



Audit Committee

Date **Thursday 26 February 2015**
Time ***10.00 am**
Venue **Committee Room 1A, County Hall, Durham**

*Please note the later start time

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
2. Minutes of the meeting held on 27 November 2014 (Pages 1 - 6)
3. Declarations of interest, if any
4. Agreement of Accounting Policies for Application in the 2014/15 Financial Statements - Report of the Corporate Director, Resources (Pages 7 - 40)
5. Final Accounts Timetable for the year ended 31 March 2015 - Report of the Corporate Director, Resources (Pages 41 - 46)
6. Changes to the Code of Practice for Local Authority Accounting in the UK for 2014/15 - Report of the Corporate Director, Resources (Pages 47 - 52)
7. External Audit Progress Report - Report of the External Auditor (Pages 53 - 66)
8. External Audit Annual Grant Claim Report - Report of the External Auditor (Pages 67 - 76)
9. Bi-Annual Report to Council - work of the Audit Committee (June 2014 to November 2014) - Report of Chair of the Audit Committee (Pages 77 - 86)
10. Strategic Risk Management Progress Report for the Quarter period October to December 2014 - Report of the Corporate Director, Resources (Pages 87 - 98)
11. The Emergent Internal Audit Plan 2015/2016 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 99 - 108)

12. Internal Audit Progress Report Quarter Ended 31 December 2014 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 109 - 130)
13. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
14. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

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

15. Internal Audit Progress Report Quarter Ended 31 December 2014 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 131 - 144)
16. Direct Payments Update Report - Report of Head of Commissioning, Children and Adult Services (Pages 145 - 154)
17. 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 February 2015

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

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

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

Co-opted Members:

K Larkin-Bramley and T Hoban

Contact: Jackie Graham

Tel: 03000269704

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1B, County Hall, Durham on **Thursday 27 November 2014 at 9.30 am**

Present:

Councillor J Rowlandson (Chairman)

Members of the Committee:

Councillors L Armstrong, C Carr, S Forster and O Temple

Co-opted Members:

Mr T Hoban and Ms K Larkin-Bramley

1 Apologies

Apologies for absence were received from Councillors E Bell, J Hillary, T Smith and W Stelling.

2 Minutes of the meeting held on 30 September 2014

The minutes of the meeting held on 30 September 2014 were agreed and signed by the Chairman as a correct record.

Consideration was given to the current item on the Committee's Action Plan (for copy of action plan see file of Minutes).

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 Presentation on the role of an IT Auditor and the work that they complete

The Committee received a presentation from the Audit Manager, Principal Auditor (IT) and Trainee IT Auditor that advised of the role of an IT auditor and the work they complete (for copy see file of Minutes).

The Principal Auditor advised the Committee of the following:

- What is IT Audit – definitions from Information Systems Audit and Control Association (ISACA) and Chartered Institute of Public Finance Accountants (CIPFA)
- Why do we need IT Audits – to provide assurance that IT controls are in place

- Legal requirements, policies and guidance
- Types of Audit – assurance, advice and consultancy existing systems and advice and consultancy new systems
- 2014/15 Audit Plan and Other Audits

The Chairman thanked the team for their presentation and invited questions from Members.

Councillor L Armstrong was informed that the Assistant Chief Executive was the Data Controller.

Councillor O Temple asked how big of a part IT Audit plays and how much IT enables fraud. The Audit Manager advised that as new systems develop and are reviewed, IT audit would identify risks and ensure that controls are in place. Councillor Temple asked if IT systems introduce a risk or reduce the risk of fraud. The Principal Auditor explained that provided controls were in place it would reduce the risk. IT audits ensure that passwords are in place and that user access is monitored but advised that all IT systems are susceptible to fraud.

Councillor C Carr asked how long it takes to remove someone from the system once they had left the authority. The Head of ICT Services advised that as soon as IT are notified that someone has left their passwords are removed immediately.

5 Local Code of Corporate Governance

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

The Risk, Insurance & Governance Manager highlighted the changes in the document and made reference to performing an annual test to confirm that the merged role of the Director of Children's Services and Adult Services have not weakened the focus on outcomes for children and young people. Ms K Larkin-Bramley pointed out that this should also apply to vulnerable adults.

Councillor L Armstrong asked why the Single Equality Scheme had been removed from the Code and was advised that the scheme no longer applied. The Risk, Insurance and Governance Manager assured the Committee that the Equality Act still applied and nothing within the legislation had changed.

Resolved:

That the revised Local Code of Corporate Governance be approved.

6 Strategic Risk Management Progress Report for the quarter ending September 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 July to September 2014 (for copy see file of Minutes).

The Risk, Assurance and Governance Manager informed the Committee that there were 31 strategic risks, and 5 key risks. He reported an emerging risk in respect to backdating pay claims and that the risks were being managed effectively.

On answering a question from Councillor C Carr about a date from Government about notifiers the Corporate Director, Resources explained that the figures had not been finalised but would be brought back to Committee once known. Councillor Carr asked for an update about the new banking contract and if the collection from schools service would be discussed with the new bankers. Members were concerned that not all schools had the resources to pay for a collection service. The Corporate Director, Resources advised that the authority had been through the tender process for a new banker and had a preferred bidder. The decision would be announced in a few weeks time. With regards to collection services, all schools had been sent a letter and had been asked to reduce the cash flow and to make the retention of cash in schools safer. The process would need to be streamlined as none of the banks offered the same service as the Co-op bank by being able to pay in at the local post office. The cost of a pick-up from school would be £11.50 per collection. The new arrangements would affect some small primary schools and assurances were given that the changes would be phased in and officers would be working with staff in schools from January.

Mr T Hoban pointed out a typo in Appendix 3 of the report as some wording had been duplicated. The Risk, Assurance and Governance Manager advised that the last bullet point on the page should read:-

- The risk assessed as Moderate/ highly probable is '*Potential restitution of search fees going back to 2005*'.

Resolved:

That the report, together with the amendment listed above, provides assurance that strategic risks are being effectively managed within the risk management framework across the Council.

7 Annual Audit Letter

The Committee received the Annual Audit Letter 2013/14 from Mazars summarising the 2013/14 audit of Durham County Council and Durham County Council Pension Fund (for copy see file of Minutes).

Ms C Banks, Mazars advised that all deadlines had been met and good processes were in place. She advised that the report would now be sent to the Audit Commission and would be published on their website. Members were advised that if the accounting deadline was brought forward it would be a tough challenge for finance staff. Ms Larkin-Bramley suggested that a working group should be established to look at this if agreed to change the dates. The Corporate Director, Resources said that it would be a huge challenge for the authority but on a more positive note Oracle had now bedded in and there were better reporting systems in place.

Ms Larkin-Bramley asked that if any changes were introduced that the Committee be given assurances that plans were in place.

Ms Banks advised that Mazars were aiming to sign off on the accounts and the whole of government accounts (WGA) on the same day next year so the certificate could be issued on 30 September 2014.

Resolved:

That the contents of the letter are noted.

8 Internal Audit Progress Report for the period ended 30 September 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 July to September 2014 (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager highlighted the movements in the plan, removed audits and unplanned reviews added to the plan. The service had completed 32% of the total plan as at the end of September with an increase to 42% by the end of October, exceeding the target. The Committee were advised that there were no overdue reports and that 94% of actions had been implemented.

Councillor Temple congratulated the team on the performance achieved.

Resolved:

1. The amendments made to the 2014/15 Annual Audit Plan be noted.
2. Work undertaken by Internal Audit during the quarter ending 30 September 2014 and the assurance on the control environment provided be noted.
3. Performance of the service during the period be noted.
4. Progress made by service managers in responding to the work of Internal Audit be noted.

9 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.

10 Internal Audit Progress Report for the quarter ended 30 September 2014

The Committee considered Appendices 5 and 6 of the report of the Chief Internal Auditor and Corporate Fraud Manager which detailed the actions agreed by managers in response to internal audit recommendations that were outstanding (for copy see file of Minutes).

Members were advised that there were two audits finalised in the quarter that had been issued with limited assurances.

The Head of Direct Services gave assurances to Members about the work being carried out following a recent audit. The Chairman thanked the Head of Direct Services for attending the meeting.

Councillor L Armstrong asked for feedback on overdue action number 8 in relation to the revised target date. The Chief Internal Auditor and Corporate Fraud Manager would provide feedback at the next meeting.

Resolved:

That the report be noted.

11 Overdue Audit Recommendations

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed members of the overdue internal audit recommendations (for copy see file of Minutes).

The Head of ICT Services attended the meeting and gave assurances about the delay in implementation for outstanding recommendations received from Internal Audit.

Resolved:

That the recommendations contained within the report be approved.

12 Protecting the Public Purse - Activity Update at 30 September 2014

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager that provided an update on the Council's counter fraud activity from 1 April 2014 to 30 September 2014 (for copy see file of Minutes).

Resolved:

That the recommendation contained within the report be approved.

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Audit Committee

26 February 2015



Agreement of Accounting Policies for Application in the 2014/15 Financial Statements

Don McLure, Corporate Director Resources

Purpose of the Report

1. To update the Audit Committee on the County Council's accounting policies to be applied in the preparation of the 2014/15 Statement of Accounts and to seek confirmation from the Audit Committee that appropriate policies are being applied.

Background

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

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

5. Appendix 2 provides a summary of all changes to be applied in preparing the 2014/15 Statement of Accounts.
6. Objective 2 of the Audit Committee's Terms of Reference requires it to provide *'Independent assurance over the financial reporting of the Council's Statement of Accounts ensuring that any issues arising from the process of drawing up, auditing and certifying the Council's annual accounts are dealt with properly to maintain an understanding of accounting policies and internal and external reporting requirements'*.

New and Amended Accounting Policies

7. The proposed accounting policies are in line with those used in the preparation of the 2013/14 accounts, with the following exceptions:
 - Joint Operations (18) (previously “Jointly Controlled Operations and Jointly Controlled Assets”) – amended to reflect the requirements of a range of new or revised accounting standards, which have been incorporated into the 2014/15 Code.
 - Carbon Reduction Commitment Allowances (31) – amended to reflect the requirements of the second phase of the scheme, which came into effect in 2014/15.
 - Schools (32) – this policy is currently in the process being revised to reflect CIPFA’s latest guidance on accounting for schools.
8. There are no new accounting policies.
9. The full list of accounting policies the Council proposes to disclose in its Statement of Accounts notes are detailed in Appendix 2.

Recommendations and reasons

10. The Committee is recommended to:
 - review the accounting policies;
 - approve their use in the preparation of the 2014/15 financial statements.
 - authorise the Corporate Director Resources to review the accounting policies as necessary, and report changes to the Audit Committee.

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance -

The report considers the Accounting Policies for the County Council's Statement of Accounts for 2014/15.

Staffing -

None

Risk -

None

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

Appendix 2: Accounting Policies 2014/15

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

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

Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Council is required by the Accounts and Audit (England) Regulations 2011 to prepare an annual Statement of Accounts. In line with the Regulations, the Statement of Accounts is prepared in accordance with proper accounting practices.

Those practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) and the Service Reporting Code of Practice 2014/15 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

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

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The County Council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £1,000 other than in exceptional circumstances.

3. Business Improvement District Schemes

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

4. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

5. Exceptional Items

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

7. Charges to Revenue for Non-Current Assets

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

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

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

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

8. Employee Benefits

Benefits Payable During Employment

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

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

Termination Benefits

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

Post Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Local Government Pension Scheme, administered by Durham County Council.

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by the NHS Business Services Authority

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

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

The Local Government Pension Scheme

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

- The liabilities of the Durham County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of x.xx% (based on the indicative rate of return on high quality corporate bond, Aon Hewitt GBP Select AA Curve).
- The assets of Durham County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
 1. Quoted securities – current bid price.
 2. Unquoted securities – professional estimate.
 3. Unitised securities – current bid price.
 4. Property – market value

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

1. Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
2. Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
3. Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
4. Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
5. Remeasurements, comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
6. Contributions paid to the Durham County Council Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

9. Events After the Reporting Period

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

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

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

10. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, and amounts are material, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and

Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Available-for-Sale Assets

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

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

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

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

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

11. Foreign Currency Translation

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

12. Government Grants and Contributions

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

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

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

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

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

13. Heritage Assets

Tangible and Intangible Heritage Assets

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

An intangible heritage asset is defined as an intangible asset with cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events. At present, the Council have no assets of this nature to be disclosed in the Balance Sheet.

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

Recognition and measurement

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

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

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

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

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

Museum Collections and Artefacts

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

Artwork, including Public Art and Sculptures

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

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

Monuments, Statues and Historic Buildings

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

Civic Regalia and Silverware

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

Geophysical / Archaeological

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

Depreciation

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

Impairment

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

Disposal

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

14. Intangible Assets

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

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

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

15. Interests in Companies and Other Entities

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

16. Inventories and Long Term Contracts

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

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

17. Investment Property

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

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

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

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

18. Joint Operations

Joint operations are arrangements where contractual agreements are in place under which the Council and one or more other parties share control. The joint venturers have rights to assets and obligations in relation to liabilities. The Council accounts only for its share of the assets, liabilities, revenue and expenses of the arrangement.

19. Leases

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

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

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

The County Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

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

Operating Leases

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

The County Council as Lessor

Finance Leases

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

the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

20. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, within the net cost of services.

21. Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

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

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

All valuations have been undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). The effective date for valuations is 1 April of the financial year and assets are revalued on a five-year rolling programme. Council dwellings are reviewed annually. All valuations undertaken in 2014/15 were carried out by Council staff. In addition to this rolling programme, assets which have been subject to potentially material change as a result of transactions in any given year will be revalued as and when such changes occur.

Impairment

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

Where impairment losses are identified, they are accounted for as follows:

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer up to a maximum of 50 years.
- Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer, mainly up to a maximum of 10 years, however, some specialised items are depreciated over up to 25 years.
- Infrastructure – straight-line allocation over 40 years.

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

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

22. Disposals and Non-current Assets Held for Sale

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

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

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

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

Amounts received for a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

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

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

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

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

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

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

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

24. Provisions

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

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

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

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

25. Landfill Allowance Schemes

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

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

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

26. Contingent Liabilities

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

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

27. Contingent Assets

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

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

28. Reserves

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

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

29. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

30. Value Added Tax (VAT)

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

31. Carbon Reduction Commitment Allowances

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in the initial year of its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

32. Schools

To follow.

Audit Committee

26 February 2015

Final Accounts Timetable for the year ended 31 March 2015



Don McLure, Corporate Director Resources

Purpose of the Report

- 1 The purpose of the report is to provide Members with the Final Accounts Timetable for 2014/15. This timetable details the deadlines for key actions to complete the Statement of Accounts in line with statutory deadlines.
- 2 The report is presented in accordance with paragraph 4.2.3 of the Committee's operational terms of reference which requires it **'to maintain an understanding of internal and external reporting requirements'**.
- 3 The key dates taken from the Final Accounts Timetable are attached at Appendix 2.

Background

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

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

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

The Timetable

- 9 Each year the timetable is compiled in Strategic Finance with input from services to ensure that deadlines are achievable and will lead to completion of a Statement of Accounts for signing by the Section 151 Officer by 30 June. New and amended processes are considered for the impact on the achievement of dates, as well as reference to the previous year’s problems and meeting of deadlines.
- 10 Strategic Finance monitors the achievement of the dates in the timetable throughout the period February to September. Although every effort is made to meet every deadline set, there will inevitably be some delays that will lead to some of the deadlines being missed.
- 11 Strategic Finance will follow up all delays and missed deadlines to ensure that the overall timetable will be achieved, and identify improvements that can be made to the next year end process.
- 12 Final Accounts Monitoring Meetings are also held each week during April to May to ensure that practitioners apply accounting procedures consistently; best practice is shared; there is a shared understanding of any difficulties or delays that are happening, and to disseminate updated information quickly and consistently. These meetings are not shown in the timetable, but happen each Thursday.
- 13 This process has been in operation for the closedown of the Accounts since 2011/12 and has successfully delivered the Statement of Accounts in line with the statutory deadline. However, there are still improvements to be made.
- 14 The External Auditor, in the Audit Completion Report for 2013/14, whilst acknowledging there had been a smooth audit with no significant difficulties, drew to the attention of the Council that there were further developments to be made to the process in place. The main areas of improvement were to ensure that:
- the financial statements are free from material error;
 - a complete suite of working papers that support all entries within the financial statements are prepared; and
 - the draft financial statements are quality assured.

- 15 This is of particular importance due to the likelihood of earlier deadlines for the preparation and audit of financial statements from 2017/18. The External Auditor has given a commitment to working even more closely with the Council's corporate finance team to give support to achieve faster closedown and an even more efficient audit process in the coming years.
- 16 The final accounts timetable has been prepared with these improvements in mind.

Recommendations and reasons

- 17 Members are asked to note the key dates in the Final Accounts Timetable for 2014/15 detailed in Appendix 2.

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance –

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

Staffing -

None

Risk -

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

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

Appendix 2: Key dates from the Final Accounts Timetable

Task	Responsibility	Proposed completion date
Final Accounts Timetable and Guidance Notes issued to key personnel	Strategic Finance	Tue 17 Feb 2015
Meet with External Audit to establish the need for Group Accounts	Strategic Finance	Fri 13 Mar 2015
All cash posted up to and including 31 March	Financial Services – Revenues and Benefits	Tue 31 Mar 2015
Final Postings by Benefits Section	Financial Services – Revenues and Benefits	Tue 31 Mar 2015
Last creditors paysheet for 2014/15	Financial Services – Revenues and Benefits – Creditors	Tue 31 Mar 2015
All stock checks completed at 31 March	Services	Tue 31 Mar 2015
All amounts banked by 31 March to be receipted in Oracle	Services	Tue 31 Mar 2015
Sending out of Related Party Declarations for Members and Senior Officers	Resources – Democratic Services	Wed 1 Apr 2015
Last Monthly Salaries and Wages for 2014/15 information processed into ledger	Payroll / Strategic Finance	Thu 2 Apr 2015
Details of Related Party Declarations for Members and Senior Officers returned to Democratic Services	Members / Senior Officers	Fri 17 Apr 2015
All Bank Reconciliations to 31 March completed	Strategic Finance	Thu 30 Apr 2015
Service Ledgers finalised and final reports produced and net revenue outturn for each Service Grouping notified to Strategic Finance	Financial Services / Strategic Finance	Thu 14 May 2015

Task	Responsibility	Proposed completion date
Draft Statement of Accounts completed	Strategic Finance	Fri 12 June 2015
Analytical Review of service balance sheets and outturn to Strategic Finance	Financial Services	Fri 12 June 2015
Draft Statement of Accounts to External Audit for Technical Review	Strategic Finance	Fri 19 June 2015
Chief Financial Officer to sign the Statement of Accounts	Strategic Finance / Corporate Director Resources	Fri 26 June 2015
Unaudited Whole of Government Accounts (WGA) return to External Audit and CLG (to be confirmed)	Strategic Finance	Tue 30 June 2015
Statement of Accounts to External Audit	Strategic Finance	Wed 1 July 2015
Start of Statement of Accounts Audit	External Audit	Wed 1 July 2015
Start of Inspection Period (to be confirmed)		Mon 13 July 2015
Cabinet – Overall Outturn Report considered	Strategic Finance	Wed 15 July 2015
Audit Committee Meeting to consider report on the Statement of Accounts	Audit Committee	Mon 27 July 2015
End of Inspection Period (to be confirmed)		Fri 7 Aug 2015
Appointed day for Audit (to be confirmed)		Mon 10 Aug 2015
End of Statement of Accounts Audit – provisional	External Audit	Fri 11 Sept 2015
Audit Committee Meeting – approval of Statement of Accounts – Statutory deadline date	Strategic Finance	Wed 30 Sept 2015
Publication of Accounts – Statutory deadline date	Strategic Finance	Wed 30 Sept 2015
Audited Whole of Government Accounts (WGA) return to CLG (to be confirmed)	Strategic Finance	Fri 2 Oct 2015

Audit Committee

26 February 2015

Changes to the Code of Practice for Local Authority Accounting in the UK for 2014/15



Don McLure, Corporate Director Resources

Purpose of the Report

- 1 The purpose of the report is to provide the Audit Committee with a summary of the key accounting changes in the latest edition of the **Code of Practice for Local Authority Accounting in the UK** (the Code). These changes apply to the 2014/15 accounts.
- 2 The report is presented in accordance with paragraph 4.2.3 of the Committee's operational terms of reference which requires it **'to maintain an understanding of internal and external reporting requirements'**.
- 3 Appendix 2 provides a summary of all changes and their relevance to the Council.

Background

- 4 The Code is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/LASAAC Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.
- 5 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2014. It supersedes the 2013/14 Code.
- 6 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.

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

Recommendations and reasons

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

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance –

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

Staffing -

None

Risk -

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

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

Appendix 2: Changes to the Code of Practice for Local Authority Accounting in the UK for 2014/15

The table below provides a summary of the changes in the 2014/15 CIPFA Code and their applicability to Durham County Council.

	Change	Relevant to Durham County Council
1	The provisions of section 2.5 of the Code (accounting for local government reorganisation and other combinations) have been clarified and augmented including a new definition of a function, clarification of the requirements for a transfer by absorption or a transfer by merger and relevant disclosure requirements.	No
2	The 2014/15 Code includes amendments to section 3.4 on the presentation of financial statements to reflect the amendments to IAS 1 as required by the Annual Improvements to IFRS 2009–2012 Cycle issued in May 2012 and also to include local authority statutory reporting requirements in the complete list of financial statements.	Yes
3	Section 6.4 of the 2014/15 Code includes clarification of the adaptation for the determination of the net defined benefit liability (asset) of the term ‘sufficient regularity’ that the period between the formal actuarial valuations is every four years for police and firefighters’ pension funds.	No – applies only to police and firefighters’ pension funds. Formal actuarial valuations are already required every three years for local government pension scheme funds.
4	Section 6.5 of the 2014/15 Code includes clarification on the reporting requirements for the Statement on the System of Internal Financial Control for pensions administering authorities in Scotland.	No – applies only to local authorities in Scotland

	Change	Relevant to Durham County Council
5	Section 7.4 of the 2014/15 Code includes the amendments to IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Liabilities), December 2011, requiring reference to the amended application guidance for offsetting financial assets and liabilities, where applicable.	Yes
6	Chapter 9 of the Code includes the introduction of the requirements of the five new or amended standards introduced by the IASB in May 2011, i.e. IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Ventures, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (as amended in 2011) and IAS 28 Investments in Associates and Joint Ventures (as amended in 2011).	Yes
7	A new Appendix D has been introduced in the 2014/15 Code to confirm for authorities the changes to the future editions of the Code for the measurement of transport infrastructure assets.	Yes – for future adoption
8	CIPFA/LASAAC has decided to defer adoption of IFRS 13 Fair Value Measurement until the 2015/16, Code while it reviews its application of the standard for local government circumstances.	Yes – for future adoption

	Change	Relevant to Durham County Council
9	<p>The 2014/15 Code introduces a new Appendix E confirming the position for local authority maintained schools.</p> <p>A Local Authority Accounting Panel Bulletin (LAAP 101 – Accounting for Non-Current Assets Used by Local Authority Maintained Schools) focuses on the accounting treatment for non-current assets used by schools</p>	Yes

AUDIT COMMITTEE



26 February 2015

External Audit: Audit Progress 2014/15

Report of the External Auditor

Purpose of the Report

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

Background

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

Summary of Audit Progress

4. Planning for the 2014/15 audit is substantially complete and the Audit Strategy Memorandum is expected to be presented to the next Audit Committee in May 2015.
5. In the coming quarter work will commence on planning for the 2014/15 audit year. This will include:
 - Refreshing the understanding of the business
 - Walkthrough of the key financial systems.
 - Liaison with Internal Audit to share knowledge and avoid duplication
 - Ongoing liaison with Senior Officers and consideration of key agendas and papers.
6. The Audit Commission have issued updated guidance on the Value for Money (VfM) conclusion. The Audit Strategy Memorandum will set out the planned approach to the VfM conclusion for 2014/15.

Emerging Issues and Developments

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

Recommendation

8. 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

February 2015

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Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Members or employees of Durham County Council are prepared for the sole use of the Council. We take no responsibility to any Member or employee in their individual capacity or to any third party.

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

01 Introduction

The purpose of this report is to update the Audit Committee of Durham County Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the contact details at the end of this update.

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

02 2014/15 audit progress

2014/15 planning

In the coming quarter we will carry out our initial planning for the 2014/15 audit year.

We will:

- carry out our initial planning in respect of 2014/15, refreshing our understanding of the business and what we consider are the significant risks of material misstatement in respect of the financial statements and also the Value for Money (VfM) conclusion so as to inform our testing strategy;
- walkthrough the key financial systems;
- on-going liaison with your Internal Auditors to both share common knowledge and ensure no duplication;
- on-going liaison with senior officers and consideration of key agendas and papers.

Our detailed Audit Strategy Memorandum will set out our planned work and assessments in more detail and we will present the plan to the next Audit and Standards Committee.

Updated Value for Money conclusion guidance

The Audit Commission has issued updated guidance in respect of the Value for Money (VfM) conclusion.

Link to guidance: <http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/08102014-VFM-guidance-2014-15.pdf> (section 5 applying to councils).

By way of a reminder, we are required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of resources. Our conclusion on your arrangements is based on two criteria specified by the Audit Commission:

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

In addition, we have regard to:

- your system of internal control as reported in your own Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review bodies; and
- any other locally determined risk-based VfM work considered necessary.

The guidance is similar to last year, setting out guidance for each sector under the following areas:

- approach and specified reporting criteria;
- key sector issues;
- guidance on the specified reporting criteria;
- financial resilience;
- securing economy, efficiency and effectiveness;
- risks relevant to the specified reporting criteria; and
- supporting VfM tools.

The guidance also sets out what are the typical characteristics for each of the two criteria; we plan to use these as a framework to inform our work, taking into account any local risks we may identify.

Our Audit Strategy Memorandum will set out our planned approach to the VfM conclusion for 2014/15.

03 National publications and other updates

This section contains updates on the following:

1. **Oversight of audit quality, *Audit Commission, quarterly and Annual Compliance Report, December 2014***
2. **Auditing the Accounts 2013/14: Local Government bodies, *Audit Commission, December 2014***
3. **2015/16 proposed fee scales and work programme, *Audit Commission, October 2014***
4. **Protecting the Public Purse, *Audit Commission, October 2014***

1. **Auditing the Accounts 2013/14: Local Government Bodies, *Audit Commission, December 2014***

The Audit Commission recently published its annual report on the quality of local government accounts for the 2013/14 financial year. The report highlights that financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. The results for small bodies were however less satisfactory (these smaller bodies include parish councils).

The report also details any bodies where:

- the audited accounts were not published by the deadline of 30 September;
- the opinion and / or value for money conclusion was qualified; and
- there were public interest reports and statutory recommendations issued by auditors since December 2013.

The report highlights the key financial reporting challenges facing bodies for 2014/15 and beyond, in particular, the new Accounts and Audit Regulations. These are expected to come into effect from 1 April 2015 and are likely to bring forward the accounts publication date for principal bodies from 30 September to 31 July for the 2017/18 accounts onwards.

This report is for information only; there were no issues in respect of the Council highlighted in this report. In respect of the likely earlier deadlines, the Corporate Director Resources is aware of these and the arrangements that will need to be in place.

<http://www.audit-commission.gov.uk/audit-regime/codes-of-audit-practice/auditing-the-accounts/>

2. Oversight of audit quality, *Audit Commission, quarterly and annual compliance report, December 2014*

Our regulator, the Audit Commission, also publishes quarterly and annual reports on the quality of the work it has outsourced to the firms.

Quarterly monitoring, December 2014

<http://www.audit-commission.gov.uk/wp-content/uploads/2012/11/Mazars-Q2-2014-15-Regime-Compliance-Monitoring-Report.pdf>

There are no significant issues highlighted in respect of Mazars LLP in the quarter 2 report.

Annual regulatory and compliance quality report 2013/14

<http://www.audit-commission.gov.uk/wp-content/uploads/2012/11/Mazars-2013-14-Annual-Regulatory-Compliance-and-Quality-Report.pdf>

We have also received our annual regulatory and compliance quality report from the Audit Commission; this demonstrates our overall good performance in respect of quality and other standards as shown in the snapshot below.

Overall performance

5 The firm is meeting our standards for overall audit quality and our regulatory compliance requirements. We calculated the red, amber, green (RAG) indicator for overall audit quality and regulatory compliance using the principles detailed in Appendices 1 and 2. For 2013/14, Mazars combined audit quality and regulatory compliance rating was green.

Figure 1: 2014 Comparative performance for audit quality and regulatory compliance

BDO	DT	EY	GT	KPMG	Mazars	PwC
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6 The firm has performed well in its first year in the Commission's regime. All of the 2013/14 regulatory compliance indicators have been scored as green. In addition, audited bodies are satisfied with the performance of Mazars as their auditor.

(where viewed in black and white, the above table shows four firms, including Mazars rated as 'green', with GT, KPMG and PwC as 'amber').

On-going improvement and efficiency

Mazars remains committed to improving audit quality and efficiency and is carrying out a review of its processes and methodologies in light of the firm-specific Annual Report as well as feedback to other firms. The Commission has highlighted some areas for firm-wide improvement, including:

- a need to review, challenge and consider the reasonableness of management's documents and assumptions with respect to evidence obtained for the VFM conclusion, particularly in relation to increasing funding gaps at local government organisations;
- a need to set, and ensure consistent application of, a public sector specific engagement quality control review (EQCR) policy; and
- a need to obtain sufficient audit evidence in relation to fixed asset valuations.

The report also highlighted some key areas for improvement identified from file reviews:

- ensuring clearer documentation on file over the rationale for sample testing;
- ensuring sufficient audit procedures are performed in the testing of operating income and expenditure;
- ensuring there is clearer documentation on file to support risks identified and related audit work;
- ensuring that external confirmations are obtained directly from external third parties; and
- ensuring there is sufficient documentation on file of related party transactions.

Consideration of these reports will contribute to the Committee’s fulfilment of its terms of reference in respect of considering the quality of external audit.

3. 2015/16 proposed fee scales and work programme, Audit Commission, October 2014

The Audit Commission is consulting on its 2015/16 proposed work programme and scales of fees. The Department for Communities and Local Government (DCLG) has asked the Audit Commission to set fees for 2015/16 before the Commission’s closure on 31 March 2015.

The Commission is proposing to reduce scale fees by a further 25 per cent from 2015/16, based on the scale fees applicable for 2014/15. It does not plan to make changes to the overall work programme. The 25 per cent fee reduction has been achieved as a result of a recent procurement exercise to retender the work undertaken under older contracts with audit firms, and is in addition to the 40 per cent cut in fees made by the Commission in 2012.

The consultation document also contains a useful summary of the changes that will take place following the closure of the Commission in March 2015, including commentary in respect of the possible extension of the current audit contracts, namely: *“the new contracts awarded in the 2014 procurement are for two years, with the potential for extension by a further three years. The contracts will finish in 2017, or in 2020 if extended. The Commission’s other audit contracts, awarded in 2012, finish at the same time as the 2014 contracts. Extending the contracts to 2020 would ‘lock in’ reduced audit fees, delivering further savings for audited bodies”*.

The Commission has also highlighted in a press release that it will be returning a further £6 million to its audited bodies in rebates. **The consultation ended on 9 January 2015. The proposed scale fee for Durham County Council is £250,687, i.e., a 25 per cent reduction on the 2014/15 scale fee of £334,250.**

<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201516propwpsf/>

4. Protecting the Public Purse, Audit Commission, October 2014

The Audit Commission published its annual report on fraud in local government last month *Protecting the Public Purse (PPP)*.

PPP 2014 is for those responsible for governance in local government. PPP 2014 includes:

- the scale and value of fraud detected by local government bodies in 2013/14;
- longer term trends in fraud detection, including tenancy fraud;
- trends and threats in other significant fraud types; and
- national developments impacting on local government counter-fraud.

In addition, PPP 2014:

- gives details of detected frauds and losses by region;

- updates the checklist for those responsible for governance;
- includes a number of case studies; and
- highlights the new CIPFA newly published CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. The Code will be supported by a self-assessment framework. CIPFA also published good practice guidance in December 2014.

This report is highlighted for information only. In respect of the new CIPFA Fraud Code, the Chief Internal Auditor is aware of the new publication and will take it into account in considering fraud coverage at the Council.

<http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/Protecting-the-Public-Purse-2014-Fighting-Fraud-against-Local-Government-online.pdf>

04 Contact details

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

www.mazars.co.uk

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AUDIT COMMITTEE

26 February 2015

External Audit: Certification of Claims and Returns

Report of the External Auditor

Purpose of the Report

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

Background

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

Summary of Certification Work

5. The grant certification work that has been completed includes:
 - Housing and Council Tax Benefit Subsidy.
 - Pooling of Housing Capital Receipts Return.
 - Homes and Communities Agency (Travellers).
 - School Centred Initial Teacher Training (SCITT) 2012/13.
 - Decent Homes Backlog Programme Funding.
 - European Regional Development Funding (ERDF) – NETPark Connector Project Claim.

Recommendation

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

Durham County Council

Certification of claims and returns

Annual report 2013/14

February 2015



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

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

01

Background

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

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

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

The scope of our work

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

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

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

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

In the Annual Audit letter (AAL) presented to members on 27 November 2014 we noted that as at 30 September 2014 we had also been engaged directly during the year by the Council to undertake the following assurance work:

- Homes and Communities Agency return (travellers) - fee £2,000 (last year not applicable)
- School Centred Initial Teacher Training return (SCitt) for 2012/13 (scheme removed from AC certification regime (scale fee £2,226) in 2012/13 and was originally shown as certification work – fee £1,000;
- Decent Homes Backlog Programme Funding return - fee £2,550 (last year £2,500); and
- European Regional Development Fund NETPark Connector project claim - fee £1,500 (estimate £1,350 per AAL and last year £1,200).

In addition, in November 2014 we were engaged directly by the Council during the year to undertake assurance work on the Teachers' Pensions Return as it is no longer a requirement for certification under

the Audit Commission regime (fee £5,900) and also work on the Section 256 Pooled budget returns for the two Durham CCGs (fee £2,500).

As these engagements are outside of the Audit Commission's regime we have reported separately to officers on the outcome of this work.

Our certificate

On completion of the specified work we issue a certificate, the wording of which depends on the level of work we have performed on each claim. The certificate states whether the claim has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter. Where we issue a qualification letter or the claim or return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

02

Findings

The Council's control environment

There are specific arrangements for the certification of the Housing Benefit claim which do not require us to assess the control environment.

As required by the Audit Commission's CIs, we assess the control environment for claims and returns other than Housing Benefit claim. There was one claim (pooling of capital receipts return) where we assessed the control environment, however due to the technical nature of the claim we were unable to rely on the control environment in place. This resulted in us carrying out detailed testing of the entries in the claim.

Amendments and Qualifications

Appendix A to this report provides further details of the returns certified in 2013/14 compared to 2012/13.

Housing and Council Tax Benefits Subsidy claim

As in previous years and in common with many other authorities, minor errors and minor differences in reconciliations supporting the Housing Benefits Subsidy claim were identified. The return was amended and matters arising were included in a qualification letter to the Department in which reported extrapolated errors in relation to the calculation of earned income, to charges applied to non dependents income and to incorrect self employed client information.

As in previous years, additional testing was completed by the Authority testing a further 40 cases looking at the specific issues which arose in the prior year. We then carried out our own re-performance of a sample of these cases. This year, in several areas, the additional work carried out on the prior year issues has resulted in no fails at all being identified for 2013/14.

The number and severity of the issues identified and reported continues to decrease significantly for the Housing Benefit return, reflecting ongoing improvements in practices and arrangements for administering this complex scheme.

Pooling of housing capital receipts return

The 2013/14 Return was subject to amendment but no qualification letter was needed. We amended the return for three errors noted with regard to archetype of properties and these impacted on the Quarterly Attributable Debt entries on the claim.

We are grateful to the officers of the Council, in particular for the Housing Benefits subsidy return; their continued cooperation and prompt responses to queries is appreciated.

03

Certification fees

For 2013/14, the total fees charged for certification work was £26,995. This represents a reduction on fees charged in previous years (£50,974) as a result of:

- a reduction in the number of claims and returns for which the Audit Commission has made certification arrangements;
- the Audit Commission setting the scale fee anticipated for the Housing Benefits subsidy return, based on the fees charged in previous years and also further reduced to take into account the end of Council Tax benefits.

A breakdown of the fees charged in 2013/14 compared to 2012/13 is included at Appendix A.

Appendix A – Summary of certified claims and returns

Claims and returns between £125,000 and £500,000

Claim or return	Value	2012/13 fee	2013/14 fee	Reasons for significant movement	Amended	Qualified
None						

Claims and returns above £500,000

Claim or return	Value	2012/13 fee	2013/14 fee	Reasons for significant movement	Amended	Qualified
Housing Benefits scheme	£185,867,500	£36,597	£26,749	Scale fee set by the Audit Commission (AC) based on the previous year's fee and also reduced to take into the account the end of Council Tax benefits.	Overall subsidy payable to the Council increased by £5,355.	A qualification letter was issued in respect of this claim.
National non-domestic rates return	n/a	£9,950	n/a	N/a - no longer a requirement for certification in 2013/14. We undertook additional audit testing to obtain sufficient assurance over the relevant entries in the Council's accounts with a resulting very small increase in audit fees for Code audit work of £540. This additional audit fee was in line with guidelines provided by the AC to all auditors.	n/a	n/a
Teachers' pensions return	£27,153,342	£1,355	n/a	Not applicable – no longer a requirement for certification under the Audit Commission regime*	n/a	n/a
Pooling of housing capital receipts	£2,789,363	£3,072	£246	Scale fee set by the Audit Commission.	Yes	No
Total	£188,656,863	£50,974**	£26,995			

***Teachers' pensions return:** as indicated earlier in this report, this return is now outside the Audit Commission regime and we were engaged by the Council directly to carry out this work in November. We noted last year that we had kept the actual fee at the scale fee £1,355 but noted that substantial additional time had been taken to certify this claim due to errors on the return. We set out recommendations for the improvement future and noted that additional fees would be payable in future years if additional work should again be required. This was the case and the actual fee charged for the work in 2013/14 was £5,900. As part of this work we have issued a short report to officers suggesting how improvements can be made in preparing the claim and providing working papers to support the return, which will hopefully reduce the amount of work required for the 2014/15 return.

** Last years grants fee total £53,200 included the School Centred Initial Teacher training return scale fee £2,226 which was not done under AC regime - see Section 1.

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Audit Committee

26 February 2015



**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 June 2014 to November 2014, to be presented to Council at its meeting on the 1 April 2015.

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



1 April 2015

Report of the Audit Committee for the Period June 2014 to November 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 June 2014 to November 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 June 2014 to November 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 June 2014 to November 2014.

7. The Committee believe they have made a significant difference to the Council's governance, control and risk framework during the period June 2014 to November 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.
- Receiving and commenting on the work of the External Auditor, Mazars.
- Challenging how the Annual Governance Statement has been prepared, reviewing the assurance framework that is in place and ensuring that the Council's corporate governance arrangements are effective.

Recommendations and reasons

8. Members note the report and the work undertaken by the Audit Committee during the period June 2014 to November 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

26 June 2014

The Committee considered:

- (i) A report of the Chief Internal Auditor and Corporate Fraud Manager regarding the outcomes of the annual review of Internal Audit. This annual review is a statutory requirement and is important as it provides assurance on the reliability of the annual audit opinion on the Council's control environment. In consideration of all the evidence presented, the Committee was able to conclude that the internal audit service was effective during 2013/2014.
- (ii) A report of the Chief Internal Auditor and Corporate Fraud Manager which presented the Annual Internal Audit Report for 2013/2014 that provided a 'moderate' opinion on the adequacy and effectiveness of the Council's control environment for 2013/2014. The Committee was informed that this was a similar opinion to that in 2012/2013 however acknowledged that improvements had been made during the year and others agreed but were yet to be implemented.
- (iii) A report of the Corporate Director, Resources which presented the draft Annual Governance Statement for approval. The Committee were happy to approve the statement subject to some minor amendments to the wording in certain areas, prior to it being reported to Full Council for information in July.
- (iv) A report of the of the Chair that provided a response, sent on behalf of the Audit Committee, to a letter from the external auditors, relating to compliance with International Auditing Standards. This was a requirement of the final accounts process, and a response from the Corporate Director, Resources in relation to a similar request from management's perspective was also considered for information.
- (v) The Bi-Annual Report of the Audit Committee which covered the period November 2013 to May 2014 and would be presented to the County Council at its next meeting in accordance with best practice guidelines.
- (vi) A report of the Chief Internal Auditor and Corporate Fraud Manager which outlined the proposed programme of work to be carried out by Internal Audit in the period July 2013 to March 2014. This nine month period realigned the audit plan alongside the Council's financial year. The report also included a revised Audit Strategy and Audit Charter to reflect the change in Audit Year and service improvements to be put in place from 1 July 2014. Progress on delivering the plan will be regularly monitored by the Committee.

- (vii) A report of the Chief Internal Auditor and Corporate Fraud Manager that presented a forward plan of Audit Committee business for the next 12 months.
- (viii) The Head of Commissioning (Children and Adult Services) provided an update on the social care and direct payments arrangements currently being put in place and the improvements that have been made in response to Internal Audit findings. The Committee requested that Internal Audit carry out a further piece of assurance work in the immediate future and that the Committee receive a further update upon completion of this work.
- (ix) The 2013/2014 Annual Fraud and Irregularity Report of the Chief Internal Auditor and Corporate Fraud Manager. This provided the Committee with information on the effectiveness of the Council's Counter Fraud and Corruption Strategy. This included an update on fraud preventative work and investigations of cases.

24 July 2014

The Committee considered:

- (i) A presentation from the Assistant Finance Manager, Corporate Finance at the request of the Committee to give an understanding of the nature and value of assets held within the Council's Fixed Asset Register at the end of March 2014. The presentation also covered the importance of managing the Council's assets effectively and the impact this has on the Council's Statement of Accounts.
- (ii) A report of the Corporate Director, Resources which provided details of the final outturn for both the General Fund and the Housing Revenue Account 2013/2014 including the Annual Treasury Management Review.
- (iii) A report of the Corporate Director, Resources which presented the draft un-audited Statement of Accounts for the year ended 31 March 2014. The Corporate Director, Resources confirmed that the draft accounts had been certified and provided to external audit within the statutory deadline of 30 June 2014.
- (iv) 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 April to June 2014. The Committee was informed of the new risks, those that had been removed and the status of current key risks to gain assurance that strategic risks were being effectively managed.

- (v) A presentation by the Chief Internal Auditor and Corporate Fraud Manager detailing the work that has been completed in terms of proactive fraud work following the transfer of fraud staff from Revenues and Benefits into Internal Audit in December 2013. This showed the progress that has been made in progressing Corporate Fraud work and the work that is planned to be completed. The presentation also covered how the team complete its work and the techniques that are used in identifying potential fraud and irregularity.

30 September 2014

The Committee considered:

- (i) A report of the Corporate Director of Resources that sought approval of the final Annual Governance Statement to be published as part of the Council's audited Statement of Accounts 2013/2014.
- (ii) A report of the Corporate Director of Resources which presented the Statement of Accounts for the year ended 31 March 2014 for approval. The overall improvements that continue to be made in the preparation of the accounts and the reporting process was acknowledged by the Committee who thanked all those involved.
- (iii) The Audit Completion Reports of the External Auditor relating to both Durham County Council's 2013/2014 Statement of Accounts and those of the Pension Fund. The Committee were pleased to note the comments of the External Auditor in relation to the audit process and the significant improvement that have been made over the year.
- (iv) 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 April to June 2014. The report also provided an update on progress made by management on the implementation of recommendations required to address audit findings. The Committee were pleased to note the continued improvement made in terms of the implementation of recommendations and agreed to continue to monitor this closely.

27 November 2014

The Committee considered:

- (i) A presentation by the Audit Manager, Principal Auditor (IT) and Trainee IT Auditor on the work completed as part of the Internal Audit Plan that covers the Council's ICT arrangements. **They explained the work they carry out covers the integrity and security of the Council's electronic data.** They ensure that IT systems operate efficiently, effectively and economically and that they assist in the achievement of the organisations goals and objectives.

- (ii) A report of the Corporate Director, Resources regarding changes to the Local Code of Corporate Governance.
- (iii) A report of the Corporate Director, Resource 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 2014. 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 2013/2014 audit of 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 Chief Internal Auditor and Corporate Fraud Manager which informed members of the work completed by Internal Audit during the period July to September 2014 and assurance on the control environment provided.
- (vi) A Protecting the Public Purse update report of the Chief Internal Auditor and Corporate Fraud Manager. This provided information on the effectiveness of the Council's Counter Fraud and Corruption Strategy. This included an update on fraud prevention work and investigations of potential cases.

Audit Committee**26 February 2015****Strategic Risk Management
Progress Report for the Quarter period
October to December 2014****Report of Corporate Management Team****Don McLure, Corporate Director Resources****Purpose of the Report**

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

Background

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

Current status of the risks to the Council

- 4 As at 31 December 2014, there were 31 strategic risks. Whilst this represents no change since 30 September 2014, one risk was removed and one new risk was identified details of these risks are in appendix 3.
- 5 In summary, the key risks to the Council remain as being:
 - If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses;
 - Ongoing Government funding cuts which now extend to at least 2019/ 20 will continue to have an increasing major impact on all Council services;
 - Potential restitution of search fees going back to 2005;

- The Council could suffer significant adverse service delivery and financial impact if there are delays in the implementation of the new banking contract. (This risk was reworded following the banking contract award).
- If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria for our computer applications, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data.

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

- 6 Appendix 4 of the report lists all of the Council's strategic risks as at 31 December 2014.
- 7 Management has identified and assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.

Recommendations and Reasons

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

Contact: David Marshall Tel: 03000 269648

Appendix 1: Implications

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

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

Risk – Not a key decision

Equality and Diversity/Public Sector Equality Duty - None

Accommodation - None

Crime and disorder - None

Human rights - None

Consultation - None

Procurement – None.

Disability issues – None.

Legal Implications – None.

Appendix 2: How the Council manages the Risk Management Framework

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

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

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

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

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

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

Appendix 3: Progress on the management of the Council’s Strategic Risks

Risks are assessed at two levels:

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

As at 31 December 2014, there were 31 strategic risks, no change since 30 September 2014.

The following matrix categorises the strategic risks according to their Net risk evaluation as at 31 December 2014. To highlight changes in each category during the last quarter, the number of risks as at 30 September 2014 is shown in brackets.

Overall number of Strategic Risks as at 31 December 2014

Impact					
Critical	2 (2)	1 (1)	3 (3)		1 (1)
Major		3 (3)	6 (6)		
Moderate			8 (8)	5 (5)	1 (1)
Minor				1 (1)	
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

In the above matrix;

- The risk assessed as Critical/Highly Probable is, “Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services.”
- The risk assessed as Moderate/Highly Probable is, “Potential restitution of search fees going back to 2005.”

These risks are reported in more detail in section 5 below.

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

1 New Risks

One new risk has been identified this quarter:

- *“Additional operational and financial burdens as a result of a recent supreme court judgement relating to the threshold applied in determining whether an individual is deprived of their liberty.” (CAS).* The judgement has resulted in an increased level of operational activity in relation to deprivation of liberty referrals and subsequent assessments. This has increased over the last quarter and, along with other local authorities, DCC is not seeing any indication that the situation is likely to improve over the coming months”

2 Increased Risks

No significant risks have increased during the quarter.

3 Removed Risks

The risk listed below are no longer considered strategic risks as all mitigating actions have been completed and management now consider existing controls to be adequate:

- *“Increased demand for Housing Solution Service beyond current staffing capacity due to the changes in Government Welfare legislation” (RED).* The risk will continue to be monitored at an operational level.

4 Reduced Risks

No significant risks have reduced during the quarter.

5 Key Risks

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

Key Risks Matrix

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

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

Key Risks Schedule

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

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	RES Risk Owner: Don McLure	Altogether Better Council	If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.	Critical	Possible	The Delivery plan implementation will be monitored by CMT and Cabinet.		This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage.
2	RES Risk Owner: Don McLure	Altogether Better Council	Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services.	Critical	Highly Probable	Sound financial forecasting is in place based on thorough examination of the Government's "red book" plans.		This will be a significant risk for at least the next 4 years.
3	RES Risk Owner: Colette Longbottom	Altogether Better Council	Potential restitution of search fees going back to 2005	Moderate	Highly Probable	The Council has signed up to a class action defence by LGA appointed solicitors		Lawyers, instructed through the LGA on behalf of local authorities, have produced framework for settlement and this is currently being considered. It is hope that settlement will be reached by the end of the 2014/ 15 financial year.

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
4	RES Risk Owner: Don McLure	Altogether Better Council	The Council could suffer significant adverse service delivery and financial impact if there are delays in the implementation of the new banking contract.	Critical	Possible	Pre-procurement meetings will be held with alternative providers to establish what services can and cannot be provided. Awareness-raising at Tier 4 Manager level that banking arrangements are due to change.		The new contract is now in place.
5	RES Risk Owner: Phil Jackman	Altogether Better Council	If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data	Critical	Possible	An ongoing project is in place to ensure compliance. Servers that cannot be made compliant or effectively relocated will be switched off.		A backup ICT site is now in place. The equipment has been installed, data has been transferred, and a full test is planned once remedial electrical work is carried out at the Council's primary data site. This will remain on the register as an inherent strategic risk.

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

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

Corporate Theme – Altogether Better Council

Ref	Service	Risk
1	RES	If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.
2	RES	Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services.
3	RES	Potential restitution of search fees going back to 2005
4	RES	The Council could suffer significant adverse service delivery and financial impact if there are delays in the implementation of the new banking contract.
5	RES	If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data
6	RED	The continuation of weak economic conditions, financial austerity and reduced household incomes may see increased pressure on areas of lower housing demand with consequent negative impacts on communities, neighbourhoods and local environments.
7	NS	If Local Authority Schools and other Local Authority services choose not to take Council Services, together with the loss of community buildings both Technical and Building Services could see a loss of business.
8	NS	The Council will not be able to maintain its non-educational and non-housing buildings to current repairs standards.
9	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
10	ACE	Risk that the Council does not respond to the Government's changes to Welfare Reform
11	ACE	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation
12	RES	Major Interruption to IT Service Delivery
13	RES	Serious breach of Health and Safety Legislation
14	RES	The agreed transfer of Housing Stock to an external organisation the potential savings, from downsizing/reduced costs of services currently recharged to the HRA under a Service Level Agreement, may be less than the corresponding loss of income from the SLA, resulting in a budget shortfall.

Ref	Service	Risk
15	ACE	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation
16	RES	Due to the current economic climate and amount of change occurring across the Council, there is potential for increases in fraud and error.

Altogether Better for Children and Young People

	Service	Risk
17	CAS	Adverse financial and operational impact of the transfer of health visitor commissioning responsibilities for 0-5 year olds from NHS England to Durham County Council by 1st October 2015.

Altogether Greener

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

Altogether Safer

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

Altogether Wealthier

	Service	Risk
26	RED	Diminishing capital resources, continuing depressed land values and slow growth in the private sector will impact the ability to deliver major projects/ Town initiatives within proposed timescales.
27	RED	Private housing stock condition worsens with adverse implications for local economy, health & neighbourhood sustainability.
28	RED	There is a potential lack of available match funding within the public sector as a whole in County Durham and the NE LEP area, which could impact upon the ability to fully utilise external funding and in particular the European Structural Funds programme for 2014-2020.
29	NS	Coastal erosion and environmental improvements may be adversely impacted if a programme of repairs to Seaham North Pier isn't undertaken.

Altogether Healthier

	Service	Risk
30	CAS	Adverse financial and operational impact of the Care Act 2014 on adult social care services
31	CAS	Additional operational and financial burdens as a result of a recent supreme court judgement relating to the threshold applied in determining whether an individual is deprived of their liberty.

Audit Committee**26 February 2015****Emergent Internal Audit Plan 2015/2016**

Report of Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. This report provides the Committee with details of the emergent Internal Audit Plan for 2015/2016 (attached as Appendix A).
2. The purpose of this report is to update and engage Members of the Audit Committee in the development of the 2015/2016 Internal Audit Plan.

Background

3. From April 2013 CIPFA and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector. The PSIAS set out the standards for Internal Audit and have been adopted by the service in Durham.
4. The principles in the PSIAS are consistent with the previous CIPFA Code for Internal Audit that applied across Local Government. They include the need for 'risk based plans' to be developed for Internal Audit and for plans to receive input from management. This process also includes the development of an emergent Internal Audit Plan designed to invite comment from management and the Audit Committee.

Basis for the Plan

5. The PSIAS (section 2000) states that the 'Chief Audit Executive' must 'establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisations goals'. They refer to the need for the plan to reflect the assurance framework, risk management arrangements and input from management. These principles have been applied in the development of the 2015/2016 Internal Audit plan as follows:

A. Annual Internal Audit Opinion (PSIAS 2010)

- The Chief Internal Auditor and Corporate Fraud Manager forms an annual assurance opinion based on the annual programme of audit work as well as assurance obtained by other means. The current audit approach contains five main types of audit. It is not considered cost effective or necessary to obtain coverage of all strategies, business units and risks so these are reviewed on a risk basis each year.
- In addition to audit the Chief Internal Auditor and Corporate Fraud Manager considers any issues identified through fraud and corruption or developing systems work insofar as they impact on the effective operation of governance, risk management or internal control within the Council.

- The service provides advice and consultancy to all services and partnerships where appropriate. This is an increasing area of focus given the amount of change ongoing across the Council and our partners. Time is also allocated to support developing systems and a range of emerging projects, ensuring early engagement and audit support across the Council.
- The Chief Internal Auditor and Corporate Fraud Manager also seeks to place reliance on assurance mechanisms within the Council as well as the findings of other auditors and inspectors in reaching an annual opinion. This is a key area where development work is planned for 2015/2016 to formalise assurance mapping across the Council.
- The plan is flexible and is reviewed and adjusted throughout the year, as necessary, in response to changes in policies, systems, processes, risks and controls across the Council.

B. Based on a Risk Assessment (PSIAS 2010.A1)

- The Internal Audit Section works closely with the Council's Risk Management and Governance Team. The Audit Managers liaise formally and informally with the Risk and Governance Manager and Auditors work with the Risk and Governance section to share intelligence, information and issues of concern. Internal Audit also regularly engages with Corporate Directors and Heads of Service, as well as colleagues across Human Resources, Legal, Performance, Finance and ICT, to ensure that known and emerging unregistered risks are considered in annual audit planning.
- Audit planning considers key risks and the focus of audit work is tailored accordingly to ensure that local and national issues and risks are addressed.
- The Chief Internal Auditor and Corporate Fraud Manager ensures a culture of risk awareness is maintained within the service so that all members of the team are aware of local, regional and national risks in the performance of their duties.
- Through regular liaison and the sharing of Internal Audit Plans with colleagues across the North East and County Chief Auditors Network, Internal Audit ensures that it is aware of emerging risks in other Council's and considers these as part of the audit planning.

C. Informed by Expectations (PSIAS 2010.A2)

- The Internal Audit Service is aligned to service and service grouping structures, ensuring teams engage positively with Corporate Directors and their teams.
- The annual plan is based on consultation and discussion with management teams and key officers to ensure it is focused on key risks, core systems and areas where Internal Audit can effectively contribute to the effectiveness and efficiency of governance, risk management and control processes.
- An emergent plan is produced to help ensure early engagement with Members represented on the Council's Audit Committee.

Annual Planning

6. The approach to audit planning in the Council for 2015/2016 has been based largely, but not exclusively, on the following:
 - Review of the Strategic Risk Register
 - Review of all Service Groupings Service Plans and savings proposals
 - Review of the Community Strategy and other key strategy documents
 - Cumulative audit knowledge and experience.
 - Findings and outcomes from audit and investigation work in 2014/2015 and earlier years.
 - Engagement with Heads of Service and their management teams.
 - Engagement with audit colleagues across the North East and County Chief Auditor Network.
 - Engagement with the Risk, Insurance and Governance teams within the Audit and Risk Management Division.
7. On this basis, an emergent plan of areas for audit coverage has been developed. Areas have been considered on a risk basis and a plan for consultation has been produced. This has initially been presented to Corporate Directorate management teams for comment, to ensure that the risks identified are consistent with their understanding and assessment.

Key Characteristics of the Annual Plan

Scale and Pace of Change

8. The Council continues to go through a period of continuous change as a result of the financial settlement. There has been a significant reduction in the workforce and this will continue for the foreseeable future. Changes are taking place in the design, commissioning and delivery of services, with ongoing activity to deliver savings across all areas of the Council. The implementation of changes and public service reform, with a reduced workforce whilst delivering business as usual and achieving key priorities remains a key challenge for the Council during 2015/2016 and must be reflected in the Internal Audit Plan.
9. The Internal Audit Plan must continue to be sufficiently flexible to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified. This particularly relevant for 2015/2016 as changes are agreed with more detailed work ongoing to confirm how these will be delivered. As such there are areas where Internal Audit work cannot be fully defined at this stage but where allocation of resource are required to help support good governance, risk management and control. Whilst Internal Audit adds value and provides assurance in these areas the detailed areas for focus are the subject of ongoing discussions with the business. Rather than define specific audits and then change them, the plan includes allocations of work which will be applied to specific aspects of audit activity throughout the year. There will be similar allocations in other areas with details of specific audit activities reported to Corporate Directors, Heads of Service and Audit Committee throughout the year.

10. Periods of change inevitably increase the potential for risks, both positive a (opportunities) and negative (hazards). The reduction in workforce for example provides opportunity for breakdown in control as well as an opportunity to consider new, more efficient ways of organising people, systems and processes without impacting adversely on internal control. To reflect this risk the audit plan will continue to allocate time for advice and consultancy and developing systems support to officers to support and challenge them in the establishment and development of their systems of governance, risk management and internal control. We will also deliver work on the core financial systems and a number of pro-active counter fraud, irregularity and probity audits to provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error.
11. The continued pace of change across the Council requires assurance that is prioritised and timely. The Internal Audit Plan must provide for this assurance, to enable remedial actions or controls to be implemented on a timely basis. Based on experience and feedback from Service Grouping Management Teams there is a continued need for shorter, more focused and practical audits in areas of emerging risk.
12. The characteristics of the plan: flexible, supportive, challenging, prioritised and timely are not new however, it remains critical that these principals are maintained if Internal Audit is to help the Council to continue to respond effectively to the scale of change during 2015/2016 and beyond.
13. Based on the above the Chief Internal Auditor and Corporate Fraud Manager considers that assurance is best obtained through a combination of different audits and other sources of assurance. This is not an uncommon approach but it has been tailored to reflect the specific needs of the Council. It is consistent with the approach taken in the development and delivery of the 2014/2015 Internal Audit Plan.

Plan Structure

14. There are five different types of audit activity in the plan.
 - Assurance Review
 - Advice and Consultancy
 - Key System
 - Grant Certification
 - Investigation
15. This approach of using different types of audits and other work is considered the most effective way to deliver the strategy for Internal Audit.

Plan Content

16. In summary, there is a high level of focus proposed on risk based audits and providing assurance over key systems. This reflects the need to focus on the management of emerging risks and ensure the continued operations of controls within the Council's overall governance arrangements, its systems and its processes.

17. There is time allocated to developing systems and supporting service groupings with new initiatives and any changes in service delivery.
18. The need for continued investment of time in anti-fraud, irregularity and probity work continues.
19. The emergent plan has been compiled to reflect the Corporate Management Team and Service Grouping structure in the Council as follows:
 - Assistant Chief Executive (ACE)
 - Children and Adult Services (CAS)
 - Neighbourhood Services (NS)
 - Regeneration and Economic Development (RED)
 - Resources (RES)
20. The emergent plan is based on the current service plans for the Council for 2015/16 which we acknowledge will be subject to ongoing change throughout the year. To help ensure that the plan is flexible and the service is able to respond to key risks in the year, the emergent plan includes a block of contingency time from which specific audits can be delivered in the year. Further details will be provided to the Audit Committee in the finalised plan in May and throughout the year.

Scale of the Plan

21. The annual plan needs to be deliverable within available resources. The service has an approved establishment of 23 employees equivalent to 21.42 FTE.
22. As a result of this planning the latest forecast of available resources to be allocated to the management and delivery of the audit plan is 4,888 days. 295 days of this relate to work for external clients. The detail of this allocation is shown on the table over the page.

Estimated Gross Days Available (21.42) FTE	6,333
Non – Productive Time (Annual Leave, Sickness, Office Duties etc.)	1,445
Productive Time – not allocable to services e.g. Audit Planning, Supporting Audit Committee, Quality Assurance, Fraud Investigation and Contingency	2,629
Audit days required to complete and close audit reports relating to 2014/2015	250
Productive Days 2015 / 2016	
Assistant Chief Executive (ACE)	79
Children and Adult Services (CAS)	228
Neighbourhood Services (NS)	260
Regeneration and Economic Development (RED)	182
Resources	627
Grant Certification	50
Durham Police and Crime Commissioner / Durham Constabulary	170
Durham and Darlington Fire & Rescue Authority	80
Pension Fund	39
Durham City Charter	6
Durham Joint Crematorium	19
Mountsett Joint Crematorium	19
Schools (Service Level Agreements)	250
TOTAL GROSS DAYS REQUIRED	6,333

Emergent Plan Content

23. Within this framework an emergent work programme of potential work has been developed. This is based on an assessment of risk.
24. Consultation is ongoing with Corporate Directorate Management Teams and Corporate Directors. It is likely that elements of the plan will be changed as part of this overall process of engagement and reconciling proposed audit work with available resources.

Recommendations

25. Members are requested to comment on the proposed direction and process for the development of the emergent Internal Audit Plan attached at Appendix A which will be brought back for approval on 19 May 2015.

DURHAM COUNTY COUNCIL - EMERGENT INTERNAL AUDIT PLAN 2015/2016

Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
Business Continuity Planning	Assistant Chief Executive	Policy and Communications	Key System	10	Altogether Better Council
Data Quality Framework	Assistant Chief Executive	Planning and Performance	Assurance	15	Altogether Better Council
Data Protection	Assistant Chief Executive	Planning and Performance	Assurance	20	Altogether Better Council
Freedom of Information	Assistant Chief Executive	Planning and Performance	Assurance	10	Altogether Better Council
Information Governance Group	Assistant Chief Executive	Planning and Performance	Advice & Consultancy	2	Altogether Better Council
Area Action Partnerships (AAPs) - Performance Management Framework	Assistant Chief Executive	Partnerships and Community Engagement	Assurance	10	Altogether Better Council
Community Engagement (Consultation Strategy)	Assistant Chief Executive	Partnerships and Community Engagement	Advice & Consultancy	5	Altogether Better Council
Partnership Governance Framework	Assistant Chief Executive	Partnerships and Community Engagement	Key System	5	Altogether Better Council
Community Buildings Funding (Part 3)	Assistant Chief Executive	Partnerships and Community Engagement	Advice & Consultancy	2	Altogether Better Council
Continuing Health Care / S117 Payments	Children and Adult Services	Adult Care	Assurance	20	Altogether Healthier
Integration of Financial Services Team within Revenues and Benefits	Children and Adult Services	Commissioning	Advice & Consultancy	10	Altogether Better Council
Personalisation / Direct Payments	Children and Adult Services	Commissioning	Advice & Consultancy	15	Altogether Better Council
Procurement	Children and Adult Services	Commissioning	Assurance	15	Altogether Better Council
Transport (People 2 Review)	Children and Adult Services	Commissioning	Advice & Consultancy	10	Altogether Better Council
Commissioning of Drug and Alcohol Services	Children and Adult Services	Commissioning	Assurance	15	Altogether Healthier
Stronger Families Programme	Children and Adult Services	Children's Services	Grant Certification	8	Altogether Better for Children and Young People
Secure Services - Aycliffe Secure Unit	Children and Adult Services	Children's Services / Planning and Service Strategy	Key System	10	Altogether Better Council
School Improvement Services - Brokerage of External Providers	Children and Adult Services	Education Services	Assurance	10	Altogether Better for Children and Young People
Adult Learning Service - Collection of Fees	Children and Adult Services	Education Services	Assurance	15	Altogether Better for Children and Young People
Careers Service (Review deferred from 2014/15)	Children and Adult Services	Education Services	Assurance	10	Altogether Better for Children and Young People
Education and Business Link (Review deferred from 2014/15)	Children and Adult Services	Education Services	Assurance	10	Altogether Better for Children and Young People
Improving Progression 14-19	Children and Adult Services	Education Services	Assurance	15	Altogether Better for Children and Young People
Schools Audit Programme	Children and Adult Services	Education Services	Assurance	250	Altogether Better for Children and Young People
POPPIE System Review	Children and Adult Services	Planning and Service Strategy	Assurance	10	Altogether Better Council
SSID System Review	Children and Adult Services	Planning and Service Strategy	Assurance	10	Altogether Better Council
County Durham Wellbeing for Life Services (DCRS System)	Children and Adult Services	Planning and Service Strategy	Assurance	20	Altogether Better Council
Petty Cash and Imprest Accounts	Children and Adult Services	Planning and Service Strategy	Key System	10	Altogether Better Council
E Market Place	Children and Adult Services	Planning and Service Strategy	Advice & Consultancy	5	Altogether Better Council
Short and Long Term Care (SALT)	Children and Adult Services	Planning and Service Strategy	Assurance	10	Altogether Better Council
SevenHills	Neighbourhood Services	Culture & Sport	Assurance	15	Altogether Better Council
Stanley Bowls	Neighbourhood Services	Culture & Sport	Advice & Consultancy	5	Altogether Better Council
CLUK Income Share Agreement	Neighbourhood Services	Culture & Sport	Assurance	5	Altogether Better Council
Spennymoor Leisure Centre	Neighbourhood Services	Culture & Sport	Assurance	10	Altogether Better Council
Newton Aycliffe Leisure Centre	Neighbourhood Services	Culture & Sport	Assurance	10	Altogether Better Council
Killhope Museum	Neighbourhood Services	Culture & Sport	Assurance	15	Altogether Better Council
Locomotion Museum	Neighbourhood Services	Culture & Sport	Assurance	15	Altogether Better Council
Gala Theatre – Cinema Operator Procurement	Neighbourhood Services	Culture & Sport	Advice & Consultancy	10	Altogether Better Council
County Durham Sport	Neighbourhood Services	Culture & Sport	Grant Certification	5	Altogether Better Council
QMS (Monitoring Visit)	Neighbourhood Services	Direct Services	Advice & Consultancy	5	Altogether Better Council
Property Help Desk - Schools and Public Building Maintenance	Neighbourhood Services	Direct Services	Assurance	10	Altogether Better Council
Fleet Management - Follow Up	Neighbourhood Services	Direct Services	Assurance	15	Altogether Better Council
Use of Fuel Cards	Neighbourhood Services	Direct Services	Assurance	5	Altogether Better Council
Safer Communities / Anti-Social Behaviour Teams	Neighbourhood Services	Direct Services	Assurance	10	Altogether Safer
Bereavement Services - Durham Central Crematorium	Neighbourhood Services	Direct Services	Assurance	19	Altogether Better Council
Bereavement Services - Mountsett Crematorium (Joint Committee)	Neighbourhood Services	Direct Services	Assurance	19	Altogether Better Council
Clean and Green - Complaints Handling	Neighbourhood Services	Direct Services	Assurance	10	Altogether Better Council
Livin Housing Association Contract - Follow Up	Neighbourhood Services	Direct Services	Assurance	10	Altogether Better Council
Markets	Neighbourhood Services	Environment, Health and Consumer Protection	Assurance	15	Altogether Better Council
Review of Miscellaneous Registrations	Neighbourhood Services	Environment, Health and Consumer Protection	Assurance	10	Altogether Better Council
Weights and Measures - Approved Body Status	Neighbourhood Services	Environment, Health and Consumer Protection	Assurance	5	Altogether Better Council
Food Safety	Neighbourhood Services	Environment, Health and Consumer Protection	Assurance	5	Altogether Healthier
Pest Control and Accumulations - Joint Working Protocol	Neighbourhood Services	Environment, Health and Consumer Protection	Assurance	10	Altogether Healthier
Work in Default	Neighbourhood Services	Environment, Health and Consumer Protection	Assurance	10	Altogether Healthier

DURHAM COUNTY COUNCIL - EMERGENT INTERNAL AUDIT PLAN 2015/2016

Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
TEEP	Neighbourhood Services	Projects and Business Services	Advice & Consultancy	5	Altogether Greener
Environmental Compliance	Neighbourhood Services	Projects and Business Services	Advice & Consultancy	10	Altogether Greener
Fly Tipping	Neighbourhood Services	Projects and Business Services	Assurance	10	Altogether Greener
Sickness Absence Management	Neighbourhood Services	Projects and Business Services	Assurance	10	Altogether Better Council
Stores Management - On site disposal of surplus materials	Neighbourhood Services	Technical Services / Direct Services	Assurance	15	Altogether Better Council
Carbon Reduction Commitment	Regeneration and Economic Development	Planning and Assets	Assurance	10	Altogether Green
Community Infrastructure Levy	Regeneration and Economic Development	Planning and Assets	Advice & Consultancy	2	Altogether Wealthier
EU Structural Funds Programme	Regeneration and Economic Development	Strategy, Programmes and Performance	Assurance	10	Altogether Better Council
Payroll	Regeneration and Economic Development	Strategy, Programmes and Performance	Key System	15	Altogether Better Council
Creditors	Regeneration and Economic Development	Strategy, Programmes and Performance	Key System	15	Altogether Better Council
Debtors	Regeneration and Economic Development	Strategy, Programmes and Performance	Key System	15	Altogether Better Council
Cash Collection	Regeneration and Economic Development	Strategy, Programmes and Performance	Key System	15	Altogether Better Council
Park and Ride	Regeneration and Economic Development	Transport and Contract Services	Assurance	10	Altogether Safer Council
Telecare Services & Care Connect	Regeneration and Economic Development	Transport and Contract Services	Assurance	10	Altogether Safer Council
CCTV	Regeneration and Economic Development	Transport and Contract Services	Assurance	5	Altogether Safer Council
Mentoring Project	Regeneration and Economic Development	Economic Development and Housing	Assurance	10	Altogether Wealthier
Durham Employment and Skills	Regeneration and Economic Development	Economic Development and Housing	Assurance	10	Altogether Wealthier
International Relations	Regeneration and Economic Development	Economic Development and Housing	Assurance	10	Altogether Wealthier
West Rainton and Leamside CA	Regeneration and Economic Development	Economic Development and Housing	Advice & Consultancy	5	Altogether Wealthier
Business Durham	Regeneration and Economic Development	Economic Development and Housing	Assurance	20	Altogether Wealthier
Private Sector Housing (Selective Licensing)	Regeneration and Economic Development	Economic Development and Housing	Assurance	10	Altogether Wealthier
Gypsy, Roma, Traveller Sites	Regeneration and Economic Development	Economic Development and Housing	Assurance	10	Altogether Wealthier
Flexi Scheme	Resources	Human Resources and Organisational Development	Assurance	15	Altogether Better Council
Recruitment & Selection Policy	Resources	Human Resources and Organisational Development	Assurance	15	Altogether Better Council
Flexible Working - Variations to Contracts	Resources	Human Resources and Organisational Development	Assurance	15	Altogether Better Council
Appraisals	Resources	Human Resources and Organisational Development	Assurance	10	Altogether Better Council
Attendance Management Framework	Resources	Human Resources and Organisational Development	Assurance	15	Altogether Better Council
Violent Persons Register	Resources	Human Resources and Organisational Development	Assurance	10	Altogether Better Council
Occupational Health	Resources	Human Resources and Organisational Development	Assurance	10	Altogether Better Council
Payroll	Resources	Human Resources and Organisational Development	Key System	15	Altogether Better Council
Taxation - PAYE	Resources	Human Resources and Organisational Development	Assurance	10	Altogether Better Council
Committee Services (incl. Modern.gov)	Resources	Legal and Democratic Services	Assurance	7	Altogether Better Council
Member Declarations of Interest	Resources	Legal and Democratic Services	Assurance	15	Altogether Better Council
Officer Scheme of Delegation	Resources	Legal and Democratic Services	Assurance	15	Altogether Better Council
Newco	Resources	Legal and Democratic Services	Assurance	10	Altogether Better Council
RIPA	Resources	Legal and Democratic Services	Advice & Consultancy	2	Altogether Better Council
General Ledger	Resources	Corporate Finance	Assurance	10	Altogether Better Council
MTFP	Resources	Corporate Finance	Assurance	10	Altogether Better Council
Capital Accounting	Resources	Corporate Finance	Assurance	10	Altogether Better Council
Journal Transfers	Resources	Corporate Finance	Assurance	5	Altogether Better Council
Bank Reconciliation	Resources	Corporate Finance	Assurance	5	Altogether Better Council
Direct Debit Payments	Resources	Corporate Finance	Assurance	7	Altogether Better Council
Treasury Management	Resources	Corporate Finance	Assurance	10	Altogether Better Council
Teachers Pension Fund (2015/16 = Follow Up)	Resources	Corporate Finance	Assurance	2	Altogether Better Council
Bank Contract	Resources	Corporate Finance	Advice & Consultancy	2	Altogether Better Council
Leases	Resources	Corporate Finance	Assurance	10	Altogether Better Council
Procurement (areas of focus to determine)	Resources	Corporate Finance	Assurance	60	Altogether Better Council
Oracle Project Group	Resources	Corporate Finance	Advice & Consultancy	2	Altogether Better Council
Budgetary Control (lighter touch)	Resources	Financial Services	Assurance	10	Altogether Better Council
Revs and Bens Reconciliations	Resources	Financial Services	Assurance	10	Altogether Better Council
Creditor Payments	Resources	Financial Services	Key System	15	Altogether Better Council
Business Rates	Resources	Financial Services	Key System	40	Altogether Better Council

DURHAM COUNTY COUNCIL - EMERGENT INTERNAL AUDIT PLAN 2015/2016

Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
HB, CTR and Welfare Assistance Scheme	Resources	Financial Services	Key System	50	Altogether Better Council
Council Tax	Resources	Financial Services	Key System	40	Altogether Better Council
Cash Collection	Resources	Financial Services	Key System	15	Altogether Better Council
Debtors	Resources	Financial Services	Key System	15	Altogether Better Council
Financial arrangements re Health Visitors / Family Practitioners Transfer	Resources	Financial Services	Advice & Consultancy	10	Altogether Better Council
Better Care Fund: Sn 256	Resources	Financial Services	Advice & Consultancy	10	Altogether Better Council
Counter Fraud Arrangements	Resources	Internal Audit, Risk and Fraud	Key System	10	Altogether Better Council
Confidential Reporting Code	Resources	Internal Audit, Risk and Fraud	Assurance	10	Altogether Better Council
ICT Business Continuity Plan	Resources	Information and Communication Technology	Assurance	10	Altogether Better Council
Design and Print Service	Resources	Information and Communication Technology	Assurance	10	Altogether Better Council
Data Management	Resources	Information and Communication Technology	Assurance	10	Altogether Better Council
Information Security	Resources	Information and Communication Technology	Assurance	20	Altogether Better Council
Unix	Resources	Information and Communication Technology	Assurance	10	Altogether Better Council
Windows	Resources	Information and Communication Technology	Assurance	10	Altogether Better Council
Active Directory	Resources	Information and Communication Technology	Advice & Consultancy	5	Altogether Better Council
Internet	Resources	Information and Communication Technology	Assurance	10	Altogether Better Council
Income/expenditure arrangements	Resources	Information and Communication Technology	Assurance	10	Altogether Better Council

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Audit Committee

26 February 2015

**Internal Audit Progress Report
Period Ended 31 December 2014**



Report of the Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. To inform Members of the work that has been carried out by Internal Audit during the period 1 October 2014 to 31 December 2014 as part of the 2014/2015 Internal Audit Plan.

2. The report aims to:
 - Provide a high level of assurance, or otherwise, on internal controls operating across the Council that have been subject to an Internal Audit.
 - Advise of issues where controls need to be improved in order to effectively manage risks.
 - Advise of other types of audit work carried out such as grant certification or consultancy reviews where an assurance opinion on the control environment may not be applicable.
 - Advise of amendments to the Internal Audit Plan.
 - Track the progress of responses to Internal Audit reports and the implementation of agreed audit recommendations.
 - Advise of any changes to the audit process.
 - Provide an update on the performance indicators comparing actual performance against planned.

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

Appendix 1	Progress against the Internal Audit Plan
Appendix 2	Final Reports issued in the quarter ending 31 December 2014
Appendix 3	The number of high and medium priority actions raised and implemented
Appendix 4	Internal Audit Performance Indicators
Appendix 5*	Overdue Actions
Appendix 6*	Limited Assurance Audit Opinions

Background

4. As an independent, consultancy service, the Council's Internal Audit Team strives to continue to add value and improve the organisation's operations as well as providing objective assurance to service managers and the Council.
5. The Internal Audit Strategy and Annual Internal Audit Plan covering the period 1 July 2014 to 31 March 2015 was approved by the Audit Committee on 26 June 2014.

Progress against the Internal Audit Plan

6. A summary of the approved Internal Audit Plan for each Service Grouping, updated to include work in progress and any audits brought forward from last year's plan, is attached at Appendix 1. The appendix illustrates the current status of each audit as at 31 December 2014 and where applicable also gives the resultant assurance opinion.
7. A summary of the status of audits in 2014/15 is illustrated in the table below:

Service Grouping	Not Started	Planning and Preparation	In Progress	Draft Report	Final Report
Assistant Chief Executive (ACE)	1	0	4	1	9
Children and Adult Services (CAS) including Schools	24	10	16	18	21
Neighbourhood Services (NS)	2	6	11	5	17
Regeneration and Economic Development (RED)	4	3	10	0	6
Resources (RES)	7	15	18	2	24
TOTAL	38	34	59	26	77

8. A summary of the final audit reports issued in this quarter is presented in Appendix 2.
9. The total number of Productive Internal Audit days required to deliver the plan was 3,222. As at 31 December the service has delivered 1,993 productive days representing 62% of the total plan. The target at the end of the quarter was for 60% to be delivered therefore current performance is exceeding target.
10. This is against a current backdrop of higher than average levels of sickness within the section which is being actively managed.

Audit Activity in the Quarter

Amendments to the Approved 2014/2015 Internal Audit Plan

11. The following amendments to the approved Internal Audit Plan have been agreed between Corporate Directors and the Chief Internal Auditor and Corporate Fraud Manager in this quarter:

Service Grouping	Audit	Amendment Type	Reason
Assistant Chief Executive (ACE)	AAPs: Performance Management Framework	Deferred to 2015/2016	The service requested that the revised framework be given time to become embedded prior to carrying out an assurance review.
Children and Adult Services (CAS)	Adult Learning	Deferred to 2015/2016	Defer in light of recent Ofsted inspection.
Children and Adult Services (CAS)	Continuing Health Care and Free Nursing Care	Deferred to 2015/2016	Revised procedures recently put in place. Service request that these are embedded before audit review.
Children and Adult Services (CAS)	Personal Budgets	Deferred to 2015/2016	Mutually convenient start time for the audit will be April 2015.
Children and Adult Services (CAS)	Use of Petty Cash and Imprest Accounts	Deferred to 2015/2016	Revised procedures now in place following review. Time for them to be embedded before audit review.
Children and Adult Services (CAS)	Education and Business Link	Deferred to 2015/2016	Mutually convenient start time for the audit will be April 2015.
Children and Adult Services (CAS)	Careers Service	Deferred to 2015/2016	Mutually convenient start time for the audit will be April 2015.
Neighbourhood Services (NS)	Markets	Deferred to 2015/2016	Agreed with Head of Service to defer until 2015/16
Neighbourhood Services (NS)	Leisure Service Review	Cancelled	In light of a structural review this audit would not add value at this time.
Neighbourhood Services (NS)	Strategic Transport	Change of Service Grouping	Review to be reallocated to RED (see additional audits in paragraph 13).
Neighbourhood Services (NS)	Environment Partnerships	Cancelled	Following discussions and in recognition of developments within the service it was agreed this review would not be progressed.
Resources (RES)	Design and Print	Deferred to 2015/2016	Audit deferred to allow revised processes to become embedded following a service restructure.
Resources (RES)	ICT Business Continuity Planning	Deferred to 2015/2016	Review deferred to allow for the implementation of the outstanding actions from the previous audit.
Resources (RES)	Counter Fraud Arrangements	Deferred to 2015/2016	Corporate Fraud Team to assume responsibility for fraud arrangements 1 June 2015. Defer until post SFIS transfer.

12. 10 unplanned reviews have been added to the Internal Audit Plan in this quarter. Of these, seven are potential fraud or irregularity investigations.
13. The three other reviews, which are to be sourced from the service contingency provision within the Internal Audit Plan, are detailed below:

Service Grouping	Audit	Audit Type	Reason
Regeneration and Economic Development (RED)	Gypsy, Roma, Traveller Service	Advice and Consultancy	Service Request
Regeneration and Economic Development (RED)	Strategic Transport – Integrated Transport Block	Assurance	Moved from Neighbourhood Services to Regeneration and Economic Development.
Resources	Digital Durham	Advice and Consultancy	Service Request

Outstanding Management Responses to Draft Internal Audit Reports

14. There are no draft reports that are overdue at the time of writing.

Responses to Audit Findings and Recommendations

15. Details of the numbers of High and Medium priority ranked recommendations that have been raised and those that are overdue, by Service Grouping are presented in Appendix 3

16. A summary of progress on the actions due, implemented and overdue as at 31 December 2014 is given in the table below:

Service Grouping	Number of Actions Due to be Implemented	Number of Actions Actually Implemented	Actions Overdue by Agreed Original Target Date	Actions with an Agreed Revised Target Date	Actions Overdue by Revised Target Date
Assistant Chief Executive (ACE)	21	21	0	0	0
Children and Adult Services (CAS)	61	57	4	4	0
Neighbourhood Services (NS)	151	142	9	9	0
Regeneration and Economic Development (RED)	60	44	16	16	0
Resources (RES)	343	319	24	24	0
TOTAL	636	583	53	53	0

17. It is encouraging to note, of the 636 actions due to be implemented, that 583 (92%) have been implemented. The Chartered Institute of Public Finance and Accountancy (CIPFA), benchmarking exercise indicates that average performance in this area to be between 70% to 80%. At present the Council is delivering in excess of this target.
18. Details of the actions that are overdue following their agreed original target dates are included at Appendix 5.

Limited Assurance Audit Opinions

19. There have been four audits finalised in this quarter that have been issued with a 'limited assurance' opinion. These are:

Service Grouping	Service Area	Audit
Corporate Review	Various	Data Quality of 3 Specific Performance Indicators
Children and Adult Services (CAS)	Adult Services	Hawthorn House
Resources (RES)	Pension Fund	Teachers' Pension Fund
Resources (RES)	Pension Fund	Debt Recovery

20. Further details of the findings from these audit reviews are included within Appendix 6.

Performance Indicators

21. A summary of our actual performance at the end of December 2014 compared with our agreed targets is illustrated in Appendix 4.

Recommendations

22. Members are asked to note:

- The amendments made to the 2014/2015 Annual Audit Plan.
- Work undertaken by Internal Audit during the period ending 31 December 2014 and the assurance on the control environment provided.
- The performance of the Internal Audit Service during the period.
- Progress made by service managers in responding to the work of Internal Audit.

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2014

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
2013 / 2014 Internal Audit Plan - Audits Brought Forward					
Assistant Chief Executive (ACE)	Policy and Communications	Intranet	Assurance	Final Report	Moderate
Assistant Chief Executive (ACE)	Planning and Performance	Data Protection - Procurement	Assurance	Final Report	Moderate
Assistant Chief Executive (ACE)	Planning and Performance	Data Quality	Assurance	Final Report	Limited
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Environment Partnership	Assurance	Final Report	Moderate
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Community Buildings	Advice & Consultancy	Final Report	N/A
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	AAPs - Performance Management Framework	Advice & Consultancy	Final Report	N/A
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Participatory Budgets	Advice & Consultancy	Final Report	N/A
Children and Adult Services (CAS)	Children's Services	Secure Services - Contract with Youth Justice Board	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Direct Services	Schools Grounds Maintenance Arrangements	Advice and Consultancy	Final Report	N/A
Neighbourhood Services (NS)	Environmental Health and Consumer Protection	Private Sector Housing - Housing Complaints	Assurance	Final Report	Substantial
Regeneration and Economic Development (RED)	Transport and Contract Services	Supported Housing - CCTV	Assurance	Final Report	Moderate
Regeneration and Economic Development (RED)	Economic Development and Housing	Empty Homes Loan Fund	Assurance	Final Report	Moderate
Resources	Human Resources and Organisational Development	Payroll	Assurance	Final Report	Moderate
Resources	Human Resources and Organisational Development	Performance Appraisals	Assurance	Final Report	Moderate
Resources	Human Resources and Organisational Development	Comensura (Agency Workers)	Assurance	Final Report	Moderate
Resources	Corporate Finance	Capital Accounting	Assurance	Final Report	Substantial
Resources	Corporate Finance	Journal Transfers	Assurance	Final Report	Moderate
Resources	Corporate Finance	General Ledger	Assurance	Final Report	Moderate
Resources	Corporate Finance	Procurement - Award of Contracts	Assurance	Final Report	Substantial
Resources	Financial Services	Creditor Payments	Assurance	Final Report	Moderate
Resources	Financial Services	Sundry Debtors	Assurance	Final Report	Limited
Resources	Financial Services	Cash Collection	Assurance	Final Report	Moderate
Resources	Financial Services	Calculation of School Budgets	Assurance	Final Report	Substantial
Resources	ICT	Networks	Assurance	Final Report	Moderate
Resources	ICT	SQL	Assurance	Final Report	Moderate
Resources	ICT	ISPs - 3rd Party Access	Assurance	Final Report	Moderate
Resources	ICT	ISPs - Operational Procedures	Assurance	Final Report	Moderate
Resources	ICT	Software Licenses	Assurance	Final Report	Moderate
2014 / 2015 Internal Audit Plan					
Assistant Chief Executive (ACE)	Policy and Communications	Business Continuity Planning	Key System	In Progress	
Assistant Chief Executive (ACE)	Planning and Performance	Data Quality / Performance Management Framework	Key System	Not Started	
Assistant Chief Executive (ACE)	Planning and Performance	Data Protection - Rolling Programme of reviews (One per Quarter)	Assurance	In Progress	
Assistant Chief Executive (ACE)	Planning and Performance	Information Governance Group	Advice and Consultancy	In Progress	
Assistant Chief Executive (ACE)	Planning and Performance	Transparency Agenda Arrangements	Advice and Consultancy	In Progress	
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Area Action Partnerships (AAPs) - Performance Management Framework	Assurance	Deferred	
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Partnerships	Key System	Draft Report	
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Community Buildings - Revenue Costs (Part 1)	Advice and Consultancy	Final Report	N/A
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Community Buildings - Revenue Costs (Part 2)	Advice and Consultancy	Final Report	N/A
Children and Adult Services (CAS)	Children's Services	Foster Carer Payments	Assurance	Preparation	
Children and Adult Services (CAS)	Children's Services	Adoption Strategy	Assurance	Preparation	
Children and Adult Services (CAS)	Children's Services	Children Safeguarding Governance Arrangements	Assurance	Preparation	
Children and Adult Services (CAS)	Children's Services	Establishment Visits and Overall Management Arrangements	Assurance	Preparation	
Children and Adult Services (CAS)	Children's Services	First Contact Service	Assurance	In Progress	
Children and Adult Services (CAS)	Children's Services	Voluntary Organisations (DCC Employee Arrangements)	Assurance	Preparation	
Children and Adult Services (CAS)	Children's Services	MTFP Saving - Provision of Supervised Contact	Assurance	Deferred	
Children and Adult Services (CAS)	Children's Services	Disability Commissioning Arrangements (Short Breaks)	Assurance	In Progress	
Children and Adult Services (CAS)	Children's Services	In & Out of County Placements	Assurance	Preparation	
Children and Adult Services (CAS)	Children's Services	Application of Think Family Grants	Assurance	In Progress	
Children and Adult Services (CAS)	Education	School Financial Performance	Assurance	In Progress	
Children and Adult Services (CAS)	Education	SEN Placement and Provision	Assurance	Deferred	
Children and Adult Services (CAS)	Education	School Organisation and Capital Programme	Assurance	Draft Report	
Children and Adult Services (CAS)	Education / Children's Services	Safeguarding of Children in Schools	Advice and Consultancy	Final Report	N/A
Children and Adult Services (CAS)	Education	Adult Learning Service	Assurance	Deferred	
Children and Adult Services (CAS)	Education	Education and Business Link	Assurance	Deferred	
Children and Adult Services (CAS)	Education	Careers Service	Assurance	Deferred	
Children and Adult Services (CAS)	Education	School's Audit Programme - SLA (51 Schools to complete)	Assurance	Final Reports x 17	7 Substantial 7 Moderate 3 Limited
Children and Adult Services (CAS)	Education	Schools Financial Value Standard (SFVS)	Advice and Consultancy	Preparation	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2014

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Children and Adult Services (CAS)	Education	Governor Training	Advice and Consultancy	Not Started	
Children and Adult Services (CAS)	Education	School Business Manager Training	Advice and Consultancy	Not Started	
Children and Adult Services (CAS)	Education	Head Teacher Group Attendance	Advice and Consultancy	Not Started	
Children and Adult Services (CAS)	Adult Services	Continuing Health Care and Free Nursing Care	Assurance	Deferred	
Children and Adult Services (CAS)	Adult Services	Establishment Visits and Overall Management Arrangements - Hawthorn House	Assurance	Final Report	Limited
Children and Adult Services (CAS)	Adult Services	Establishment Visits and Overall Management Arrangements - Pathways Ebony Woodwork Unit	Assurance	Final Report	Moderate
Children and Adult Services (CAS)	Adult Services	Adaptations Service	Assurance	Draft Report	
Children and Adult Services (CAS)	Commissioning	Community Chest Grant Scheme / Adult Mental Health Capital Grant Scheme	Assurance	Not Started	
Children and Adult Services (CAS)	Commissioning	Social Care Financial Assessments & Reassessments	Assurance	Preparation	
Children and Adult Services (CAS)	Commissioning	Direct Payments	Assurance	Draft Report	
Children and Adult Services (CAS)	Commissioning	Personal Budgets - Commissioned Service	Assurance	Deferred	
Children and Adult Services (CAS)	Commissioning	Management of Client Finances	Assurance	Preparation	
Children and Adult Services (CAS)	Commissioning	SSID Development	Advice and Consultancy	In Progress	
Children and Adult Services (CAS)	Public Health	Drug and Alcohol Treatment Services and Clinical Public Health Services	Advice and Consultancy	Deferred	
Children and Adult Services (CAS)	Public Health	Nicotine Replacement Vouchers - Follow Up	Assurance	Cancelled	
Children and Adult Services (CAS)	Public Health	Public Health Assurance	Advice and Consultancy	In Progress	
Children and Adult Services (CAS)	Public Health	Commissioning Arrangements	Assurance	In Progress	
Children and Adult Services (CAS)	Public Health	Pharmoutcomes	Advice and Consultancy	In Progress	
Children and Adult Services (CAS)	Public Health	Health Visitor Transition	Advice and Consultancy	In Progress	
Children and Adult Services (CAS)	Planning and Service Strategy	Caldicott Compliance	Assurance	In Progress	
Children and Adult Services (CAS)	Planning and Service Strategy	Use of Petty Cash and Imprest Accounts	Assurance	Deferred	
Children and Adult Services (CAS)	All CAS Services	CAS - Cash Collection	Key System	In Progress	
Children and Adult Services (CAS)	All CAS Services	CAS - Creditors	Key System	In Progress	
Children and Adult Services (CAS)	All CAS Services	CAS - Debtors	Key System	In Progress	
Children and Adult Services (CAS)	All CAS Services	CAS - Payroll	Key System	In Progress	
Neighbourhood Services (NS)	Culture and Sport Services	Gala Theatre - Catering and Bars	Assurance	In Progress	
Neighbourhood Services (NS)	Culture and Sport Services	Integrated Leisure Management System	Advice and Consultancy	In Progress	
Neighbourhood Services (NS)	Culture and Sport Services	Stanley Bowls	Advice and Consultancy	Final Report	N/A
Neighbourhood Services (NS)	Culture and Sport Services	Competition Line UK - Income Share Agreement	Assurance	Final Report	N/A
Neighbourhood Services (NS)	Culture and Sport Services	Countryside and Parks Management	Assurance	Draft Report	
Neighbourhood Services (NS)	Culture and Sport Services	Leisure Services Review - Future Service Delivery	Advice and Consultancy	Cancelled	
Neighbourhood Services (NS)	Culture and Sport Services	Libraries - Review of Procurement, Payments and Custody of Assets	Assurance	Final Report	Moderate
Neighbourhood Services (NS)	Culture and Sport Services	Freemans Quay - Income and Banking	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Culture and Sport Services	Durham Town Hall - Income and Banking	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Culture and Sport Services	Bishop Auckland Town Hall - Income and Banking	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Direct Services	Building Compliance	Advice and Consultancy	Final Report	N/A
Neighbourhood Services (NS)	Direct Services	Pest Control	Assurance	Final Report	Moderate
Neighbourhood Services (NS)	Direct Services	Catering Service	Advice and Consultancy	Draft Report	
Neighbourhood Services (NS)	Direct Services	Fleet	Assurance	Final Report	Limited
Neighbourhood Services (NS)	Direct Services	Development of New Fleet Management System	Advice and Consultancy	In Progress	
Neighbourhood Services (NS)	Direct Services	Grounds Maintenance Charging (inc Clean and Green Follow Up)	Assurance	Not Started	
Neighbourhood Services (NS)	Direct Services	Allotments Management	Assurance	Draft Report	
Neighbourhood Services (NS)	Direct Services	Trade Waste - Follow Up	Assurance	Final Report	Moderate
Neighbourhood Services (NS)	Direct Services	Computerised Repairs and Maintenance System	Advice and Consultancy	Preparation	
Neighbourhood Services (NS)	Direct Services	Quality Management System (QMS) - Period 1	Assurance	Final Report	N/A
Neighbourhood Services (NS)	Direct Services	Quality Management System (QMS) - Period 2	Assurance	Preparation	
Neighbourhood Services (NS)	Direct Services	Durham Crematorium - Joint Committee	Assurance	Preparation	
Neighbourhood Services (NS)	Direct Services	Mountsett Crematorium - Joint Committee	Assurance	Preparation	
Neighbourhood Services (NS)	Environmental Health and Consumer Protection	Markets Strategy	Assurance	Deferred	
Neighbourhood Services (NS)	Environmental Health and Consumer Protection	Fair Trading	Assurance	Draft Report	
Neighbourhood Services (NS)	Environmental Health and Consumer Protection	Animal Health	Assurance	Draft Report	
Neighbourhood Services (NS)	Environmental Health and Consumer Protection	Premises Licensing - Fee Setting	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Technical Services	Winter Maintenance	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Technical Services	Design Services	Assurance	Cancelled	
Neighbourhood Services (NS)	Technical Services	Flooding Mitigation	Assurance	In Progress	
Neighbourhood Services (NS)	Technical Services	Strategic Transport	Assurance	Cancelled	
Neighbourhood Services (NS)	Technical Services	Compliance with Construction, Design and Maintenance Procedures	Advice and Consultancy	Not Started	
Neighbourhood Services (NS)	Technical Services	Capital Project Review	Assurance	Preparation	
Neighbourhood Services (NS)	Technical Services	Stores	Assurance	Final Report	Moderate
Neighbourhood Services (NS)	Technical Services	Contract Audit	Assurance	In Progress	
Neighbourhood Services (NS)	Projects and Business Services	Environmental Compliance	Assurance	In Progress	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2014

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Neighbourhood Services (NS)	Projects and Business Services	Customer Access Points	Assurance	Cancelled	
Neighbourhood Services (NS)	Projects and Business Services	Garden Waste Collection Scheme	Advice and Consultancy	Preparation	
Neighbourhood Services (NS)	Projects and Business Services	Fly Tipping	Advice and Consultancy	Final Report	N/A
Neighbourhood Services (NS)	Projects and Business Services	NS - Cash Collection	Key System	In Progress	
Neighbourhood Services (NS)	Projects and Business Services	NS - Creditors	Key System	In Progress	
Neighbourhood Services (NS)	Projects and Business Services	NS - Debtors	Key System	In Progress	
Neighbourhood Services (NS)	Projects and Business Services	NS - Payroll	Key System	In Progress	
Regeneration and Economic Development (RED)	Planning and Assets	Planning System	Assurance	In Progress	
Regeneration and Economic Development (RED)	Planning and Assets	Spatial Policy	Assurance	Not Started	
Regeneration and Economic Development (RED)	Planning and Assets	Asset Management - Follow Up	Assurance	Final Report	Moderate
Regeneration and Economic Development (RED)	Planning and Assets	Community Infrastructure Levy	Advice and Consultancy	In Progress	
Regeneration and Economic Development (RED)	Planning and Assets	Energy Management - Warm Up North	Advice / Grant Cert	Not Started	
Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	European Regional Development Fund	Advice and Consultancy	Preparation	
Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	RED - Cash Collection	Advice and Consultancy	In Progress	
Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	RED - Creditors	Advice and Consultancy	In Progress	
Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	RED - Debtors	Advice and Consultancy	In Progress	
Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	RED - Payroll	Advice and Consultancy	In Progress	
Regeneration and Economic Development (RED)	Transport and Contract Services	Traffic Accident Data Unit (TADU) - Prevention and Investigation	Assurance	Final Report	Substantial
Regeneration and Economic Development (RED)	Transport and Contract Services	Transport - Contractual Arrangements	Assurance	Not Started	
Regeneration and Economic Development (RED)	Transport and Contract Services	Transport - Safeguarding Arrangements	Assurance	Not Started	
Regeneration and Economic Development (RED)	Economic Development and Housing	Housing Stock Transfer	Advice and Consultancy	In Progress	
Regeneration and Economic Development (RED)	Economic Development and Housing	Housing Solutions (include Housing Advice, Homelessness & Family Intervention)	Assurance	Preparation	
Regeneration and Economic Development (RED)	Economic Development and Housing	Economic Development - Apprenticeship Programme	Assurance	Final Report	Substantial
Regeneration and Economic Development (RED)	Economic Development and Housing	Regeneration and Development - Heart of Teesdale Landscape Partnership	Assurance	In Progress	
Regeneration and Economic Development (RED)	Economic Development and Housing	Choice Based Letting Scheme	Advice and Consultancy	Preparation	
Resources	Human Resources and Organisational Development	Attendance Management Framework	Assurance	In Progress	
Resources	Human Resources and Organisational Development	Disciplinary Procedures	Assurance	Draft Report	
Resources	Human Resources and Organisational Development	Violent Persons Register	Assurance	Preparation	
Resources	Human Resources and Organisational Development	Health and Safety	Key System	Preparation	
Resources	Human Resources and Organisational Development	Payroll	Key System	Preparation	
Resources	Human Resources and Organisational Development	Agency Workers	Key System	Not Started	
Resources	Legal and Democratic Services	Registrars	Assurance	Preparation	
Resources	Legal and Democratic Services	Land Charges - Fees and Income	Assurance	Preparation	
Resources	Legal and Democratic Services	Standards - Arrangements	Assurance	Not Started	
Resources	Legal and Democratic Services	Elections	Assurance	In Progress	
Resources	Legal and Democratic Services	RIPA Group	Advice and Consultancy	In Progress	
Resources	Legal and Democratic Services	Members Allowances	Assurance	Preparation	
Resources	Corporate Finance	VAT Arrangements	Assurance	Preparation	
Resources	Corporate Finance	Bank Reconciliation	Key System	Preparation	
Resources	Corporate Finance	Treasury Management	Key System	Draft Report	
Resources	Corporate Finance	New Banking Contract	Advice and Consultancy	In Progress	
Resources	Corporate Finance	Collection Fund	Key System	In Progress	
Resources	Corporate Finance	General Ledger	Key System	In Progress	
Resources	Corporate Finance	Contract Register	Assurance	Final Report	Moderate
Resources	Corporate Finance	Contract Management	Assurance	Final Report	Moderate
Resources	Corporate Finance	Variations	Assurance	Final Report	Substantial
Resources	Corporate Finance	Specifications	Assurance	In Progress	
Resources	Corporate Finance	Oracle Development - Project Board	Advice and Consultancy	Not Started	
Resources	Financial Services	Budgetary Control	Key Systems	Preparation	
Resources	Financial Services	Revenues and Benefits - Reconciliation	Key Systems	Final Report	Substantial
Resources	Financial Services	Business Improvement Districts	Assurance	Final Report	Substantial
Resources	Financial Services	Creditors	Key Systems	Not Started	
Resources	Financial Services	Debtors	Key Systems	Not Started	
Resources	Financial Services	Council Tax	Key Systems	In Progress	
Resources	Financial Services	Business Rates	Key Systems	In Progress	
Resources	Financial Services	Housing Benefit and Council Tax Reduction	Key Systems	In Progress	
Resources	Financial Services	Cash Collection	Key Systems	Not Started	
Resources	Financial Services	PCI Compliance - Follow Up	Assurance	Not Started	
Resources	Financial Services	PCI Working Group	Advice and Consultancy	In Progress	
Resources	Financial Services	School Financial Performance	Assurance	Preparation	
Resources	Financial Services	Welfare Rights	Assurance	In Progress	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2014

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Financial Services	Welfare Assistance Scheme - Follow Up	Assurance	Final Report	Moderate
Resources	Financial Services	Creditors Working Group	Advice and Consultancy	In Progress	
Resources	Financial Services	Debtors Working Group	Advice and Consultancy	In Progress	
Resources	Financial Services	Bailiff Service	Assurance	In Progress	
Resources	Internal Audit, Risk and Fraud	Risk Management	Key System	Preparation	
Resources	Internal Audit, Risk and Fraud	Insurance	Assurance	Preparation	
Resources	Internal Audit, Risk and Fraud	Counter Fraud Arrangements	Key System	Deferred	
Resources	Internal Audit, Risk and Fraud	Review of Ethics	Assurance	Preparation	
Resources	Information and Communication Technology	Asset Management	Assurance	Final Report	Moderate
Resources	Information and Communication Technology	Change Control	Assurance	Final Report	Moderate
Resources	Information and Communication Technology	ISP Compliance Reviews	Assurance	Preparation	
Resources	Information and Communication Technology	Oracle Database	Assurance	In Progress	
Resources	Information and Communication Technology	ICT Business Continuity Plan	Assurance	Deferred	
Resources	Information and Communication Technology	Design and Print Service	Assurance	Deferred	
Resources	Information and Communication Technology	Mobile Phones - Allocation and Usage	Advice and Consultancy	Preparation	
2014 / 2015 Audits Added to the Plan					
Children and Adult Services (CAS)	Commissioning	Direct Payments - Introduction of Pre Paid Cards	Advice and Consultancy	Draft Report	
Children and Adult Services (CAS)	Education	Specific School Review	Assurance	Draft Report	
Children and Adult Services (CAS)	Public Health	Data Quality - Performance Indicators Mapping Exercise	Advice and Consultancy	Preparation	
Children and Adult Services (CAS)	Adult Service	Supported Housing	Advice and Consultancy	In Progress	
Neighbourhood Services (NS)	Direct Services	Fleet Management Working Group	Advice and Consultancy	In Progress	
Regeneration and Economic Development (RED)	Economic Development and Housing	Community Association Review	Advice and Consultancy	Final Report	N/A
Regeneration and Economic Development (RED)	Economic Development and Housing	Review of Gypsy, Roma, Traveller Service	Advice and Consultancy	In Progress	
Regeneration and Economic Development (RED)	Transport and Contract Services	Strategic Transport - Integrated Transport Block	Assurance	In Progress	
Resources	Information and Communication Technology	Password Management	Assurance	In Progress	
Resources	Information and Communication Technology	Digital Durham	Advice and Consultancy	In Progress	

FINAL REPORTS ISSUED IN PERIOD ENDING 31 DECEMBER 2014

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
ASSISTANT CHIEF EXECUTIVE (ACE)		
Environment Partnership	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> • a lack of clarity in respect of the roles and responsibilities of each partner • financial management arrangements in place are inadequate • performance management arrangements in place are inadequate • risk management arrangements in place are inadequate 	Substantial
Data Quality – 3 Specific Performance Indicators	Assurance review of the arrangements in place to calculate and report on three specific performance indicators. These were selected for review on a risk basis following ongoing work by Performance Management Officers.	Limited
Community Buildings	Advice & consultancy review of the Community Buildings Grant Funding Programme relating to the allocation of funds for community buildings.	N/A
Participatory Budgets	Advice & Consultancy review of the participatory budgeting process across all AAPs.	N/A
Community Buildings – Revenue Costs (Part 2)	Advice & consultancy review which provided financial information on the revenue costs of maintaining Community Buildings for the period 01/04/14 to 31/10/14.	N/A
CHILDREN AND ADULT SERVICES (CAS)		
Secure Services – Contract with Youth Justice Board	An Assurance review to consider the effectiveness of the process supporting income generation for the provision of beds at the Aycliffe Secure Centre in relation to the YJB Contract and to Other Local Authorities with a consideration to the Centre’s financial viability.	Substantial
Safeguarding of Children in Schools	An Assurance review (Third Party) to consider whether there are effective arrangements in place for the safeguarding of children in schools.	N/A
Establishment Visits and Overall Management	An Assurance review to consider whether: <ul style="list-style-type: none"> • Income is accounted for on a timely basis • Expenditure is appropriately authorised in line with 	Limited

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
Arrangements (Hawthorn House)	budget requirements.	
Pathways – Ebony Woodwork Unit	An Assurance review to consider whether: <ul style="list-style-type: none"> Income is accounted for on a timely basis Expenditure is appropriately authorised in line with budget requirements. 	Moderate

NEIGHBOURHOOD SERVICES (NS)		
Libraries	A review of procurement, payments and custody of assets.	N/A
Trade Waste – Follow up	The objective of this review is to ensure that the action plan created in October 2013, following a previous audit of Trade Waste, has been implemented.	Moderate
Pest Control	To provide assurance on the management of the following risks: <ul style="list-style-type: none"> Uncontrolled infestation of buildings / land by pests / vermin Inappropriate storage, security and use of hazardous substances Income is not accounted for / misappropriated 	Moderate
Premises Licencing- Licence Fee Setting	To provide assurance on the management of the risk that license fees and conditions set by the authority are discriminatory and unjustifiable.	Substantial
Garden Waste Collection Scheme	To provide advice and guidance on the arrangements in place to manage the Garden Waste Collection Scheme	N/A
Quality Management System	An advice and guidance review of the Quality Management System and Procedures prior to external inspections	Not Applicable
Fleet Management	To provide assurance on the management of the following risks: <ul style="list-style-type: none"> Budget unavailable for replacement vehicles/plant Vehicles and plant are not cost effectively acquired. Contracts legislation including EU is not adhered to. Vehicles and plant purchased are not fit for purpose. Vehicle failure/ breakdown Unsafe vehicles due to a lack of maintenance Maintenance of vehicles not cost effective/ is inefficient Vehicle/Plant is stolen or vandalised The vehicle fleet is unproductive / under-utilised Technicians are unproductive / under-utilised Costs are not charged to the appropriate vehicle / cost centre Vehicle costs exceed expected levels 	Limited

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
	<ul style="list-style-type: none"> • Vehicles are inefficient or operated inefficiently • Vehicles are used for non-council business • Vehicles which do not meet operational requirements remain in use • Disposal methods are inappropriate. • Disposals are not appropriately recorded • Vehicles are not appropriately decommissioned prior to disposal • Parts are not cost effectively acquired. • Misappropriation/ loss of stock • Income is not correctly accounted for. • Work is not correctly charged for. • Work undertaken is not viable. • Loss of operator's licence (HCV & PCV) • Pollution • Vehicles are not driven safely • Vehicles are improperly insured • Arrangements at MOT centres do not comply with VOSA guidelines. • Accident in carrying out duties • Loss of information 	
Stores	<p>To provide assurance on the management of the following risks:</p> <ul style="list-style-type: none"> • Misappropriation or loss of stock. • Stock holding is excessive or does not meet operational needs • Obsolete/spoiled stock. • Cost of providing stores exceeds the benefits. • Unsafe practices within the stores. 	Moderate
Winter Maintenance	<p>To provide assurance on the management of the following risks:</p> <ul style="list-style-type: none"> • There is not an adequate system in place to meet the Council's statutory duties • There are not adequate resources (budget, staff, fleet and salt) in place to deliver the Winter Service Plan • Incorrect decisions are made when to deploy resources or not • Salt stocks cause environmental pollution 	N/A

REGENERATION AND ECONOMIC DEVELOPMENT (RED)		
Traffic Accident Data Unit	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Data is processed and reported inaccurately • Breaches of the Data Protection Act • Cause is not accurately identified 	Substantial

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
	<ul style="list-style-type: none"> • Remedial measures are not effective • Insufficient budget available to carry out required works • Data is lost or corrupted <p>Also covered, as part of the audit, was a review of the RED Performance Indicators 44 (Number of people killed or seriously injured in road traffic accidents and 45 (Number of children killed or seriously injured in road traffic accidents).</p>	
Asset Management	Follow up assurance review to ensure that the action plan created in February 2014, following a previous audit of 'Asset Management – Disposals', has been implemented.	Moderate
Apprenticeship Programme	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Funding is awarded which is not in accordance with the prescribed criteria • Information is not accurately recorded and reported to the AAP • Governance and reporting arrangements are not in place • The employer is unaware or has not agreed to the grant terms and conditions • Grant money is not paid in accordance with the terms and conditions i.e. prior to the 3 months period • Evidence is not obtained to confirm the validity of the grant claim information • Grant payments have not been authorised • Employers are not aware of the Apprenticeships schemes available • Poor performance • Data protection and data retention arrangements are not in place 	Moderate

RESOURCES		
Counter Fraud – Procurement	Planned counter fraud review to identify potential cases where contracts had not been awarded or were not in place with suppliers, and where Corporate Procurement rules had not been adhered to.	N/A
Revenues & Benefits reconciliations	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Material errors/fraudulent activities within feeder systems or the General Ledger are not identified and corrected • Performance is not properly managed 	Substantial

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
Capital Accounting	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Financial systems do not comply with the organisation's financial regulations, policies and procedures or the CIPFA Code of Practice for Local Authority Accounting • Service disruption • Financial management is ineffective 	Substantial
Business Improvement Districts	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • The levy is incorrectly calculated or not notified to the BID Company • The levy is not charged against all relevant properties or is charged against properties that it should not be charged against • Income collected is not correctly accounted for through the BID Revenue Account and is not paid over to the BID company at the appropriate time • Penalties imposed by HMRC on BID or DCC for incorrect accounting of VAT • Incorrect charging for the provision of the billing and collection service by DCC • Inappropriate recovery action is taken outside of the agreed policies and procedures • Billing and collection performance data is not provided to the BID Company as required in the Operating Agreement 	Substantial
Variations	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • EU and the basic procurement principles are not achieved, e.g. VFM, integrity, transparency, fairness, sustainability and supporting Council priorities • Procedures and processes delay procurement leading to officers seeking variations 	Substantial
Appraisals	<p>Assurance review of the arrangements in place to mitigate against the risk of the individual performance management framework not being embedded across the Council.</p>	Moderate
Infrastructure/ Networks	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Inappropriate system access • Loss of data or disclosure of sensitive data • Unauthorised changes • Degradation in network performance 	Moderate

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
	<ul style="list-style-type: none"> • Failure to prevent, or detect, security threats on a timely basis 	
Contract Management	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Contractor does not perform to the required standard or level from the beginning or end of the contract as the transition to the new provider has not been managed • The contractor does not fulfil the contract • The Council pays for goods, services or works that are not provided or not completed • The contract manager is not sufficiently objective in their relationship with the supplier • No arrangements to provide for continuing services needs after the termination or expiry of the contract are put in place 	Moderate
Welfare Assistance Scheme	Follow up assurance review to ensure that the action plan created in January 2014 has been implemented.	Moderate
Contract Register	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • The information in the contracts register is inaccurate or not up to date • The contract register is not available to the appropriate staff to ensure the contracted supplier is used when orders are placed 	Moderate
Creditor Payments	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Unauthorised or inappropriate procurement of goods/services or payments are processed • Incorrect payments are made or payments are not made in time • Non-compliance with BACS service terms and conditions • Performance is not properly managed and monitored. • Information and data are not protected from loss, damage or unauthorised disclosure, are inaccurate or held for an excessive period of time 	Moderate
Change Control	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Arrangements for amending systems do not conform to agreed standards • Program changes are not authorised and actioned in a controlled environment 	Moderate

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
Asset Management	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • There are inadequate processes in place to ensure that all assets are identified, recorded and monitored throughout their lifecycle • Ineffective governance arrangements lead to a lack of accountability for and compliance with asset management policies and procedures • Leavers are able to leave the Council with assets and still have access to the network • Inadequate encryption on electronic data causing vulnerability externally 	Moderate
Pension Fund: Teachers Pension Fund	<p>The objective of this assurance review was to ensure that the action plan created in February 2014 to address the issues identified by External Audit, which resulted in the 2012/13 annual return being qualified, has been implemented.</p>	Limited
Pension Fund: Debt Recovery	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Difficulty or inability to take appropriate recovery action against unpaid debts • Invoices are raised incorrectly • Loss of income due to annual billing not being carried out or not being carried out in a timely manner • Inappropriate recovery action taken against a customer who has made payment on the account • Inappropriate recovery action taken against a customer who has received a refund from the council • Loss of income due to appropriate recovery action not being taken • Loss of potential income / budgetary issues created as a result of inappropriate write off • Loss of potential income due to ineffective processes and recovery action not being identified in a timely manner 	Limited

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Progress on the Implementation of Audit Recommendations

Risk Category	Number of Actions Raised	Actions Due	Actions Implemented			Overdue Actions by original target date	Number of Actions where the original target has been revised	Overdue Actions following a revised target date	Total Revised Actions Due	Revised Total Recommendations Overdue
			Due	Not Yet Due	Total					
ASSISTANT CHIEF EXECUTIVE (ACE)										
2013/14										
High	0	0	0	0	0	0	0	0	0	0
Medium	21	19	19	0	19	0	0	0	0	0
Total	21	19	19	0	19	0	0	0	0	0
2014/15										
High	1	0	0	0	0	0	0	0	0	0
Medium	4	2	2	0	2	0	0	0	0	0
Total	5	2	2	0	2	0	0	0	0	0
Overall Total	26	21	21	0	21	0	0	0	0	0
CHILDREN AND ADULT SERVICES (CAS)										
2013 / 2014										
High	14	14	13	0	13	1	1	0	0	0
Medium	24	24	22	0	22	2	2	0	0	0
Total	38	38	35	0	35	3	3	0	0	0
2014 / 2015										
High	1	1	1	0	1	0	0	0	0	0
Medium	22	22	21	0	21	1	1	0	0	0
Total	23	23	22	0	22	1	1	0	0	0
Overall Total	61	61	57	0	57	4	4	0	0	0
NEIGHBOURHOOD SERVICES (NS)										
2012 / 2013										
High	9	9	8	0	8	1	1	0	0	0
Medium	70	70	70	0	70	0	0	0	0	0
Total	79	79	78	0	78	1	1	0	0	0
2013 / 2014										
High	8	7	6	0	6	1	1	0	0	0
Medium	40	39	37	0	37	2	2	0	0	0
Total	48	46	43	0	43	3	3	0	0	0
2014 / 2015										
High	3	2	2	0	2	0	0	0	0	0
Medium	40	24	19	0	19	5	5	0	0	0
Total	43	26	21	0	21	5	5	0	0	0
Overall Total	170	151	142	0	142	9	9	0	0	0
REGENERATION AND ECONOMIC DEVELOPMENT (RED)										
2013/2014										
High	6	6	5	0	5	1	1	0	0	0
Medium	43	40	27	0	27	13	13	0	0	0
Total	49	46	32	0	32	14	14	0	0	0
2014/2015										
High	0	0	0	0	0	0	0	0	0	0
Medium	18	14	12	0	12	2	2	0	0	0
Total	18	14	12	0	12	2	2	0	0	0
Overall Total	67	60	44	0	44	16	16	0	0	0
RESOURCES										
2012 / 2013										
High	31	31	29	0	29	2	2	0	0	0
Medium	121	121	119	0	119	2	2	0	0	0
Total	152	152	148	0	148	4	4	0	0	0
2013 / 2014										
High	19	19	19	0	19	0	0	0	0	0
Medium	109	109	102	0	102	7	7	0	0	0
Total	128	128	121	0	121	7	7	0	0	0
2014 / 2015										
High	7	5	3	0	3	2	2	0	0	0
Medium	97	58	47	0	47	11	11	0	0	0
Total	104	63	50	0	50	13	13	0	0	0
Overall Total	384	343	319	0	319	24	24	0	0	0
TOTAL COUNCIL										
2012 / 2013										
High	40	40	37	0	37	3	3	0	0	0
Medium	191	191	189	0	189	2	2	0	0	0
Total	231	231	226	0	226	5	5	0	0	0
2013 / 2014										
High	47	46	43	0	43	3	3	0	0	0
Medium	237	231	207	0	207	24	24	0	0	0
Total	284	277	250	0	250	27	27	0	0	0
2014 / 2015										
High	12	8	6	0	6	2	2	0	0	0
Medium	181	120	101	0	101	19	19	0	0	0
Total	193	128	107	0	107	21	21	0	0	0
OVERALL TOTAL	708	636	583	0	583	53	53	0	0	0

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Performance Indicators as at 31 December 2014

Efficiency			
Objective: To provide maximum assurance to inform the annual audit opinion			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Actual
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% Annually	62% at 31 December (on target)
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview	90% (Quarterly)	100%
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response	95% (Quarterly)	100%
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100%
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	100%
Quality			
Objective: To ensure that the service is effective and adding value			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Annually)	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% - Average score 4.6
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	47%
Cost			
Objective: To ensure that the service is cost effective			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	Yes (2012-13) Exercise to be completed again in 2015/2016

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