employees regarding its views on business practices and ethical behaviour (for example by updating, communicating and monitoring against the Council's code of conduct)?

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

More counter fraud work is planned to help embed and maintain a strong counter fraud culture across the whole Council. Improvements made during 2013/2014 include the continued delivery of e-learning counter fraud awareness training to all managers. Further training is to be developed during 2014/2015 to target all employees and new starters on induction.

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

d) How does management communicate the processes for identifying and responding to fraud or error to the Audit Committee (i.e. those charged with governance)?

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

Amendments to the Council's Counter Fraud and Corruption Strategy and Confidential Reporting Code (Whistleblowing) were reported to the Audit Committee in May 2014. The Fraud Response Plan and Anti Money Laundering Policy are expected to be reported to the Audit Committee for approval in 2014 / 2015.

New and emerging fraud risks have been brought to the Audit Committee's attention from the Audit Commission's Protecting the Public Purse briefing specifically prepared for Durham County Council. They are also informed through the annual Internal Audit plan for approval and through quarterly Internal Audit Progress reports.

2) Does management have knowledge of any actual, suspected or alleged fraud, either within the Council as a whole or within your department during the period 1 April 2013 to 31 March 2014? If so, what actions is management taking to address it?

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

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

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

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

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

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

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

Independent assurance on the effectiveness of the control environment is provided through the work of Internal Audit as reported through individual audit reports, quarterly progress reports and the Annual Internal Audit Report. The latter is to be presented to Corporate Management Team and the Audit Committee in June 2014.

Corporate Directors also consider other assurance sources and the effectiveness of internal controls operating within their service groupings when providing assurance statements in support of the Council's Annual Governance Statement (AGS). This is currently being prepared and will be reported to Corporate Management Team and the Audit Committee in June 2014.

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

The Council has a Confidential Reporting Code (Whistleblowing) that has been refreshed in May 2014 and has been effectively communicated to all staff through an employee update, induction and is easily accessible. E-learning Fraud Awareness Training reinforces managers' responsibilities in relation to fraud and encourages staff to be more vigilant and report their concerns. There are dedicated counter fraud pages on the Council's intranet that provide information to employees on how to raise any concerns and what to do and what not to do if they suspect something is wrong. Whilst employees are encouraged to report any concerns initially through their line managers or Internal Audit, external contacts are also provided. It is planned to deliver a briefing to the Council's Tier 4 management groups including fraud awareness. A course is being developed for delivery in 2014/2015 as part of the 'Durham Manager' training programme that also incorporates fraud awareness.

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

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

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

Internal Audit develops an annual counter fraud programme of work, agreed by Corporate Management Team and the Audit Committee as part of their annual Internal Audit Plan, to provide independent assurance that internal controls are operation in high risk areas.

Fidelity guarantee insurance is also in place.

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

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

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

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

All Members and the Corporate Management Team are required to complete an annual return of related party relationships and transactions and guidance notes have been issued to support their completion. Where any related transactions are declared extracts are obtained from Accounts Payable to identify actual payments made and received.

In addition, Internal Audit carries out periodic reviews of all employees and members' declarations to help identify any potential undeclared relationships and / or fraudulent transactions using outputs from data matching exercises. A review has been conducted during 2013 / 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Internal Audit carry out periodic reviews of the control framework in place for ensuring that services are kept up to date of any changes to legislation impacting on operations and carry out compliance testing.

Other functions within the Council also provide assurance on compliance e.g. Quality Assurance Audits within Children and Adult Services and Health and Safety Inspections.

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

11) *Is management aware of any instances where the Council has not complied with any laws or regulations during 2013/14?*

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

12) *Has management complied with the Bribery Act 2010. What procedures are in place to ensure compliance?*

The Council has complied with the Bribery Act 2010.

The Council has incorporated the Bribery Act 2010's requirements into its Counter Fraud and Corruption Strategy which demonstrates a zero tolerance commitment to Bribery in all forms.

The Council has an Employee Code of Conduct in place which clearly communicates the responsibilities of staff and requires officers to complete gifts and hospitality registers where appropriate.

The Council has a member's Code of Conduct in place which clearly communicates the responsibilities of members, and requires members to complete gifts and hospitality registers where appropriate.

Procedures are in place for the recording, maintaining and monitoring of such registers.

Internal Audit complete independent periodic checks on the gifts and hospitality registers held within Service Groupings.

The Council conducts its recruitment practices in fair and transparent manner. This avoids risks in the recruitment process that could lead to unsuitable candidates being selected. The Council applies objective criteria for advertising and interviewing, and documents the application and the selection process. Appropriate due diligence is applied when appointing employees who are likely to be placed in any position of risk from bribery. New employees receive full information about the Council's Counter Fraud and Corruption Strategy and this forms part of induction training. Internal Audit also completes a periodic review of the Council's recruitment process to give independent assurance.

The Council gives substance to its zero tolerance approach of bribery through its agreed proactive fraud plan compiled as part of the Annual Internal Audit Plan.

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

- 13) *Is management aware of any actual or potential litigation or claims involving the Council which may result in a material misstatement of the financial statements***

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

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

Collectively, potential values are not considered to be material although I am aware of some cases where a contingent liability and / or provision may be necessary. For example, I am aware that the Council is still involved in defending a class action relating to land charge fees. A contingent liability is disclosed in the Statement of Accounts and a reserve based upon possible restitution of fees has been established to mitigate the potential impact of claims. However, the litigants are represented by lawyers who may be widening the scope of the litigation. The Council is using Local Government Association organised external legal representation to represent its interests.

ISA+ 550 Identification and assessment of the risks of material misstatement associated with related party relationships and transactions

- 14) *What controls does the Council have in place to identify, authorise, approve, account for and disclose related party transactions and relationships? For any new related parties (not disclosed in 2012/13 audited financial statements) please provide a list of them, explain the nature of these and whether you have entered into any transactions with these related parties during the year to 31 March 2014***

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

A list is being prepared of all related party transaction, with an explanation of the nature of these and whether any transactions have been entered into with these related parties during 2013/14.

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

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

A full assessment has been carried out and the outcomes reported to the Audit Committee at its meeting on 20 May 2014. Based on the assessment undertaken I have concluded that the County Council is a going concern and it is appropriate for the Statement of Accounts to be prepared on this basis because:

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

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

No events or conditions have occurred since the assessment to cast significant doubt on the organisation's ability to continue as a going concern.

I hope this response is satisfactory however if you have any further questions or comments on the content of this letter please do not hesitate to contact me.

Yours sincerely



Don McLure
Corporate Director, Resources

Contact: Cllr Edward Bell
Direct Tel: 03000 268681
email: edward.bell@durham.gov.uk
Your ref: DM / PB / CM



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

6 June 2014

Dear Catherine

Audit of Durham County Council's Financial Statements (including the Pension Fund) 2013/14 – Compliance with International Auditing Standards

Thank you for your letter dated 28 May 2014 regarding the above.

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

ISA 240 Consideration of fraud in the audit of the financial statements

1) *How does the Audit Committee, in its role as those charged with governance, exercise oversight of management processes in place relating to fraud?*

The Audit Committee maintains an oversight of management processes in place for assessing the risk that the financial statements may be materially misstated by considering all the sources of assurances that it has available to it on the effectiveness of the control environment. This is demonstrated through quarterly internal audit progress reports and the Annual Audit Opinion and Internal Audit Report that is presented to the Committee by the Chief Internal Auditor and Corporate Fraud Manager.

The Audit Committee also receives quarterly risk reports from the Risk and Governance Manager where key strategic risks are brought to the attention of the Committee.

The Audit Committee is responsible for considering proposed changes to the Council's Counter Fraud and Corruption Strategy and the Confidential Reporting Code (Whistleblowing) a revised version of both was approved by the Committee in May 2014. The Audit Committee will also consider any changes to the Fraud Response Plan that

Resources

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supports the strategy and to the Council's Money Laundering policy and monitor their effectiveness.

Members of the Committee are aware of how to report any suspected fraud and are satisfied that staff are encouraged to report their concerns about fraud and both are supported by the Confidential Reporting Code (Whistleblowing) which was formally reviewed and amended in May 2014.

2) *How does the Audit Committee oversee management processes to identify and respond to the risk of fraud and possible breaches of Internal Control? Is the Audit Committee aware of any breaches of internal control during 2013 / 2014?*

The Committee is responsible for considering any proposed amendments to the Council's Code of Local Governance prior to approval by Full Council, and maintains an understanding of key corporate policies and procedures that are an integral part of the Council's Internal Control Framework to help mitigate the risk of fraud e.g. officers and members code of conducts, financial procedure rules, contract procedure rules, officer scheme of delegations, complaints procedures and performance management arrangements.

3) *Has the Audit Committee any knowledge of any actual, suspected or alleged fraud during the period 1 April 2013 to 31 March 2014?*

The Audit Committee is aware that all suspected cases of corporate fraud must be reported to the Chief Internal Auditor and Corporate Fraud Manager and are advised of all potential and proven cases reported. Bi-annual fraud reports also advise the Committee of the number of Housing Benefit and Council Tax Benefit fraud cases handled.

Details of all actual, suspected or alleged fraud and action taken in response are as reported by the Chief Internal Auditor and Corporate Fraud Manager through bi-annual reports. New potential cases of corporate fraud will also be reported to the Committee as and when they arise and updates are provided through Internal Audit Quarterly progress reports.

Therefore the Committee is aware of a number of proven and potential frauds.

4) *Has the Audit Committee any suspicion that fraud may be occurring within the organisation?*

The Committee have a good understanding of where fraud may be occurring and actively seek assurance on any specific risks that are identified. These are alerted to the Committee through quarterly internal audit progress reports.

In addition the Committee approve the annual Internal Audit Plan and provide challenge to the counter fraud work planned each year to ensure that adequate assurance is provided on high fraud risk areas.

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

The Committee is kept informed of the Audit Commission's National Fraud Initiative exercise and the outcomes. The Committee is also kept informed of key messages from other national initiatives and publications that highlight potential fraud risks that the Council could be exposed to for example a presentation of Durham County Council's 'Protecting the Public Purse Briefing' was delivered to the Committee in May 2014. Therefore we are able to challenge how the risk of fraud and corruption is being managed within the authority and to actively seek assurance that management arrangements in place are effective.

5) *Is the Audit Committee satisfied that internal controls, including segregation of duties exist and work effectively?*

The Committee is satisfied through the answer to question 2 above. In addition the Committee receive the Annual Audit Opinion and Internal Audit Report from the Chief Internal Auditor and Corporate Fraud Manager that gives assurance the internal controls are working effectively and also receive regular quarterly reports on Internal Audit progress. The Committee also review the draft Annual Governance Statement where in addition to the assurance from the Chief Internal Auditor and Corporate Fraud Manager the Committee also receive statements from Corporate Directors that controls are working effectively.

6) *How do you encourage staff to report their concerns about fraud and what concerns about fraud are staff expected to report?*

The Audit Committee is responsible for considering proposed changes to the Council's Confidential Reporting Code (Whistleblowing) a revised version was approved by the Committee in May 2014. This was formally communicated through an employee briefing to all staff.

Members of the Committee are aware of how to report any suspected fraud and are satisfied that staff are encouraged to report their concerns about fraud and both are supported by the Confidential Reporting Code (Whistleblowing).

7) *From a fraud and corruption perspective, what are considered by the Audit Committee to be high risk posts within the organisation?*

The Committee is aware that certain posts, such as those involved with treasury management activities and those with access to the Council's bank accounts and cash, carry a higher risk and consequently covered by fidelity guarantee insurance.

The Committee also receives assurance from Internal Audit from planned work around key financial systems and the counter fraud plan that is reported through quarterly Internal Audit progress reports and the bi-annual fraud reports.

8) *Is the Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud?*

The Committee is aware of the processes and controls in place to identify and monitor related party transactions and the relevant reporting requirements for this. The Committee is not aware of any related party relationships or transactions that could give rise to instances of fraud.

9) *Is the Audit Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?*

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

10) *Is the Audit Committee aware of any organisational, or management pressure to meet financial or operating targets?*

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

ISA 250 Consideration of laws and regulations in an audit of financial statements

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

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

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

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

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

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

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

ISA 550 Related parties

13) *What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?*

The Committees is aware that all Members and the Corporate Management Team are required to complete an annual return of related party relationships and transactions and guidance notes have been issued to support their completion. Where any related transactions are declared extracts are obtained from Accounts Payable to identify actual payments made and received.

In addition, Internal Audit carries out periodic reviews of all employees and members' declarations to help identify any potential undeclared relationships and / or fraudulent transactions using outputs from data matching exercises. A review has been conducted during 2013 / 2014.

The Committee is also aware that Corporate Finance are preparing a list of all related party transactions, with an explanation of the nature of these and whether any transactions have been entered into with these related parties during 2013 / 2014. These will be included in the 2013 / 2014 statement of accounts for the Committee's approval in July 2014.

14) *Confirm that the Audit Committee has disclosed to the auditor the identity of the entity's related parties and appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.*

The Committee confirms that the identity of all the authority's related parties have been appropriately disclosed in accordance with the requirements of the framework.

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

15) *How has the Audit Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?*

The Audit Committee considered a report of the Corporate Director, Resources at its meeting on 20 May 2014 relating to an assessment of the going concern assumption. The Committee is satisfied that it is appropriate to adopt the going concern basis in preparing the 2013 / 2014 financial statements.

16) Has the Audit Committee identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?

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

If you have any further questions or comments on the content of this letter please do not hesitate to contact me.

Yours sincerely



Councillor Edward Bell
Chair of Durham County Council Audit Committee

Audit Committee

26 June 2014



**Report to Council on the Work of the
Audit Committee**

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

Purpose of the Report

1. The purpose of this report is to present the proposed report summarising the work of the Audit Committee, during the period October 2013 to May 2014, to be presented to Council at its meeting on the 23 July 2014.

Recommendations and reasons

2. Members are asked to approve the report attached at Appendix 2.

Contact: Paul Bradley Tel: 03000 269645

Appendix 1: Implications

Finance -

None

Staffing -

None

Risk -

None

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

Appendix 2

County Council

23 July 2014



Report of the Audit Committee for the Period October 2013 to May 2014

Councillor Edward Bell, Chairman of the Audit Committee

Purpose of the Report

1. To inform the Council of the work of the Audit Committee during the period October 2013 to May 2014 and how the Committee continues to provide for good governance across the Council.

Background

2. The role, membership and terms of reference of the Audit Committee are set out within the Constitution and approved by Council.
3. Good corporate governance requires independent and effective assurance processes to be in place to ensure effective financial management and reporting in order to achieve the Council's corporate and service objectives. It is the responsibility of the Audit Committee to undertake these aspects of governance on behalf of the Council.
4. The specific objectives of the Audit Committee set out in the Council's Constitution are to provide independent assurance to Cabinet and Full Council over the:
 - Adequacy and effectiveness of the Council's governance arrangements, including the effectiveness of the risk management framework and the associated control environment.
 - Financial Reporting of the Council's Statement of Accounts ensuring that any issues arising from the process of finalising, auditing and certifying the Council accounts are dealt with properly.

5. The membership of the Committee remained static during the period October 2013 to May 2014 and was as follows:

Chairman:	Cllr Edward Bell
Vice Chairman:	Cllr James Rowlandson
Members	Cllr Lawson Armstrong Cllr Colin Carr Cllr Sonia Forster Cllr Jed Hillary Cllr Tracie Smith Cllr Watts Stelling Cllr Owen Temple
Co-opted:	Ms Katherine Larkin-Bramley Mr Thomas Hoban

Summary of meetings

6. A summary of Committee business considered at the meetings held during the period is provided at Appendix 2.

How the Audit Committee has made a difference during the period October 2013 to May 2014.

7. The Committee believe they have made a significant difference to the Council's governance, control and risk framework during the period October 2013 to May 2014 by :
- Striving to help support the Council deliver its objectives and priorities by being both a proactive and reactive body encouraging the early reporting of any risk and control issues to ensure that appropriate and timely action is taken to address them.
 - Continuing to raise the profile of the Internal Audit and Risk Management Service through the Service's reports to Audit Committee.
 - Independent questioning and contributing to the development and control of internal audit plans.
 - Seeking assurance on the effectiveness of corporate risk management arrangements.
 - Improving the accountability of service managers to respond to outstanding internal audit reports and the implementation of agreed internal audit recommendations thereby helping to drive improvement in controls to manage risks effectively.
 - Continuing to provide regular challenge and demanding accountability on the effectiveness of the implementation and operation of key financial systems

- Challenging the level of internal audit resources and their work to ensure that the service is effective and a reliable assurance opinion on the Council's controls framework is provided.
- Challenging how the Council responds to the risk of fraud and the receiving information on the levels of detection of fraud and the Council's response.
- Reviewing the Council's Accounting policies, receiving updates on changes to the Code of Practice, considering the Council's Going Concern Status and commenting on the timetable for completing the Council's financial statements
- Receiving and commenting on the work of the External Auditor, Mazars.
- Reviewing and approving an update to the Council's Counter Fraud and Corruption Strategy and the Confidential Reporting Code (Whistleblowing).

Recommendations and reasons

8. Members note the report and the work undertaken by the Audit Committee during the period October 2013 to May 2014.

**Contact: Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager,
Tel 03000 269645**

Appendix 1: Implications

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

Staffing - None.

Risk – Not a key decision

Equality and Diversity/ Public Sector Equality Duty - None

Accommodation - None

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

Human rights - None

Consultation - None

Procurement – None.

Disability issues – None.

Legal Implications – None.

Summary of Meetings of the Audit Committee

28 November 2013

The Committee considered:

- (i) A presentation from the Head of Planning and Performance giving the Committee an outline of the Council's Performance Management Framework.
- (ii) A report of the Corporate Director of Resources regarding changes to the Council's Local Code of Corporate Governance.
- (iii) A report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and that gave an insight into the work carried out by the Corporate Risk Management Group during July to September 2013. Members were informed of new risks, those that had been removed and the status of all current key risks.
- (iv) A report of the External Auditor, Mazars detailing their findings from the 2012/13 audit the financial statements of both the County Council and the Pension Fund. It was encouraging to note following the audit both sets of financial statements were given unqualified opinions and concluded that the Council had proper arrangements to ensure economy, efficiency and effectiveness in the use of its resources.
- (v) A report of the Manager of Internal Audit and Risk which informed members of the work carried out by Internal Audit during the period July to September 2013 and the assurance on the control environment provided.
- (vi) A Fraud and Irregularity Update Report of the Manager of Internal Audit and Risk. This provided information on the effectiveness of the Council's Counter Fraud and Corruption Strategy. This included an update on fraud preventative work, detective work and investigations of potential cases.
- (vii) A report of the Manager of Internal Audit and Risk detailing an audit of the Council's Grant Protocol and Grants receivable for the Committee to gain assurance on the effectiveness of grant arrangements in place, and where improvements have been identified to note the action agreed by management

28 February 2014

The Committee considered:

- (i) A presentation from the Head of Corporate Finance outlining the Council's Financial Procedure Rules and Corporate Procurement Rules to improve the Committee's knowledge and understanding.
- (ii) A report of the Corporate Director, Resources which presented the Accounting Policies the Council intends to have in place to prepare the 2013/14 financial statements.
- (iii) A report of the Corporate Director, Resources which detailed the timetable for the preparation of the Council's Final Accounts process for 2013/14 including the key milestones for the completion of the financial statements.
- (iv) A report of the Corporate Director, Resources regarding the changes that have been made nationally to the Code of Practice for Local Authority Accounting in the UK for 2013/14. The changes made to 'the Code' affect the methodology and preparation of the Council's financial statements.
- (v) A report of the External Auditor, Mazars giving the Committee an update on their progress with regards to planning for the 2013/14 audit and updating the Committee on national issues and developments that were worthy of attention.
- (vi) A report of the External Auditor, Mazars presenting their findings from their work on grant certification. This included Housing and Council Tax Benefit Subsidy, Housing Capital Receipts, National Non-Domestic Rates and Teachers Pensions.
- (vii) 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. Members were informed of new risks, those that had been removed and the status of all current key risks
- (viii) A report of the Chief Internal Auditor and Corporate Fraud Manager presenting an updated Internal Audit Charter. The Internal Audit Charter has been amended to ensure it is compliant with the new Public Sector Internal Audit Standards (PSIAS) that came into effect on 1 April 2013.
- (ix) 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 and the assurance on the control environment provided.

- (x) A report of the Chief Internal Auditor and Corporate Fraud Manager detailing the outcomes of an audit on the disposal of assets. This was completed at the Committees request following a report that had been presented in June 2013 where some control weaknesses had been found. The report detailed the improvements that had been made and that Internal Audit would conduct another piece of work in 2014/15 to ensure these new processes were fully embedded.

20 May 2014

The Committee considered:

- (i) A report of the Corporate Director of Resources detailing an update to the Council's Counter Fraud and Corruption Strategy. The Strategy had been reviewed to ensure its compliance with best practice and made the relevant links to any other updated corporate policies.
- (ii) A report of the Corporate Director of Resources detailing an update to the Council's Confidential Reporting Code (Whistleblowing). Again the code had been reviewed to ensure compliance with best practice and linked to all the Council's corporate policies. In addition an new incident reporting form has been developed so that anyone who has need to use the policy can report any areas of concern.
- (iii) A report of the External Auditor, Mazars detailing their Audit Plan notifying the Committee of the work that they are proposing to undertake in respect of the audit of the financial statements and value for money conclusion for the financial year 2013/14 for the Council.
- (iv) A report of the External Auditor, Mazars detailing their Audit Plan notifying the Committee of the work that they are proposing to undertake in respect of the audit of the financial statements and value for money conclusion for the financial year 2013/14 for the Pension Fund.
- (v) A report of the Corporate Director of Resources assessing whether the Council can be considered a 'going concern' organisation and if the Council's accounts can be compiled on that basis. The assessment concluded that the County Council has a history of stable finance and ready access to financial resources in the future. It was also felt there are no significant financial, operating or other risks that would jeopardise the County Council's continuing operation and that the accounts could be prepared on this basis.
- (vi) A report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and that gave an insight into the work carried out by the Corporate Risk Management Group during January to March 2014. Members were informed of new risks, those that had been removed and the status of all current key risks

- (vii) 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 January to March 2014 and the assurance on the control environment provided.

- (viii) A report of the External Auditor, Mazars presenting the results of the Audit Commissions 'Protecting the Public Purse' report and illustrating Durham County Council's position compared to other County Councils in detecting and recovering losses from fraud. The report provoked some good discussion and reassurance was given by the Chief Internal Auditor and Corporate Fraud Manager that the areas highlighted in the report are now being investigated by the Council's Corporate Fraud Team over the next 12 months.

Audit Committee

26 June 2014



**Internal Audit Strategy, Plan and Charter
2014 / 2015**

(July 2014 to March 2015)

Report of Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. The Committee is asked to approve the proposed Annual Internal Audit Plan for 2014/2015 and the Internal Audit Strategy, set out in Appendix 2 and 3 respectively.
2. Some minor amendments have also been made to the Audit Charter which is attached at Appendix 4 for approval

Background

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

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

4. The agreed terms of reference for the internal audit service to fulfil this objective are detailed in the Internal Audit Charter.
5. The Internal Audit Strategy which has informed the development of the 2014/2015 audit plan has been reviewed and is provided in Appendix 2.

Preparation of 2014 / 2015 Audit Plan

6. In consultation with Service Groupings’ Senior Management Teams, the provisional Internal Audit plan has been reviewed and revised to reflect changes in structures, changes in key service activities and management’s preference for the timing of reviews.
7. The Audit Plan has been prepared on a nine month basis from 1 July 2014 to 31 March 2015. This realigns the Audit Plan with the Council’s financial year. It is the intention from 1 April 2015 to then set a 12 month plan thereafter. Moving the audit year to this reporting period has the following benefits:
 - Aligned with the Council’s Medium Term Financial Planning
 - Aligned with the Council’s Corporate Performance Framework reporting period.

- Aligned to support the statutory review of effectiveness of Internal Audit required by the Accounts and Audit Regulations 2011.
 - Aligned to the period of assurance given to support the Annual Governance Statement from the Chief Internal Auditor and Corporate Fraud Manager.
8. The proposed annual audit plan for 2014/2015 attached at Appendix 3 is was endorsement by Corporate Management Team on 11 June 2014 and includes provision for:
- Work started in 2013/2014 which is not expected to be complete until after the 30 June 2014
 - Work that was approved in the 2013/2014 audit plan but has been deferred and carried forward into 2014/2015 as previously agreed.
 - Planned assurance work scheduled from the 5 year strategic audit plan.
 - Annual due diligence on key systems and compliance with key corporate policies.
 - Service requests identified through the consultation process with senior management.
 - Grant certification work
 - Work by the Corporate Fraud Team to complete proactive counter fraud reviews aimed at detecting and preventing fraud in high risk areas.
 - Corporate provision for reactive advice and consultancy work and new emerging risks, including any reactive fraud investigations and irregularities.
 - Corporate provision for planning, quality assurance and reporting.
 - Follow up of agreed audit recommendations.
9. The detailed scope of audit reviews included in the plan are not yet been finalised however an initial outline scope of each audit has been prepared. These will be further developed as part of the planning and preparation stage of each individual assignment in accordance with the agreed audit strategy. This ensures that audit resources assigned to individual reviews are focused upon operational risks, controls and the assurance environment expected to be in place at the time reviews are actually carried out. This is particularly important due to the extent of change management across the Council.
10. Operational risks are those that arise directly from the core activities of delivering services and include:
- Financial Management Risks
 - Project Risks
 - Performance Management Risks
 - Partnership Risks
 - Human Resources Risks
 - IT and Information Governance Risks
 - Procurement and Contract Risks
 - Legal Risks
 - Service Specific Risks

11. In evaluating the management of these risks, Internal Audit aims to help the achievement of corporate priorities and objectives by providing assurance on:
 - The adequacy of risk identification, assessment and mitigation – including the adequacy and effectiveness of the strategic risk management process.
 - The adequacy and application of controls to mitigate identified risk.
 - The adequacy and extent of compliance with the Council's corporate governance framework.
 - The extent of compliance with relevant legislation.
 - The extent to which the Council's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money .
 - The quality and integrity of financial and other management information utilised within the Council.
12. In accordance with the Internal Audit Strategy, we will, in consultation with the Head of Service and nominated service manager or key contact, prepare an agreed Terms of Reference prior to the start of each planned audit and where applicable a Control Risk Assessment (CRA) so as to:
 - Inform the scope for audit
 - Identify and agree key service/system operational objectives
 - Assess and agree key risks
 - Identify and agree expected / existing key controls
 - Identify other key sources of assurance and what assurance they provide that risks are effectively managed
 - Identify key stakeholders/contacts and circulation list for report
 - Provide a mechanism for ongoing self-assessment post audit
13. We will make all reasonable endeavours to schedule audit work within the timing preference expressed by services, but inevitably this may not always be possible due to the practicalities of scheduling work across all service groupings to match estimated audit resources available.
14. Given the continuous extent of the transformation and change agenda with which the Council is faced at this time, it is particularly important that the annual audit plan is flexible and allows for the service to be pro-active in supporting management in the consideration of control issues relating to new or emerging risks. As such a contingency provision is included to respond to new and emerging risks and changes to the strategic audit plan to reflect changes in service priorities and / or risks.
15. Service requests are actively encouraged and will be considered in relation to the risk and the type of audit work required e.g. control design and / or compliance assurance, grant certification work, advice and consultancy etc. and whether or not the service has the necessary skills and resources to undertake the work requested.
16. It would be the preference for Internal Audit to be involved in any changes to systems to advise on the appropriate controls before they are implemented rather than potentially auditing a system in retrospect that then requires any improvements.
17. Any proposals to amend approved plans will be discussed with Corporate Directors and any significant changes will be reported to the Audit Committee for approval.

Delivery of the 2014 / 2015 Audit Plan

18. The audit days required to deliver the proposed audit plan, which includes provision for a contingency provision for new and emerging risks, has been estimated to be 4,395 days.
19. The audit days available to deliver the Council's Internal Audit Plan for 2014/15, based on actual staff in post is illustrated in the following table:

Estimated Gross Days Available (21.9) FTE	4,395
Non – Productive Time (Annual Leave, Sickness, Office Duties etc.)	1,173
Productive Time – not allocable to services e.g. Audit Planning, Supporting Audit Committee, Quality Assurance, Fraud Investigation and Contingency	1,173
Audit days required to complete and close audit reports relating to 2013/2014	48
Productive Days 2014 / 2015	
Assistant Chief Executive (ACE)	62
Children and Adult Services (CAS)	338
Neighbourhood Services (NS)	366
Regeneration and Economic Development (RED)	146
Resources	551
Grant Certification	50
Durham Police and Crime Commissioner / Durham Constabulary	160
Durham and Darlington Fire & Rescue Authority	85
Pension Fund (In house element)	30
Durham Joint Crematorium	19
Mountsett Joint Crematorium	19
Schools (Service Level Agreements)	175
TOTAL GROSS DAYS REQUIRED	4,395

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

Audit Charter

21. The Audit Charter was approved by Corporate Management Team and the Audit Committee in February 2014. However a small number of changes are required prior to the commencement of the new Audit year on 1 July 2014 specifically these are:
- A revision to Audit Opinions – removal of full and none opinions.
 - High and Medium priority findings require management response. Low priority findings will be made as areas for improvement in the body of the audit report but will not require a response.
 - A revised performance indicator relating to the measurement of productive time against the audit plan to be monitored monthly.

Recommendations

22. It is recommended that the Audit Committee:

- Note the change in audit year (April to March) as per paragraph 7.
- Approve the Internal Audit Strategy in Appendix 2.
- Approve the proposed nine month audit plan for 2014/2015, as detailed in Appendix 3.
- Approve the revised Audit Charter in Appendix 4

Contact: Paul Bradley Tel: 03000 269645

Appendix 1: Implications

Finance

No direct financial implications

Risk

None

Staffing

None

Equality and Diversity / Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human Rights

None

Consultation

All Corporate Directors and Heads of Service have been consulted.

Procurement

None

Disability Discrimination

None

Legal Implications

Compliance with the Accounts and Audit Regulations 2011

DURHAM COUNTY COUNCIL



Internal Audit Strategy

1. Introduction

1.1 The Internal Audit Strategy for 2014/2015 focuses on the delivery of the assurance opinion and the Internal Audit plan to support this opinion. This strategy reflects Internal Audit's contribution to the Council's 'Altogether' agenda and fully supports the Council's ambitions as set out in the Sustainable Community Strategy. The Internal Audit Strategy incorporates best practice from Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Audit (CIIA).

1.2 The requirement for an Internal Audit function for local authorities is within section 151 of the Local Government Act 1972 and authority has been delegated to the Corporate Director, Resources to fulfil this function. Regulation 6 of the Accounts and Audit Regulations 2011 requires that "a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control".

1.3 The mission for of the Internal Audit service is to provide value for all of our stakeholders. There are three ways that we achieve this by providing:

- Assurance
- Objectivity; and
- Insight

1.4 The assurance is provided through three elements:

- Governance
- Internal Control; and
- Risk Management

1.5 The Terms of Reference of Internal Audit are contained within the Audit Charter. The measures in place to deliver these are set out below.

2. Strategy Statements

2.1 We aim to deliver work of the highest quality, to the appropriate audience and at the most appropriate time. There are overarching strategies to support the delivery of all of our services, these include:

- 2.2 We support and promote the Council's vision, ambitions, values and objectives in all of the work Internal Audit carries out. It is our strategy to ensure that the delivery of our service is influenced by and positively contributes to these developments together with the growing need for wider ranging assurances in all aspects of the Council's operations. We will also continue to consider and review the impact of organisational change on the Council's governance, internal controls and risks.
- 2.3 We will plan, organise and control the delivery of our service in line with professional standards (Public Sector Internal Audit Standards). We work to add value through providing reliable, objective assurance and insight on the effectiveness and efficiency of governance, risk management and internal control processes. We continually aim to challenge and inspire colleagues to improve.
- 2.4 We will create and communicate high quality information about the effective operation of managements control over risks and we will use our combined experience and knowledge to provide helpful and practical insight and recommendations, we know we can be a catalyst for improving the council's effectiveness and efficiency based on analysis and assessments of data and business processes. The internal audit team has a comprehensive set of procedures and templates that are regularly reviewed and approved to ensure a consistent approach to our work. All audit work is reviewed to ensure it is evidenced based, independent, technically compliant, risk based, timely, has impact and is practical. We employ quality controls, quality monitoring and quality reviews of our work.
- 2.5 We identify the audit resources with the appropriate skill set to deliver the audit service, which meets the required professional standards. We are committed to integrity, accountability and high levels of customer care. We provide assistance with training and continuous professional development. The Council and the Internal Audit team subscribe to a number of professional support forums. The Chief Internal Auditor and Corporate Fraud Manager is a member of the County Chief Internal Auditor Network (CCAN), the Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Groups both North East and North West and the North East Heads of Internal Audit Group in order to utilise the peer support that these groups provide. We also have a Quality Assurance Improvement Plan (QAIP) as required by PSIAS.

2.6 We will strive to raise the profile of Internal Audit in a positive way at all times. The ways that we do this includes:

- Professional advice and support to Members, Corporate Directors, Heads of Service and all employees.
- Delivery of our principal service including high quality audit reports (drafts and final) and Committee reports.
- Issuing Client Satisfaction Questionnaires for all work that we undertake whilst analysing and understanding the responses and acting on the messages conveyed to us.
- Maintaining good client relations and to this end:
 - Attend all Service Grouping management teams on at least a quarterly basis.
 - Provide time within the Internal Audit Plan for advice and consultancy with respect to internal controls for all of our clients.
 - Detailed Terms of Reference are prepared for each audit based on close liaison with clients.
 - Provide all Corporate Directors with quarterly and annual reports on the activity within their Service Groupings.
 - Providing a training module on internal control, risk management and fraud awareness through the 'Durham Managers' programme.

2.7 We aim to support good value for money in all that we do. Our work is designed to help in the promotion of continuous performance and internal control improvement through the issue of reports containing relevant and valued recommendations and action plans. We support effective financial management, help prevent fraud and corruption and undertake investigations where it is felt appropriate to do so. The service also participates in benchmarking to measure our performance and value for money against peer organisations.

2.8 We plan, record and monitor the time spent on all audit activities to manage our staffing resources efficiently and economically.

3. Delivery of the Service

3.1 The Chief Internal Auditor and Corporate Fraud Manager is responsible for the Internal Audit Service and delivering of the Audit Plan in accordance with the Terms of Reference detailed in the Audit Charter.

3.2 The Internal Audit Service will be delivered on the basis of a five year risk based Strategic Audit Plan which is approved annually by the Audit Committee and is based on risks identified by the Chief Internal Auditor and Corporate Fraud Manager in consultation with Service Groupings. The Chief Internal Auditor and Corporate Fraud Manager maintains a continuous review of the risks and issues affecting the Council and thus the Audit Plan using the following:

- Review of Council's priorities and objectives;
- Continuous assessment of risk identified by the strategic risk register and senior managers;
- Issues arising from changes in legislation;
- The implications of external inspection reports.

3.3 The Audit Plan must balance the needs to:

- Provide assurance on the effectiveness of internal controls operating within the Council
- Adequately review the assurance provided by key financial systems for management and the external auditor to place reliance on.
- Allow for the Internal Audit Service to offer advice and guidance on control issues to the Council's managers
- Investigate all suspected or detected frauds or irregularities.
- Provide time to allow Internal Audit to carry out appropriate unplanned work requested by managers.

3.4 The Chief Internal Auditor and Corporate Fraud Manager will assess their resource requirements and draw up the Audit Plan. The staffing structure of Internal Audit comprises a mix of professional, accounting technician and trainee posts with a mix of specialisms to reflect the varied workload of the service. These resources will be met internally within the Council supplemented by appropriately qualified external resources to meet any temporary short falls.

4. Review of the Strategy

4.1 The strategy will be reviewed annually by the Audit Committee alongside the Annual Internal Audit Plan.

ANNUAL INTERNAL AUDIT PLAN 2014 / 2015 (July 2014 to March 2015)

CORPORATE PROVISIONS	DAYS
PLANNING, REPORTING AND SERVICE DEVELOPMENT	
Audit Planning and Reporting	210
Follow Up of Audit Recommendations	100
Quality Assurance and Performance Management	100
Service Development	60
Assurance Mapping	30
Audit Committee Reporting and Support	40
COUNTER FRAUD	
Irregularity Investigation	150
Counter Fraud Awareness	25
National Fraud Initiative	30
Proactive Counter Fraud Reviews (Internal Audit Support of Corporate Fraud Team)	25
<i>Housing Tenancy</i>	
<i>Right to Buy</i>	
<i>Single Person Discount</i>	
<i>Council Tax Reduction</i>	
<i>Business Rates</i>	
<i>Direct Payments</i>	
<i>Car Mileage</i>	
<i>Housing and Council Tax Benefit</i>	
CONTINGENCY	
Advice and Consultancy	150
Contingency	253
GRANT CERTIFICATION	
	50

Work to be completed by the Corporate Fraud Team

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	LINK TO COUNCIL PRIORITIES	DAYS
Assistant Chief Executive (ACE)	Policy and Communications	Business Continuity Planning	10 Key System	Altogether Better Council	10
Assistant Chief Executive (ACE)	Planning and Performance	Data Quality / Performance Management Framework	10 Key System	Altogether Better Council	10
Assistant Chief Executive (ACE)	Planning and Performance	Data Protection - Rolling Programme of reviews (One per Quarter)	15 Assurance	Altogether Better Council	15
Assistant Chief Executive (ACE)	Planning and Performance	Information Governance Group	2 Advice and Consultancy	Altogether Better Council	2
Assistant Chief Executive (ACE)	Planning and Performance	Transparency Agenda Arrangements	5 Advice and Consultancy	Altogether Better Council	5
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Area Action Partnerships (AAPs) - Performance Management Framework	10 Assurance	Altogether Better Council	10
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Partnerships	5 Key System	Altogether Better Council	5
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Community Grants - Effectiveness	5 Advice and Consultancy	Altogether Better Council	5
Children and Adult Services (CAS)	Children's Services	First Contact Service	10 Assurance	Altogether Better for Children and Young People	10
Children and Adult Services (CAS)	Children's Services	Foster Carer Payments	10 Assurance	Altogether Better for Children and Young People	10
Children and Adult Services (CAS)	Children's Services	Adoption Strategy	10 Assurance	Altogether Better for Children and Young People	10
Children and Adult Services (CAS)	Children's Services	Children Safeguarding Governance Arrangements	10 Assurance	Altogether Better for Children and Young People	10
Children and Adult Services (CAS)	Children's Services	Establishment Visits and Overall Management Arrangements	10 Assurance	Altogether Better for Children and Young People	10
Children and Adult Services (CAS)	Children's Services	Voluntary Organisations (DCC Employee Arrangements)	5 Assurance	Altogether Better for Children and Young People	5
Children and Adult Services (CAS)	Children's Services	MIFP Saving - Provision of Supervised Contact	5 Assurance	Altogether Better for Children and Young People	5
Children and Adult Services (CAS)	Children's Services	Disability Commissioning Arrangements (Short Breaks)	5 Assurance	Altogether Better for Children and Young People	5
Children and Adult Services (CAS)	Children's Services	In & Out of County Placements	10 Assurance	Altogether Better for Children and Young People	10
Children and Adult Services (CAS)	Children's Services	Application of Think Family Grants	5 Assurance	Altogether Better for Children and Young People	5
Children and Adult Services (CAS)	Education	School Financial Performance	0 Assurance	Altogether Better for Children and Young People	0
Children and Adult Services (CAS)	Education	SEN Placement and Provision	0 Assurance	Altogether Better for Children and Young People	0
Children and Adult Services (CAS)	Education	School Organisation and Capital Programme	10 Assurance	Altogether Better for Children and Young People	10
Children and Adult Services (CAS)	Education / Children's Services	Safeguarding of Children in Schools	5 Assurance	Altogether Better for Children and Young People	5
Children and Adult Services (CAS)	Education	Adult Learning Service	10 Assurance	Altogether Better for Children and Young People	10
Children and Adult Services (CAS)	Education	Education and Business Link	5 Assurance	Altogether Better for Children and Young People	5
Children and Adult Services (CAS)	Education	Careers Service	5 Assurance	Altogether Better for Children and Young People	5

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	DAYS	AUDIT TYPE	LINK TO COUNCIL PRIORITIES
Children and Adult Services (CAS)	Education	Schools Audit Programme - SLA	175 Assurance		Altogether Better for Children and Young People
Children and Adult Services (CAS)	Education	Schools Financial Value Standard (SFVS)	10 Advice and Consultancy		Altogether Better for Children and Young People
Children and Adult Services (CAS)	Education	Governor Training	5 Advice and Consultancy		Altogether Better for Children and Young People
Children and Adult Services (CAS)	Education	School Business Manager Training	5 Advice and Consultancy		Altogether Better for Children and Young People
Children and Adult Services (CAS)	Education	Head Teacher Group Attendance	1 Advice and Consultancy		Altogether Better for Children and Young People
Children and Adult Services (CAS)	Adult Services	Continuing Health Care and Free Nursing Care	15 Assurance		Altogether Healthier
Children and Adult Services (CAS)	Adult Services	Establishment Visits and Overall Management Arrangements (inc Pathways)	15 Assurance		Altogether Healthier
Children and Adult Services (CAS)	Adult Services	Adaptations Service	15 Assurance		Altogether Healthier
Children and Adult Services (CAS)	Commissioning	Community Chest Grant Scheme / Adult Mental Health Capital Grant Scheme	5 Assurance		Altogether Healthier
Children and Adult Services (CAS)	Commissioning	Social Care Financial Assessments & Reassessments	10 Advice and Consultancy		Altogether Better Council
Children and Adult Services (CAS)	Commissioning	Direct Payments	10 Advice and Consultancy		Altogether Better Council
Children and Adult Services (CAS)	Commissioning	Personal Budgets - Commissioned Service	10 Assurance		Altogether Better Council
Children and Adult Services (CAS)	Commissioning	Management of Client Finances	10 Assurance		Altogether Better Council
Children and Adult Services (CAS)	Commissioning	SSID Development	5 Advice and Consultancy		Altogether Better Council
Children and Adult Services (CAS)	Public Health	Drug and Alcohol Treatment Services and Clinical Public Health Services	10 Advice and Consultancy		Altogether Healthier
Children and Adult Services (CAS)	Public Health	Nicotine Replacement Vouchers - Follow Up	2 Assurance		Altogether Healthier
Children and Adult Services (CAS)	Public Health	Public Health Assurance	10 Advice and Consultancy		Altogether Healthier
Children and Adult Services (CAS)	Public Health	Commissioning Arrangements	0 Assurance		Altogether Healthier
Children and Adult Services (CAS)	Public Health	Pharmoutcomes	10 Advice and Consultancy		Altogether Healthier
Children and Adult Services (CAS)	Public Health	Health Visitor Transition	20 Advice and Consultancy		Altogether Healthier
Children and Adult Services (CAS)	Planning and Service Strategy	Caldicott Compliance	10 Assurance		Altogether Better Council
Children and Adult Services (CAS)	Planning and Service Strategy	Use of Petty Cash and Imprest Accounts	10 Assurance		Altogether Better Council
Children and Adult Services (CAS)	All CAS Services	CAS - Cash Collection	10 Key System		Altogether Better Council
Children and Adult Services (CAS)	All CAS Services	CAS - Creditors	10 Key System		Altogether Better Council
Children and Adult Services (CAS)	All CAS Services	CAS - Debtors	10 Key System		Altogether Better Council
Children and Adult Services (CAS)	All CAS Services	CAS - Payroll	10 Key System		Altogether Better Council
Neighbourhood Services (NS)	Culture and Sport Services	Gala Theatre	10 Advice and Consultancy		Altogether Better Council
Neighbourhood Services (NS)	Culture and Sport Services	Integrated Leisure Management System	2 Advice and Consultancy		Altogether Better Council
Neighbourhood Services (NS)	Culture and Sport Services	Stewardship External Funding / Arrangement Site Works	5 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Culture and Sport Services	Competition Line UK - Income Share Agreement	2 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Culture and Sport Services	Parks Management	10 Assurance		Altogether Healthier
Neighbourhood Services (NS)	Culture and Sport Services	Leisure Services Review - Future Service Delivery	5 Advice and Consultancy		Altogether Healthier
Neighbourhood Services (NS)	Culture and Sport Services	Libraries - Review of Procurement, Payments and Custody of Assets	15 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Direct Services	Building Compliance	10 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Direct Services	Pest Control	10 Assurance		Altogether Healthier
Neighbourhood Services (NS)	Direct Services	Catering Service	10 Advice and Consultancy		Altogether Better Council
Neighbourhood Services (NS)	Direct Services	Fleet	15 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Direct Services	Grounds Maintenance Charging (inc Clean and Green Follow Up)	10 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Direct Services	Altogether Management	10 Assurance		Altogether Healthier
Neighbourhood Services (NS)	Direct Services	Trade Waste - Follow Up	2 Assurance		Altogether Greener
Neighbourhood Services (NS)	Direct Services	Computerised Repairs and Maintenance System	5 Advice and Consultancy		Altogether Better Council
Neighbourhood Services (NS)	Direct Services	Quality Management System (QMS)	3 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Direct Services	Durham Crematorium - Joint Committee	19 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Direct Services	Mountsett Crematorium - Joint Committee	19 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Direct Services	Markets Strategy	10 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Direct Services	Fair Trading	10 Assurance		Altogether Healthier
Neighbourhood Services (NS)	Environmental Health and Consumer Protection	Animal Health	10 Assurance		Altogether Safer
Neighbourhood Services (NS)	Environmental Health and Consumer Protection	Premises Licensing - Fee Setting	10 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Technical Services	Winter Maintenance	2 Assurance		Altogether Safer
Neighbourhood Services (NS)	Technical Services	Design Services	10 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Technical Services	Flooding Mitigation	5 Assurance		Altogether Safer
Neighbourhood Services (NS)	Technical Services	Transport Network Management	10 Assurance		Altogether Safer
Neighbourhood Services (NS)	Technical Services	Compliance with Construction, Design and Maintenance Procedures	10 Advice and Consultancy		Altogether Better Council
Neighbourhood Services (NS)	Technical Services	Capital Project Review	30 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Technical Services	Stores	15 Assurance		Altogether Better Council

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	DAYS	AUDIT TYPE	LINK TO COUNCIL OBJECTIVES
Neighbourhood Services (NS)	Technical Services	Contract Audit	50 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Projects and Business Services	Environmental Compliance	10 Assurance		Altogether Greener
Neighbourhood Services (NS)	Projects and Business Services	Customer Access Points	10 Assurance		Altogether Better Council
Neighbourhood Services (NS)	Projects and Business Services	Garden Waste Collection Scheme	5 Advice and Consultancy		Altogether Greener
Neighbourhood Services (NS)	Projects and Business Services	Fly Tipping	5 Advice and Consultancy		Altogether Greener
Neighbourhood Services (NS)	Projects and Business Services	NS - Cash Collection	10 Key System		Altogether Better Council
Neighbourhood Services (NS)	Projects and Business Services	NS - Creditors	10 Key System		Altogether Better Council
Neighbourhood Services (NS)	Projects and Business Services	NS - Debtors	10 Key System		Altogether Better Council
Neighbourhood Services (NS)	Projects and Business Services	NS - Payroll	10 Key System		Altogether Better Council
Regeneration and Economic Development (RED)	Planning and Assets	Planning System	10 Assurance		Altogether Wealthier
Regeneration and Economic Development (RED)	Planning and Assets	Spatial Policy	10 Assurance		Altogether Wealthier
Regeneration and Economic Development (RED)	Planning and Assets	Asset Management - Follow Up	2 Assurance		Altogether Wealthier
Regeneration and Economic Development (RED)	Planning and Assets	Community Infrastructure Levy	2 Advice and Consultancy		Altogether Wealthier
Regeneration and Economic Development (RED)	Planning and Assets	Energy Management - Warm Up North	2 Advice / Grant Cert		Altogether Greener
Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	European Regional Development Fund	5 Advice and Consultancy		Altogether Better Council
Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	RED - Cash Collection	10 Advice and Consultancy		Altogether Better Council
Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	RED - Creditors	10 Advice and Consultancy		Altogether Better Council
Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	RED - Debtors	10 Advice and Consultancy		Altogether Better Council
Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	RED - Payroll	10 Advice and Consultancy		Altogether Better Council
Regeneration and Economic Development (RED)	Transport and Contract Services	Traffic Accident Data Unit (TADU) - Prevention and Investigation	10 Assurance		Altogether Safer
Regeneration and Economic Development (RED)	Transport and Contract Services	Transport - Contractual Arrangements	10 Assurance		Altogether Safer
Regeneration and Economic Development (RED)	Transport and Contract Services	Transport - Safeguarding Arrangements	10 Assurance		Altogether Safer
Regeneration and Economic Development (RED)	Transport and Contract Services	Transport - 5 Assurance	5 Assurance		Altogether Safer
Regeneration and Economic Development (RED)	Economic Development and Housing	Housing Stock Transfer	10 Advice and Consultancy		Altogether Better Council
Regeneration and Economic Development (RED)	Economic Development and Housing	Housing Solutions (include Housing Advice, Homelessness & Family Intervention)	10 Assurance		Altogether Wealthier
Regeneration and Economic Development (RED)	Economic Development and Housing	Economic Development - Apprenticeship Programme	10 Assurance		Altogether Wealthier
Regeneration and Economic Development (RED)	Economic Development and Housing	Regeneration and Development - Heart of Teesdale Landscape Partnership	10 Assurance		Altogether Wealthier
Regeneration and Economic Development (RED)	Economic Development and Housing	Choice Based Letting Scheme	10 Advice and Consultancy		Altogether Wealthier
Resources	Human Resources and Organisational Development	Attendance Management Framework	10 Assurance		Altogether Better Council
Resources	Human Resources and Organisational Development	Disciplinary Procedures	10 Assurance		Altogether Better Council
Resources	Human Resources and Organisational Development	Violent Persons Register	5 Assurance		Altogether Better Council
Resources	Human Resources and Organisational Development	Health and Safety	10 Key System		Altogether Better Council
Resources	Human Resources and Organisational Development	Payroll	10 Key System		Altogether Better Council
Resources	Human Resources and Organisational Development	Comensura	10 Key System		Altogether Better Council
Resources	Legal and Democratic Services	Registrars	10 Assurance		Altogether Better Council
Resources	Legal and Democratic Services	Land Charges - Fees and Income	10 Assurance		Altogether Better Council
Resources	Legal and Democratic Services	Standards - Arrangements	10 Assurance		Altogether Better Council
Resources	Legal and Democratic Services	Elections	10 Assurance		Altogether Better Council
Resources	Legal and Democratic Services	RIPA Group	1 Advice and Consultancy		Altogether Better Council
Resources	Legal and Democratic Services	Members Allowances	10 Assurance		Altogether Better Council
Resources	Corporate Finance	VAT Arrangements	5 Assurance		Altogether Better Council
Resources	Corporate Finance	Bank Reconciliation	5 Key System		Altogether Better Council
Resources	Corporate Finance	Treasury Management	20 Key System		Altogether Better Council
Resources	Corporate Finance	New Banking Contract	10 Advice and Consultancy		Altogether Better Council
Resources	Corporate Finance	Collection Fund	15 Key System		Altogether Better Council
Resources	Corporate Finance	General Ledger	5 Key System		Altogether Better Council
Resources	Corporate Finance	Contract Register	10 Assurance		Altogether Better Council
Resources	Corporate Finance	Procurement	30 Assurance		Altogether Better Council
Resources	Corporate Finance	Cracle Development - Project Board	5 Advice and Consultancy		Altogether Better Council
Resources	Financial Services	Budgetary Control	15 Key Systems		Altogether Better Council
Resources	Financial Services	Revenues and Benefits - Reconciliation	10 Key Systems		Altogether Better Council
Resources	Financial Services	Creditors	10 Key Systems		Altogether Better Council
Resources	Financial Services	Debtors	10 Key Systems		Altogether Better Council
Resources	Financial Services	Council Tax	40 Key Systems		Altogether Better Council
Resources	Financial Services	NNDR	40 Key Systems		Altogether Better Council
Resources	Financial Services	Housing Benefit and Council Tax Reduction	50 Key Systems		Altogether Better Council
Resources	Financial Services	Cash Collection	10 Key Systems		Altogether Better Council
Resources	Financial Services	PCI Compliance - Follow Up	1 Assurance		Altogether Better Council
Resources	Financial Services	School Financial Performance	10 Assurance		Altogether Better Council
Resources	Financial Services	Welfare Rights	10 Assurance		Altogether Better Council

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	DAYS	AUDIT TYPE	LINK TO COUNCIL OBJECTIVES
Resources	Financial Services	Welfare Assistance Scheme - Follow Up	5	Assurance	Altogether Better Council
Resources	Financial Services	Creditors Working Group	2	Advice and Consultancy	Altogether Better Council
Resources	Financial Services	Debtors Working Group	2	Advice and Consultancy	Altogether Better Council
Resources	Financial Services	Balliff Service	10	Assurance	Altogether Better Council
Resources	Internal Audit, Risk and Fraud	Risk Management	10	Key System	Altogether Better Council
Resources	Internal Audit, Risk and Fraud	Insurance	10	Assurance	Altogether Better Council
Resources	Internal Audit, Risk and Fraud	Counter Fraud Arrangements	5	Key System	Altogether Better Council
Resources	Internal Audit, Risk and Fraud	Corporate Review of Ethics	10	Assurance	Altogether Better Council
Resources	Information and Communication Technology	Asset Management	10	Assurance	Altogether Better Council
Resources	Information and Communication Technology	Change Control	10	Assurance	Altogether Better Council
Resources	Information and Communication Technology	ISP Compliance Reviews	10	Assurance	Altogether Better Council
Resources	Information and Communication Technology	Oracle Database	10	Assurance	Altogether Better Council
Resources	Information and Communication Technology	ICT Business Continuity Plan	10	Assurance	Altogether Better Council
Resources	Information and Communication Technology	Design and Print Service	10	Assurance	Altogether Better Council
Resources	Information and Communication Technology	Mobile Phones - Allocation and Usage	20	Advice and Consultancy	Altogether Better Council



INTERNAL AUDIT CHARTER

**June
2014**

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1. Introduction

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

2. Statutory Basis

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

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

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

3. Definition

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

4. Code of Ethics

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

5. Strategic Aims

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

6. Objectives of Internal Audit

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

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

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

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

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

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

6.5 Other objectives include:

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

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

7. Outcomes of Internal Audit

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

8. Independence, Objectivity and Authority

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

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

9. Scope of Audit Work

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

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

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

10. Strategic Audit Planning

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

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

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

10.4 In consultation with service managers internal audit will

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

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

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

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

11. Annual Audit Plans

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

12. Audit Approach

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

Strategic Risk

12.2 Reviews of strategic risks will provide assurance that:

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

Operational Risk

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

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

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

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

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

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

13. Audit Reporting

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

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

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

Reporting a draft annual risk based audit plan for approval

Presenting Quarterly Internal Audit Progress reports:

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

Presenting an Annual Audit Report to:

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

14. Responsibilities of Managers

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

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

15. Relationship with the Audit Committee

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

16. Audit Resources, Skills and Service Quality

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

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

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

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

17. Approval and Review

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

18. Key Contact

Head of Internal Audit

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19. Other Related Documents

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

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

ASSESSMENT OF AUDIT FINDINGS, RECOMMENDATIONS AND AUDIT OPINIONS

APPENDIX A

Findings

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

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

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

LIKELIHOOD			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	M
	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	The service/system/process objectives are not exposed to minor risk from weaknesses in controls therefore a note of recommended practice will be inserted in the body of the report.

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:

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.
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.
Limited Assurance	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk.

PERFORMANCE INDICATORS

APPENDIX B

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Efficiency		
Objective: To provide maximum assurance to inform the annual audit opinion		
KPI	Measure of Assessment	Target & (Frequency of Measurement)
Productive audit time achieved	% of planned productive time from original approved plan completed as at 31 st March.	90% (Monthly)
Timeliness of Draft Reports	% of draft reports issued within 20 working days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Monthly)
Timeliness of Final Reports	% of final reports issued within 10 working days of receipt of management response Average time taken is also reported for information	95% (Monthly)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)
Quality		
Objective: To ensure that the service is effective and adding value		
KPI	Measure of Assessment	Target & (Frequency of Measurement)
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Monthly) 100%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (4 out of 5) where 1 is poor and 5 is very good	100% (Quarterly) 100% Overall average score 4.50
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly) 60%

Public Sector Internal Audit Standards

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

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

DEFINITIONS UNDER PSIAS

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		<p>other matters</p> <ul style="list-style-type: none"> • *Approving decisions regarding the appointment and removal of the CAE • *Approving the remuneration of the CAE and • Making appropriate enquiries of management and the CAE to determine whether there are inappropriate enquires of management and CAE to determine whether there are inappropriate scope or resources limitations 		<p>Note</p> <p>The public sector interpretation with the PSIAS acknowledges that in the UK public sector the board would not generally approve the CAE's remuneration.</p> <p><i>“The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the Chief Executive undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the Chair of the Audit Committee “</i></p>
1130. C2	Impairment to Independence or Objectivity	Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement		The Audit Committee
1312	Quality Assurance and Improvement Programme (QAIP)	<p>External Assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team form outside the organisation. The CAE must discuss with the board:</p> <ul style="list-style-type: none"> • The form of external assessments • The qualifications and independence of the external assessor or assessment, 		The Audit Committee

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		<p>including any potential conflict of interests</p> <p>NB The Public Sector requirement of this standard states,</p> <p>“The CAE must agree the scope of external assessments with an appropriate sponsor e.g the Accounting/Accountable Officer or Chair of the audit committee as well as with the external assessor or assessment team”</p>		
1320	Reporting the results of QAIP	The CAE must communicate the results of the quality assurance and improvement programme to senior management and the board .	CMT	The Audit Committee
1322	Disclosure of Non - Conformance	Instances of non-conformance with the definition of Internal Auditing , the Code of Ethics or the standards impacts the overall scope or operation of the Internal Audit Activity, must be reported to the board by the CAE. More significant deviations must be considered for inclusion in the annual governance statement		The Audit Committee
2020	Communications and Approval	<p>The CAE must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval.</p> <p>Where the CAE believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.</p>	CMT	The Audit Committee

DEFINITIONS UNDER PSIAS

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2060	Reporting to Senior Management and the Board	The CAE must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must include significant risk exposures and control issues, including fraud risks governance issues and other matters needed or requested by senior management and the board.	CMT	The Audit Committee
2600	Communicating the Acceptance of Risk	When the CAE concludes that management has accepted a low level of risk that may be unacceptable to the organisation, the CAE must discuss the matter with senior management . If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the board .	CMT	The Audit Committee

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

Audit Committee

26 June 2014

Forward Plan of Audit Committee Business



Report of Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

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

Background

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

Recommendation

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

Contact: 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

Staffing

None

Risk

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

Equality and Diversity / Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability issues

None

Legal Implications

None

Audit Committee Operational Terms of Reference

1 Objectives

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

2 Authority

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

3 Composition

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

4 Terms of Reference

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

Governance Arrangements – General

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

Risk Management

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

- 4.1.12 To seek further assurance from service managers that risks are being effectively managed as considered necessary.
- 4.1.13 To seek assurance on the effectiveness of the operation of the risk management framework.

Control Environment

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

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

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

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

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

5 Meetings

- 5.1 The Audit Committee will meet at least four times a year. Meetings will be open to the public, but they may be excluded where information of an exempt or confidential nature is being discussed.
- 5.2 To help maintain independence, the Head of Internal Audit is the nominated lead officer for the Committee and will hold pre agenda meetings with the Chair and Vice Chair and will attend every meeting (or arrange deputy).
- 5.3 The S151 Officer and the Monitoring Officer are key corporate governance officers and they or their nominated deputies will attend each meeting.
- 5.4 The External Auditor has the right to attend any audit committee meeting.
- 5.5 Other officers will be invited to attend to present reports and /or answer any questions the Committee may have as considered appropriate to these terms of reference.
- 5.6 Each report presented to Committee will make reference to the relevant paragraph in these terms of reference to clearly demonstrate how the Committee fulfils its role.
- 5.7 A standard item will be added to each committee agenda for the Committee to be given the opportunity to discuss any exceptional items in private at the end of the meeting with Internal/External Audit.

6 Programme of Work

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

7 Performance and Review

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

Durham County Council Audit Committee - Reporting Forward Plan 2014 / 2015

	Agenda Items linked to Terms of Reference	Ref	20 May	26 June	24 July	30 Sept	27 Nov	Feb 2015	May 2015
Authority									
1	To report on its work to Full Council	2.1		X			X		
Governance Arrangements									
2	To review and endorse the Council's Code of Corporate Governance	4.1.1					X		
3	To review how the AC's work integrates with the wider performance management framework and standards compliance by consideration of the Council's assurance framework	4.1.2		X					
4	To understand the role of overview and scrutiny committee in relation to the review of performance and the assurance it provides on the effectiveness of the councils governance arrangements	4.1.3		X					
5	To approve proposals for the production of the Annual Governance Statement	4.1.4.					X		
6	To review the effectiveness of the Internal Audit Service	4.1.5		X					
7	To approve the draft annual governance statement	4.1.6		X					
8	To approve the final annual governance statement	4.1.7.				X			
9	To approve and monitor the AGS Action Plan	4.1.8					X		
10	To approve and monitor the AGS Action Plan	4.1.8					X	X	X
11	To review and endorse the Council's risk management strategy and policy	4.1.9							X
12	To maintain an understanding of the risk management process and the key risks facing the Council	4.1.10	X		X		X	X	X
13	To review regular reports from CRMG to gain assurance that the Council is monitoring and managing its risks effectively	4.1.11	X		X		X	X	X
14	To seek further assurance from service managers that risks are being effectively managed as considered necessary	4.1.12		X					
15	To seek assurance on the effectiveness of the operation of the risk management framework	4.1.13	X		X		X	X	X
Control Environment									
16	To maintain an understanding of key council policies and procedures which seek to provide effective control over the conduct of council business, the safeguarding of assets and the timely production of accurate and complete financial information and to seek assurance that there are adequate arrangements in place to ensure that these are being adhered to. These should include: Contract procedures rules Financial Procedure Rules Scheme of delegation Codes of Conduct for officers and members	4.1.14		X				X	
17	To maintain an understanding of the Council's performance management framework	4.1.15							
18	To review the effectiveness of the Councils' Counter Fraud and Corruption Strategy	4.1.16	X	X			X		
19	To review the effectiveness of the Council's Anti Money laundering policy	4.1.17			X				X

	Agenda Items linked to Terms of Reference	Ref	20 May	26 June	24 July	30 Sept	27 Nov	Feb 2015	May 2015
20	To review the effectiveness of the Council's Whistle Blowing Policy	4.1.18	X						
21	To approve the Internal Audit Charter (and Terms of Reference)	4.1.19		X				X	
22	To maintain an understanding of the Internal Audit Process and how this relates to risk management	4.1.20				X	X	X	X
23	To endorse and provide challenge to proposed Annual Internal Audit Plans	4.1.21		X				X	X
24	To review the effectiveness of Internal Audit by reviewing regular progress reports on its work and performance	4.1.22				X	X	X	X
25	To review the effectiveness of external audit, including consideration of any potential conflicts of interest	4.1.23							X
26	To review the HIA's annual report	4.1.24		X					
27	To maintain an understanding of the role of external audit and its relationship with Internal Audit	4.1.25		X					
28	To maintain an understanding of the role of other key providers of assurance identified in the Council's assurance framework and ensure adequate arrangements are in place for reviewing the reliability and effectiveness of those assurance providers and for addressing any control weakness or improvements that they may identify	4.1.26		X		X	X	X	X
29	To review external audit reports and the Annual Audit Letter	4.1.27	X			X	X	X	X
30	To monitor progress made by management in response to both internal and external audit findings and recommendations	4.1.28	X			X	X	X	X
31	To review the scope and depth of external audit work as set out in their annual plans	4.1.29	X					X	
32	Within available resources, to be able to request specific pieces of work from Internal and External Audit	4.1.30		X					X
STATEMENT OF ACCOUNTS									
33	To maintain an understanding of the Budget and Policy Framework as set out in the Council's Constitution	4.2.1				X			
34	To maintain an understanding of the budget procedures as set out in Finance Procedure Rules and Financial Management Standards	4.2.2				X			
35	To maintain an understanding of internal and external reporting requirements	4.2.3			X	X			
36	To approve accounting policies, the approach to accounting estimates and the 'going concern assertion'	4.2.4							X
37	Review of un-audited accounts	4.2.5			X				
38	Review of Annual Outturn Report and consider how this might impact on the draft accounts	4.2.6			X				
39	To approve final audited statement of accounts	4.2.7				X			
Programme of Work									
40	Annual Programme of work to be agreed cross referenced to TOR	6.1		X					
Performance and Review									
41	Annual self-assessment of effectiveness	7.1			X				

Audit Committee Forward Plan 2014 / 2015

Date of Meeting	No	Agenda Item	TOR Ref
20 May 2014	1	Review of Counter Fraud and Corruption Strategy	4.1.16
	2	Review of Confidential Reporting Code (Whistleblowing)	4.1.18
	3	External Audit - Audit Strategy Memorandum (County Council)	4.1.29
	4	External Audit - Audit Strategy Memorandum (Pension Funds)	4.1.29
	5	Consideration of Going- Concern Status for the Statement of Accounts for Y/E 31/03/2014	4.2.4
	6	Quarter 4 - Strategic Risk Management Report to 31 March 2014	4.1.10/11/13
	7	Quarter 3 - Internal Audit Progress Report to 31 March 2014	4.1.22
	8	Protecting the Public Purse - Audit Commission Localised Briefing	4.1.16
26 June 2014	1	Annual Review of the System of Internal Audit	4.1.5
	2	Annual Audit Opinion and Internal Audit Report 2013/2014	4.1.24
	3	Draft Annual Governance Statement 2011/12	4.1.6
	4	Compliance with International Auditing Standards	4.2.3
	5	Biannual report from Committee to Full Council	2.1
	6	Annual Internal Audit Strategy, Plan and Charter 2014/2015	4.1.21
	7	Direct Payments - Update Report	4.1.12/13/14
	8	Forward Plan of Audit Committee Business for 2014/2015	6.1
	9	Annual Fraud Report 2013/2014	4.1.6
24 July 2014	1	Presentation - Assets	4.1.14
	2	Q1 Risk Management Report	4.1.10/11/13
	3	2013/2014 - Outturn Report	4.2.6
	4	2013/2014 - Draft Accounts	4.2.3/5
	5	Self Assessment Review of Audit Committee	7
	6	Review of Money Laundering Policy	4.1.17
	7	Presentation - Fraud Awareness	4.1.16
30 September 2014	1	Final Accounts 2013/2014	4.2.3/7
	2	Final Annual Governance Statement 2013/2014 and AGS Action Plan	4.1.7/8
	3	Durham County Council Annual Governance Report of External Auditor	4.1.27
	4	Pension Fund Annual Governance Report of External Auditor	4.1.27
	5	Outline of Budget and MTFP Setting Process	4.2.1/4.2.2
	6	Quarter 4 - Internal Audit Progress Report at 30 June 2014	4.1.22
27 November 2014	1	Quarter 2 - Strategic Risk Management Report to 30 September 2014	4.1.10/11/13
	2	Biannual report from Audit Committee to Full Council	2.1
	3	Biannual Fraud Report	4.1.16
	4	Annual Audit Letter	4.1.27
	5	Review of the Local Code of Corporate Governance	4.1.1
	6	Annual Governance Statement - Action Plan Update	4.1.8
	7	Review proposals for the production of the AGS & Update on Council's assurance framework	4.1.2/3/4
	8	Internal Audit Progress Report to 30 September 2014	4.1.22
February 2015	1	Quarter 3 - Strategic Risk Management Report to 31 December 2014	4.1.10/11/13
	2	External Auditor's Annual Grant Claims Report	4.1.27
	3	AGS Action Plan Update	4.1.8
	4	Approval of Accounting Policies	4.2.4
	5	Final Accounts Timetable	4.2.3
	6	SORP - Changes to the Code	4.2.3
	7	Internal Audit Charter	4.1.19
	8	Update on Council's Assurance Framework	4.1.2/4.1.26
	9	External Audit - Audit Strategy Memorandum (Audit Plan)	4.1.29
	10	Emergent Internal Audit Plan 2014/2015	4.1.21
	11	Internal Audit Progress Report to 31 December 2014	4.1.22
May 2015	1	Approval of the Final Internal Audit Strategy and Plan 2015/2016	4.1.21
	2	AGS Action Plan Update	4.1.8
	3	Review of Risk Management Strategy & Policy	4.1.9
	4	External Audit Progress Report	4.1.29
	5	Quarter 4 - Strategic Risk Management Report to 31 March 2015	4.1.10/11/13
	6	Consideration of Going- Concern Status for the Statement of Accounts for Y/E 31/03/2014	4.2.4
	7	Biannual Report from Committee to Full Council	2.1
	8	Consideration of Going- Concern Status for the Statement of Accounts for Y/E 31/03/2014	4.2.4
	9	Quarter 4 - Strategic Risk Management Report to 31 March 2014	4.1.9
	10	Internal Audit Progress Report to 31 March 2014	4.1.24
	11	Protecting the Public Purse - Audit Commission Localised Briefing	4.1.16

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AUDIT COMMITTEE



26 June 2014

External Audit: Audit Progress – June 2014

Report of the External Auditor

Purpose of the Report

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

Background

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

Summary of Audit Progress

4. Work on the 2013/14 audit has begun with interim work on the financial systems and early work on journals and income and expenditure
5. Monday 4 August 2014 has been agreed as the date for the public to exercise their rights to raise questions about the financial statements.

National Publications, Events and Other Updates

6. This section provides an update on other areas that members of the Committee may find useful this includes:
 - CIPFA LAAP Bulletin 98 – Closure of the 2013/14 accounts and related matters
 - Value for Money Briefings
 - Annual Fraud and Corruption Survey
 - Annual Financial Resilience Survey
 - The National Audit Office (NAO)'s role in Local Audit
 - CIPFA Introductory Guide to Local Government Finance (2014)

Recommendation

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

Contact: Catherine Banks

Tel: 03000 267452

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

None

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Durham County Council

Audit Progress report

Audit Committee 26 June 2014

Contents

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2. Summary of audit progress	2
3. National publications, events and other updates	3
Contact details	5

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.



1. Introduction

The purpose of this paper is to update the Audit Committee on our progress in meeting our responsibilities as your external auditor. We also include in this paper key emerging national issues and developments which may be of interest to the Audit Committee and actions that you may want to consider. If you need any additional information please contact me or Catherine Banks using the contact details at the end of this update.

2. Summary of audit progress

We have completed our interim work on financial systems and we have started our early testing on journals and income and expenditure in advance of receiving the draft financial statements.. We have not identified any significant issues to date that require reporting to members. We have maintained a dialogue with officers working on the production of the Council's accounts. This has once again been a positive process and we envisage that this will help the audit of the accounts run more smoothly. We had regular meetings with officers leading up to the production of the draft financial statements, to discuss complex or potentially contentious issues so helping to resolve any matters in advance.

We have agreed 4 August 2014 as the date for the public to exercise their rights to raise questions on the financial statements.

3. National publications, events and other updates

LAAP Bulletin 98, Closure of the 2013/14 Accounts and Related Matters

CIPFA has published its annual guidance to the preparers of local authority accounts. The Bulletin provides additional guidance and clarification on new areas, or where there were difficulties last year. We have discussed the Bulletin with finance staff.

Value for Money briefings

The Audit Commission's latest briefing on data from its VFM profiles, Managing Council Property Assets, focuses on asset management in local authorities. The report includes data from councils and fire authorities.

The Commission reported that:

- there are wide variations in the costs and performance of councils across a range of services/income streams. Councils can obtain better value by reducing their costs, collecting income that is due to them, and getting the best return from their money and assets, including property.
- councils need to manage their property actively to extract maximum value without having an adverse effect on services or their statutory objectives;
- they need good data to answer strategic and operational questions about how many properties they own or lease, whether they are in the right places, whether they should keep, sell, or transfer them, and how much they should invest in them.

<http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/>

Annual fraud and corruption survey

The Audit Commission's annual fraud and corruption survey requests information on detected fraud and corruption for the 2013/14 financial year, including any housing benefit fraud greater than £10,000. Completion and submission of the survey by audited bodies is a mandatory requirement under section 48 of the Audit Commission Act 1998 and feeds into its overall annual report on fraud.

The Council has completed its return, and in line with requirements, we have reviewed responses for reasonableness.

Annual financial resilience survey

The Audit Commission's short financial resilience survey asks external auditors to assess how the Council is placed to respond to reduced financial resources. We will discuss our proposed responses with officers before completing the survey.

The National Audit Office (NAO)'s role in local audit

The NAO has published a paper outlining its new role in local audit under the Local Audit and Accountability Act 2014, when the Audit Commission is abolished. This includes:

- preparing the Code of Audit Practice
- VFM studies

<http://www.nao.org.uk/report/the-naos-role-in-local-audit/>

An introductory guide to local government finance (2014 edition)

CIPFA has updated its guide on local government finance for all those with an interest in public services. It is designed to be easy to read and give the reader the key information they need at their fingertips.

Contact details

If you would like further information on any items in this briefing, please contact me or Catherine Banks.

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M A Z A R S

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

Agenda Item 14

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of the Local Government Act 1972.

Agenda Item 15

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