



Audit Committee

Date Monday 29 June 2015
Time 10.00 am
Venue Committee Room 1A, County Hall, Durham

Business

Part A

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

1. Apologies for absence
2. Minutes of the meeting held on 19 May 2015 (Pages 1 - 6)
3. Declarations of interest, if any
4. Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2015 - Report of the Corporate Director, Resources (Pages 7 - 24)
5. Annual Review of the System of Internal Audit 2014 / 2015 - Report of the Corporate Director, Resources (Pages 25 - 36)
6. Annual Audit Opinion and Internal Audit Report 2014 / 2015 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 37 - 66)
7. Draft Annual Governance Statement 2014 / 2015 - Report of the Corporate Director, Resources (Pages 67 - 88)
8. External Audit Progress Report - Report of the External Auditor (Pages 89 - 104)
9. Compliance with International Auditing Standards - Report of the Chair of the Audit Committee (Pages 105 - 128)
10. Internal Audit Plan, Strategy and Charter 2015 / 2016 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 129 - 168)
11. Confidential Reporting Code (Whistleblowing) - Report of Corporate Director, Resources (Pages 169 - 190)
12. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration

13. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

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

14. Protecting the Public Purse - Annual Report 2014/15 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 191 - 206)
15. 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
19 June 2015

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

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

Councillors L Armstrong, C Carr, J Carr, M Davinson, J Robinson,
O Temple and W Stelling

Co-opted Members:

K Larkin-Bramley and T Hoban

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DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Tuesday 19 May 2015 at 10.00 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:

Councillors J Rowlandson (Vice-Chairman), C Carr and J Hillary

Co-opted Members:

Mr T Hoban and Ms K Larkin-Bramley

Also Present:

Councillor A Surtees

The Chairman welcomed Councillor A Surtees, Cabinet Support Member to the meeting.

1 Apologies for absence

Apologies for absence were received from Councillors L Armstrong, S Forster, T Smith, O Temple and W Stelling.

2 Minutes

The minutes of the meeting held on 26 February 2015 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) with the date set when this would be reported back to Committee.

3 Declarations of interest

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.

Councillor C Carr declared an interest in Item No. 7 with respect to Licensing matters.

4 External Audit - Durham County Council Audit Strategy Memorandum Year Ended 31 March 2015

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

Catherine Banks, Mazars, highlighted the key points in the report including significant risks, value for money, fees and explained in detail the materiality section.

Resolved:-

That the report be noted.

5 External Audit - Durham County Council Pension Fund Audit Strategy Memorandum Year Ended 31 March 2015

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

Members discussed the potential future risks in relation to the pension fund with regards to funding cuts and further reductions in the workforce. Councillor Carr assured members that the Pension Fund Committee do regularly check that inputs are less than outputs and hold investors to account on their performance.

Mr Hoban referred to unquoted investments and queried why a third of investments were not quoted on the stock exchange. Ms Banks said that property type investments are not listed this way but investments are made in accordance with the agreed strategy. Ms Banks suggested that feedback could be given from the Corporate Director of Resources and it was agreed that a short presentation by officers to the Committee giving an update on the Pension Fund would be arranged.

Resolved:-

That the report be noted.

6 Strategic Risk Management Progress Report for the Quarter period January to March 2015

The Committee considered a report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and that gave an insight into the work carried out by the Corporate Risk Management Group during January to March 2015 (for copy see file of Minutes).

The Risk, Assurance and Governance Manager informed the Committee that there were 29 strategic risks with the removal of three since the last report. One new risk had been added.

Following a question from Mr T Hoban concerning risk 3 of Appendix 3, the Risk, Assurance and Governance Manager advised that wording would investigated.

Resolved:

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

7 Internal Audit Progress Report Quarter Ended 31 March 2015

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed members of the work carried out by Internal Audit during the period January to March 2015 (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 96% of the total plan, exceeding the target by 6%. The Committee were advised that there were no draft audit reports outstanding and that 94% of actions had been implemented. There had been two audits finalised in the quarter that had been given a limited assurance opinion. The Chief Internal Auditor and Corporate Fraud Manager informed the Committee that 100% of audit recommendations had been accepted by managers. Plans were underway to breakdown responses to surveys by service groupings, and this finer detail would highlight were there was a lack of response.

The Committee congratulated the Chief Internal Auditor and Corporate Fraud Manager and his team on the excellent performance achieved and the progress that continues to be made.

Resolved:

- (i) That the amendments made to the 2014/2015 Annual Audit Plan, be noted.
- (ii) That the work undertaken by Internal Audit during the period ending 31 March 2015 and the assurance on the control environment provided, be noted.
- (iii) That the performance of the Internal Audit Service during the period, be noted.
- (iv) That the progress made by service managers in responding to the work of Internal Audit, be noted.

8 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.

9 Internal Audit Progress Report Quarter Ended 31 March 2015

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.

Resolved:

That the report be noted.

Action Plan - Work of Audit Committee - Part A – 29 June 2015

Ref No.	Date of Meeting	Item No.	Title of Report	Action Required	By Whom	Report to Committee (date)/ implemented
1	26.02.15	6	Changes to the Code of Practice for Local Authority Accounting in the UK for 2014/15	A presentation to be delivered on the measurement of transport infrastructure assets and the move from historical costs to replacement costs.	Assistant Finance Manager – Corporate Finance	July 2015
2	19.05.15	5	External Audit - Durham County Council Pension Fund Audit Strategy Memorandum Year Ended 31 March 2015	A presentation on the Pension Fund and how it operates.	Strategic Finance Manager – Corporate Finance	September 2015

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AUDIT COMMITTEE**29 June 2015****Consideration of 'Going Concern Status'
for the Statement of Accounts for the year
ended 31 March 2015**

Don McLure, Corporate Director Resources

Purpose of the Report

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

Background

2. The general principles adopted in compiling the Statement of Accounts are in accordance with the 'Code of Practice on Local Authority Accounting 2014/15' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code defines proper accounting practices for local authorities in England, Wales, Scotland and Northern Ireland.
3. The Code requires that a local authority's Statement of Accounts is prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the authority will continue in operational existence for the foreseeable future. This means that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to curtail significantly the scale of the operation.
4. An inability to apply the going concern concept can have a fundamental impact on the financial statements.
5. However, it would be highly unusual for a local authority to have a going concern problem. There may be cases where part of an authority's operations cease to be viable or affordable. However, this will not give rise to a going concern issue for the authority; the impact would be restricted to only that part of the operation.
6. Transfers of services under combinations of public sector bodies similarly do not negate the presumption of going concern.

Key Issues

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

Historical Position

10. The assets and liabilities of the seven former District Councils were transferred to the new Unitary County Council on 1 April 2009. The following table shows the Net Assets of the Council at each year end up to 31 March 2014:

Year ended 31 March	Net Assets £m
2009	1,240.742
2010	900,094
2011	856,994
2012	571,779
2013	432,248
2014	658,017

11. External Audit also provide a 'Value For Money' conclusion at each year end which gives their opinion on whether the Council has put arrangements in place for securing economy, efficiency and effectiveness in its use of resources. The Council's arrangements are considered against two criteria:
 - *Securing financial resilience* – looking at the Council's financial governance, financial planning and financial control processes;
 - *Challenging how it secures economy, efficiency and effectiveness* – looking at how the Council is prioritising resources and improving efficiency and productivity.

12. The focus of the audit was to assess how the Council is addressing the increasing pressures and challenges over the next three to five years given the reduction in central government support and restrictions on council tax rises.
13. In their last Audit Completion Report for 2013/14 which was produced on 30 September 2014, External Audit stated, as evidence of securing financial resilience:

“The Council has good arrangements in place for managing its savings programme. Our testing has indicated that the savings plans we reviewed are established, well monitored and on track to be achieved. The robust approach in managing the savings programme gives assurance that the Council will achieve its 2014/15 savings targets. Already to date over 60 per cent of the target has been met and some £14.2m achieved in the first quarter. Since April 2011 the Council has now made almost £128 million of savings, which represents about 57 per cent of the projected savings target of £224 million.

The Council is in a strong position to continue to meet the financial challenges ahead through accurately forecasting the level of savings required, developing strong plans and robustly managing implementation including high volumes of consultation and communication. This position is further enhanced by the approach of planning and delivering medium term financial plan (MTFP) proposals early where possible. As a result we have not identified a significant risk to our VFM conclusion for securing financial resilience.”

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

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

14. External Audit further stated on 30 September 2014, as evidence of challenging economy, efficiency and effectiveness:

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

The Council has risen to the challenge well despite staff restructures and on-going retirements. The forward planning which has underpinned the MTFP process to date has been extremely effective and has enabled the Council to maintain its financial strength whilst still investing in key front line services and priorities including the capital

programme. Effective forward planning and robust assurance frameworks have ensured that the Council has been successful in delivering the necessary savings required to date.

We have not identified a significant risk to our VFM conclusion for challenging economy, efficiency and effectiveness.

Key areas of focus for the future include continued work on a strategic plan for the achievement of the savings required for 2015/16 to 2016/17 and beyond.”

Current Position

15. The Council holds general reserves of £28.134m at 31 March 2014 and reserves earmarked for specific future purposes, including those held for schools of £165.952m.
16. The Net Assets of the Council at 31 March 2014 amounted to £658,017m, an increase of £131.714m, which is mainly due to the decrease in its Pensions Liability for employees, for which statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.
17. Current forecasts of the likely position as at 31 March 2015 were reported to Cabinet in March 2015. At that time it was anticipated that the Council would hold general reserves of £28.916m and reserves earmarked for specific future purposes, including those held for schools would be £178.593m.
18. The Housing Revenue Account (HRA) forms part of the Council’s main accounting statements. General reserves held by the HRA as at 31 March 2014 amounted to £7.156m, and those held for specific purposes were £1.043m.

Future Plans

19. The Council approved its budget for 2015/16 and Medium Term Financial Plan to 2017/18 in February 2015.

Medium Term Financial Plan (MTFP) – 2015/16 to 2017/18

20. Looking back to the 2010 Comprehensive Spending Review (CSR), the Government outlined funding reductions of 28% that Local Government would need to face to contribute to eradicating the national budget deficit by the end of March 2015. The initial strategy for eradicating the national deficit was for public expenditure reductions to finance 80% of the plan with 20% coming from tax increases. Local Government faced the highest reductions in spending across the public sector.

21. The CSR 2010 forecasts have not been met by the Government and the Chancellor of the Exchequer's March 2015 Budget confirmed that the national budget deficit would not now be eradicated until 2018/19. The national budget deficit at the end of 2014/15 is forecast to be £91bn, a reduction of less than 50% since 2011/12. Government funding reductions for local government are now forecast to be 60%, a doubling of the figure first forecast after the 2010 CSR.
22. It is apparent therefore that the financial landscape for Local Authorities will continue to be extremely challenging until at least 2018/19., resulting in the longest period of austerity in modern times. The challenges faced are exacerbated in Durham for a range of reasons:-
 - (i) Government grant reductions are not being evenly distributed across the country, as evidenced by the Government's own Spending Power figures. Whilst deprived areas like Durham continue to experience Spending Power reductions above the national average, in some more affluent areas they are actually receiving spending power increases.
 - (ii) The Government's methodology for funding local authorities is inextricably linked to the performance of the local economy in the local authority areas via New Homes Bonus Funding arrangements, Business Rate Retention and Local Council Tax Reduction Schemes. Disappointingly, the link to a 'Needs Assessment' is no longer a key determinant of local authority funding.
 - (iii) Demand for services and support from local authorities in areas like Durham is increasing with Welfare Reforms continuing to have a significant impact on communities in more deprived areas.
23. Overall, it is forecast that the Council will need to save £225m over the 2011 to 2018 period. This figure is forecast to exceed £250m in 2018/19 based on the forecast public sector funding reductions outlined in the Government's March 2015 Budget Statement.
24. A sum of £136.9m of savings will have been delivered by the end of 2014/15. Forecasted savings over the MTFP (5) period 2015/16 to 2017/18 of £87.6m are required, with the 2015/16 budget requiring savings of £16.3m to achieve a balanced budget.
25. The Council's MTFP strategy for the last four years has been to protect front line services as far as possible and the 2015/16 proposals are in line with this strategy. This strategy is becoming increasingly difficult to maintain over time and the likelihood is that front line services will become increasingly impacted over the next three or four years. The Budget report to Full Council in February 2015 summarises how the main proposals are in line with the Council's overall strategy and have

been shaped by residents' and stakeholders' views with a high level analysis of the equalities impact.

26. In line with the MTFP (4) for the period 2014/15 to 2016/17, detailed savings proposals are only included for 2015/16, the first year of MTFP (5). This is due to the significant uncertainty in relation to finance settlements beyond 2015/16.
27. The final Local Government Finance Settlement published on 3 February 2015 only included grant allocations for 2015/16, with no indicative figures provided for later years. It is expected that longer term finance settlements may be received in the future. The forecasts included in MTFP (5) have been extrapolated from the Chancellor's "Red Book" forecasts for the public finances. The Chancellor's 'emergency' budget on 8 July 2015 may provide further information in this regard.
28. The Council's MTFP (5) is aligned to the Council plan, which sets out the Council's strategic service priorities and articulates the financial implications and impacts over a three year budgeting period, 2015/16 to 2017/18.
29. The MTFP provides a comprehensive resource envelope to allow the Council to translate the Council Plan into a financial framework that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes.
30. Looking back to MTFP (1) for the period 2011/12 to 2013/14, the following drivers for the Council's financial strategy were agreed by Cabinet on 28 June 2010. These drivers still underpin the strategy in MTFP (5):-
 - (i) To set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in Council Tax.
 - (ii) To fund agreed priorities, ensuring that service and financial planning is fully aligned with the Council Plan.
 - (iii) To deliver a programme of planned service reviews designed to keep reductions to front line service to a minimum.
 - (iv) To strengthen the Council's financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery outcomes.
 - (v) To ensure the Council can continue to demonstrate value for money in the delivery of its priorities.

31. The strategy the Council has deployed to date has been to seek savings from management, support services, efficiencies and, where possible, increased income from fees and charges to minimise the impact of reductions on frontline services as far as possible.
32. Throughout the period covered by the MTFP (1) through to MTFP (5), the totality of savings required has risen from £123m to £225m. It is clear that it will become increasingly difficult to protect frontline services going forwards.
33. To date the Council has implemented the agreed strategy very effectively:-
 - £136.9m of savings will have been delivered by the end of 2014/15.
 - Savings have been delivered on time and in some areas ahead of time. This is critically important, because slippage would mean that the Council would have to deliver higher savings over time.
 - The number of employees earning over £40,000 a year, since 2011 has been reduced by 31%. This has significantly reduced management costs.
 - Proportionally more than three times as many manager posts have been removed than frontline staff.
 - Whilst income from fees and charges has been increased, this has not resulted in the Council having the highest levels of fees and charges in the region, which is important given the socio-economic make-up of the county.
 - It was originally forecast in MTFP (1) that there would be a reduction in posts of 1,950 by the end of 2014/15. Based upon the 2015/16 savings plan it is forecast that post number reductions will still be around 1,950. Management of change policies and HR support have ensured that this degree of change has been managed effectively.
34. The importance of delivering savings early if practical to do so cannot be over emphasised. The generation of reserves in the form of cash limits has been essential in ensuring the delivery of the savings and enables a managed implementation of proposals across financial years.
35. In general, the Council has been fairly accurate in forecasting the level of savings required, which has allowed the development of strong plans and to robustly manage implementation, including extensive consultation and communication. This has put the Council in as strong a position as possible to meet the continued and enhanced challenges

across this medium term financial plan and beyond, where savings proposals will undoubtedly become more complex and difficult to deliver in future years.

36. It is clear that austerity will continue over the three year period of this medium term financial plan. Where the savings targets were declining year on year from the huge reduction of £66m in 2011/12, the Council is likely to face several years where the targets will be higher than those for 2015/16. Obviously, the fact that each year's reduction is on top of those of previous years is leading to a forecasted, cumulative total of £225m since 2011/12 up to 2017/18 and means that the Council continues to face a very considerable financial challenge.
37. In addition, Local Government generally is facing more uncertainty about future funding and absorbing more risks from Central Government.
38. Increased risk is arising from several sources:-
 - (i) Under the Local Council Tax Reduction Scheme, previous national risk arising from any increased numbers of benefits claimants has been transferred to Local Authorities since 2013/14. The risk is greater for authorities like Durham that serve relatively more deprived areas and have relatively weaker economic performance than the national average.
 - (ii) Business Rates Retention was introduced in 2013/14 to incentivise local authorities to focus on economic regeneration by being able to retain more business rates raised locally from new businesses. Economic regeneration has always been the top priority for the Council. Unfortunately, the changes again shift risk, once managed nationally, to Local Authorities should there be a downturn in the local economy and local business rate yield reduces.
 - (iii) Welfare Reform carries increased financial risk to the Council in areas such as the Benefits Service, homelessness and housing. Similarly Council Tax may become more difficult to collect, creating increased financial pressure.
 - (iv) Ongoing Council Tax capping restrictions – The Council's medium term financial planning is predicated on an annual 2% Council Tax increase; any Government imposed percentage reduction in this cap will create an annual pressure of circa £800,000 per 0.5% Council Tax reduction.
 - (v) Normal risks such as future actual price and pay inflation beyond MTFP forecasts and demographic pressures also will still apply.

39. Since clarity is expected to emerge following the Chancellor's emergency budget on 8 July 2015 regarding the future levels of local government funding from 2016/17, savings plans have yet to be fully developed beyond 2015/16 and therefore only one year's savings proposals are included in MTFP (5).
40. After taking into account base budget pressures, additional investment and savings, the Council's Net Budget Requirement for 2015/16 is £409.873m. The financing of the Net Budget Requirement is detailed below.

Financing of the 2015/16 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	100.240
Business Rates	54.809
Business Rates – Top Up Grant	60.491
Business Rates – Collection Fund Surplus	0.500
Council Tax	174.134
New Homes Bonus	8.322
New Homes Bonus Reimbursement	0.377
Education Services Grant	6.002
Section 31 – Small Business Rate Relief	2.398
Section 31 – Empty Property and Retail Relief	0.919
Section 31 – Settlement Funding Adjustment	1.681
TOTAL	409.873

41. The Government confirmed that Local Authorities would receive a Council Tax Freeze Grant equivalent to a 1% increase in Council Tax, if they agreed not to increase Council Tax in 2015/16. The grant for Durham would be an estimated £2.180m. The Government also confirmed that the Council Tax Referendum Limit for 2015/16 would be 2%. The Council decided to not accept the freeze grant and agreed a Council Tax increase of 1.99%, which was below the referendum limit, and will generate £1.218m of additional income.
42. The 2015/16 Council Tax Base which is the figure utilised to calculate Council Tax income forecasts, was approved by Cabinet on 17 December 2014 as 130,493.0 Band D equivalent properties. Based upon the Council's track record in collecting Council Tax from Council Tax payers, the tax base for Council Tax setting and income generation processes will continue to be based upon a 98.5% collection rate in the long run.

Capital Funding

43. The revised 2014/15 to 2017/18 capital budget was approved by Cabinet on 11 February 2015. County Council on 25 February 2015 approved the Capital Budget and financing for the period 2014/15 to

2017/18. Details of the current Capital Programme can be found at Appendix 8 of the County Council report.

44. Service Groupings developed capital bid submissions during the summer 2014 alongside the development of revenue MTFP (5) proposals. Prior to Cabinet's agreement on 11 February 2015 the Capital Member Officer Working Group (MOWG) chaired by the Leader of the Council, had considered the Capital bid submissions taking the following into account:-
 - (i) Service Grouping assessment of priority.
 - (ii) Affordability based upon the availability of capital financing. This process takes into account the impact of borrowing upon the revenue budget.
 - (iii) Whether schemes could be self-financing i.e. capital investment would generate either revenue savings or additional income to repay the borrowing costs to fund the schemes.
45. Whilst considering Capital bid proposals, MOWG have continued to recognise the benefits of committing to a longer term capital programme to aid effective planning and programming of investment. At the same time, MOWG also recognised the need for caution in committing the Council to high levels of prudential borrowing at this stage for future years.
46. Specific capital programmes were included in MTFP (4) financed from assumed allocations of capital grants. These allocations have now been confirmed.
47. In addition, the Council has received confirmation for additional capital grants for 2015/16 and has included indicative grants for 2016/17 in developing the MTFP (5) Capital Programme. It should be noted that funding for 'Disabled Facilities' and 'General Social Care' are financed from the Better Care Fund. If the actual allocations for 2016/17 vary from the forecast then the capital budget may be adjusted accordingly.
48. Capital receipts are generated from asset sales and from VAT shelter arrangements in relation to previous council housing stock transfers within the former district councils. Overall, it is estimated that £10m of capital receipts will be generated in 2016/17, which will support the additional schemes for approval.
49. An additional revenue budget of £2m has been included in the MTFP (5) for 2016/17 to support prudential borrowing. A proportion of this budget is being utilised to support the leasing costs of replacement vehicles and plant. The residual sum is available to support additional new schemes in the MTFP (5) Capital Programme.

50. A comprehensive 2015/16 capital programme was approved as part of MTFP (4) in line with the Council policy of developing a two year rolling capital programme. The need to continue to invest in capital infrastructure is seen as an essential means of maintaining and regenerating the local economy whilst supporting job creation. Additional investment will maintain and improve infrastructure across the County, help retain existing jobs, create new jobs and ensure the performance of key Council services are maintained and improved.
51. After considering all factors, including the availability of capital finance, the additional schemes were approved for inclusion in the MTFP (5) Capital Programme as shown in the following table.

Service Grouping	2015/16	2016/17
	£m	£m
ACE	0	2.100
CAS	1.424	5.635
Neighbourhoods	0.910	20.508
RED	4.325	15.684
Resources	0.250	1.755
Total	6.909	45.682

52. After considering all relevant factors above, and the additional schemes the revised capital budget and its financing will be as follows:-

New MTFP (5) Capital Programme

Service Grouping	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
ACE	3.741	3.768	2.100	0	9.609
CAS	57.976	34.366	8.159	0.315	100.816
Neighbourhoods	43.474	35.691	24.327	7.631	111.123
RED	36.809	61.307	18.382	0	116.498
Resources	7.253	13.348	6.614	0	27.215
TOTAL	149.253	148.479	59.583	7.946	365.261
Financed by					
Grants and Contributions	62.315	40.082	30.221	0.315	132.933
Revenue and Reserves	8.387	0.280	0	0	8.667
Capital Receipts	10.229	16.619	14.673	6.687	48.208
Borrowing	68.322	91.498	14.689	0.944	175.453
TOTAL	149.253	148.479	59.583	7.946	365.261

53. The council has been able to set a balanced budget for 2015/16 and has a clear plan in place to continue to deliver local services up to 2018. Based on this, it is clear that the County Council is a going concern.

Financial Reserves

54. Reserves are held:-
- (i) As a working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves.
 - (ii) As a contingency to cushion the impact of any unexpected events or emergencies e.g. flooding and other exceptional winter weather – this also forms part of General Reserves.
 - (iii) As a means of building up funds, ‘earmarked’ reserves to meet known or predicted future liabilities.
55. The Council’s current reserves policy is to:-
- (i) Set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should continue to be authorised to establish such reserves as required, to review them for both adequacy and purpose on a regular basis and then reporting to the Cabinet Portfolio Member for Finance and to Cabinet.
56. Aim to maintain General Reserves in the medium term of between 5% and 7.5% of the Net Budget Requirement which in cash terms equates to up to £31m. Each earmarked reserve, with the exception of the Schools’ reserve, is reviewed on an annual basis. The Schools’ reserve is the responsibility of individual schools with balances at the year end which make up the total reserve.
57. A Local Authority Accounting Panel Bulletin published in November 2008 (LAAP77) makes a number of recommendations relating to the determination and the adequacy of Local Authority Reserves. The guidance contained in the Bulletin “represents good financial management and should be followed as a matter of course”.
58. This bulletin highlights a range of factors, in addition to cash flow requirements that Councils should consider. These include the treatment of inflation, the treatment of demand led pressures, efficiency savings, partnerships and the general financial climate, including the impact on investment income. The bulletin also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term option. If Members were to choose to use General Reserves as part of the budget process appropriate action would need to be factored into the MTFP to ensure that this would be addressed over time so that the base budget is not reliant on a continued contribution from General Reserves.

59. The forecast balance on all reserves is reported to Cabinet every quarter as part of the Forecast of Outturn reports and Cabinet received the latest report on 18 March 2015. A range of reserves are being utilised to support MTFP (5). Details are as follows:-

- **MTFP Redundancy and ER/VR Reserve** – this reserve was originally created in 2010 with a balance of £26.9m. The reserve was replenished during 2013/14 when a further £15m was contributed to the reserve. At the end of 2014/15 it is presently forecast that the balance on the reserve will be £13m. Having this reserve in place will be a major factor in managing the savings realisation process effectively across the MTFP (5) period. This reserve will continue to be closely monitored.
- **Adult Demographic Reserve** – this reserve continues to be utilised to delay the impact of cost pressures, thus delaying the need to achieve additional savings. A sum of £4.15m is to be utilised in 2015/16.
- **Equal Pay Reserve** – The cost of successfully implementing Single Status in October 2012, in order to put in place a pay and grading structure that satisfied all equal pay legislation was greater than the £6.5m available budget. The Equal Pay Reserve is being utilised to delay the impact of this cost pressure thus delaying the need to achieve additional savings in the short term. It is forecast that the reserve will be utilised in both 2015/16 and 2016/17. The sum to be utilised in 2015/16 will be £4.536m.
- **Cash Limit Reserves** – Service Groupings continue to utilise Cash Limit Reserves to enable reprofiling of when MTFP savings are realised. A sum of £0.267m is to be utilised in 2015/16.

60. The table below details the known reserves being utilised to support MTFP (5).

Earmarked Reserves utilised to support MTFP (5) in 2015/16

Reserve	Sum Utilised in 2015/16
	£m
Adult Demographic	4.150
Equal Pay	4.536
Cash Limit	0.267
TOTAL	8.953

61. In addition to the above, the MTFP Redundancy and ER/VR Reserve will also be utilised during 2015/16 to support the delivery of MTFP (5) savings. Overall, it is forecast that over £10m of earmarked reserves will be utilised to support the 2015/16 budget.

62. The County Council agreed that the current Reserve Policy of maintaining the General Reserve of between 5% and 7.5% of the Net Budget Requirement is retained. This will result in a General Reserve range of up to £31m.
63. Based on the level of reserves held, the County Council has demonstrated robust financial management that underpins its status as a going concern.

Risk

64. The Council has previously recognised that a wide range of financial risks need to be managed and mitigated across the medium term. The risks faced are exacerbated by the localism of business rates and the localisation of council tax support. All risks will be assessed continually throughout the MTFP (5) period. Some of the key risks identified include:
- (i) Ensure the achievement of a balanced budget and financial position across the MTFP (5) period.
 - (ii) Ensure savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and staff.
 - (iii) Government funding reductions are based upon the December 2014 Autumn Statement. In recent years the level of funding cuts required for Local Government have increased every year.
 - (iv) The localisation of council tax support passes the risk for any increase in council tax benefit claimants onto the council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers.
 - (v) The Council retains 49% of all business rates collected locally but is also responsible for settling all rating appeals including any liability prior to 31 March 2013. Increasing business rate reliefs and appeals settlements continue to make this income stream highly volatile and will require close monitoring to fully understand the implications upon MTFP (5).
 - (vi) The MTFP (5) model builds in estimates of pay and price inflation. Although price inflation levels are reducing, there could be a significant impact if the Low Pay Commission agrees to large increases in the minimum wage. Many Council contractors would be likely to request above inflation contract price increases if the minimum wage increased at a level above inflation.

- (vii) Following the General Election on 7 May 2015 it is likely that there will be a Comprehensive Spending Review in the autumn of 2015. The impact of this will need to be considered as part of the development of MTFP (6) for the period 2016/17 to 2018/19.

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

Housing Revenue Account (HRA)

66. The Council transferred its housing stock of circa 18,500 dwellings to the County Durham Housing Group (CDHG) on 13 April 2015, as agreed with the Department of Communities and Local Government. Therefore, for the majority of 2015/16, Durham County Council will no longer maintain a statutory ring-fenced Housing Revenue Account.
67. Regulations require that tenants receive at least four weeks' notice of a change in housing rents and therefore Durham was required to set rents for the final time for 2015/16. In future, this will be the responsibility of the County Durham Housing Group Limited.
68. Under current national rent policy the Government sets a guideline increase or decrease based on the consumer price index in the previous September plus 1%. The increase in rents for Durham County Council tenants in 2015/16 consists of the consumer price index as at September 2014 of 1.2% plus a real time price increase of 1%.
69. The HRA currently includes responsibility for managing and maintaining around 3,200 garages which generate income to the account. For 2015/16 increases in garage rents are linked to the CPI as at September 2014 of 1.2% plus 1 percentage point (for consistency with the annual rent increase for dwellings). Private tenants are required to pay VAT on garage rents, whilst Council tenants are excluded from the VAT charge. The weekly charges for 2015/16 (based on 52 weeks) are £7.26 (for council tenants who are exempt from VAT) and £8.71 (for private tenants where we need to charge VAT).

Revenue and Capital Budget

70. Although the Stock Transfer took place in April 2015 the Council was required to report the notional HRA budget is for 2015/16. The revenue budget and capital budget for 2015/16 are as follows:

	£m
Revenue Budget	33.759
Capital Budget	23.816

71. The individual management fees for the four providers is follows:

	£m
Dale Valley Homes	5.657
East Durham Homes	12.092
Durham City Homes	8.434
County Durham Housing Group	7.576

72. Transfers of services under combinations of public sector bodies do not negate the presumption of going concern. Based on this, there is no information which would indicate that the County Council is not a going concern.

Conclusion

73. When approving the accounts, the Audit Committee members being those charged with governance for the Council will need to consider which of the following three basic scenarios is the most appropriate:

- the body is clearly a going concern and it is appropriate for the accounts to be prepared on the going concern basis;
- the body is a going concern but there are uncertainties regarding future issues which should be disclosed in the accounts to ensure the true and fair view;
- the body is not a going concern and the accounts will need to be prepared on an appropriate alternative basis.

74. Based on the assessment undertaken, in my view:

- the Council has a history of stable finance and ready access to financial resources in the future,
- there are no significant financial, operating or other risks that would jeopardise the County Council's continuing operation.
- the Housing Stock Transfer, although a transfer of a function, does not impact on the presumption of the Council's ability to continue to operate.

75. Therefore the Council is a going concern and it is appropriate for the Statement of Accounts to be prepared on that basis.

Recommendation

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

Background papers

- (a) County Council – 25 February 2015 – General Fund Medium Term Financial Plan, 2015/16 to 2017/18 and Revenue and Capital Budget 2015/16 and 2015/16 Council House and Garage Rent Proposals
- (b) County Council – 25 February 2015 – Budget 2015/16. Report under Section 25 of Local Government Act 2003
- (c) Cabinet - 18 March 2015 - Forecast of Revenue and Capital Outturn 2014/15 for General Fund and Housing Revenue Account – Period to 31 December 2014
- (d) Annual Completion Report – 2013/14 – Durham County Council

Contact: Hilary Appleton Tel: 03000 266239

Appendix 1: Implications

Finance -

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

Staffing -

None

Risk -

None

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

AUDIT COMMITTEE

29 June 2015

**Annual Review of the System of Internal Audit 2014 / 2015**

Report of Don McLure, Corporate Director of Resources

Purpose of the Report

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

Background

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

Current Arrangements for Internal Audit

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

7. The Chief Internal Auditor and Corporate Fraud Manager reports directly to the Corporate Director, Resources but also has direct access to the Chief Executive and the Audit Committee.
8. At the start of 2014/15 the team comprised of 21 approved posts (19.42FTE) plus the Chief Internal Auditor and Corporate Fraud Manager. This team delivered work for the Council as well as work for external clients including Durham Police and Durham and Darlington Fire Authority.
9. The Vision and Strategy for Internal Audit is described in the Annual Internal Audit Plan and Strategy, the Internal Audit Service Terms of Reference (TOR) within the Internal Audit Charter and it outlines the status of the Section within the organisation and defines the principles of how it operates within the Council. The TOR provides appropriate arrangements to ensure that the Section is sufficiently independent and objective and that there is access to all information and people required to discharge its responsibilities. The requirements of the new Public Sector Internal Audit Standards (PSIAS) are reflected in the Internal Audit Charter which was presented to the Audit Committee in June 2014 and a further update is to be provided to the Committee in June 2015.
10. Arrangements for investigation work are defined in the Council's policies and procedures for Counter Fraud and Confidential Reporting (Whistleblowing) and these are reported to Corporate Management Team and the Audit Committee in the Annual Protecting the Public Purse Report. The Council has also created a Corporate Fraud Team from the transfer of Housing Benefit Fraud employees into the Division.
11. To examine the effectiveness of the Internal Audit Section for the past year this annual review considered key elements and assessed their contribution to enabling the Section to fulfil its responsibilities. These were:
 - The structure and resourcing level, including qualifications and experience of the audit team.
 - The extent of conformance with the PSIAS in producing quality work.
 - Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis.
 - The overall performance of the Internal Audit team.

Resourcing, Qualifications and Experience

Resourcing

12. During 2014/15 there was no staff turnover. The establishment has increased with an additional Principal Auditor returning from a secondment within Corporate Finance. As a result there were on average 20 audit employees available for audit work during the year.

13. Audit work was actively managed within the resource available and progress toward delivery reviewed regularly. The focus was maintained on clear scoping and coverage for assurance activity; timing of work and availability of clients; and control over the allocation of resources for investigation referrals and in-year requests for support. Alternative means for gaining assurance were assessed and used where appropriate to support audit opinions. Progress and outcomes were regularly reported to Clients, Service Grouping Management Teams, Corporate Management Team and to the Audit Committee.
14. The audit plan was delivered at the year end, with a minimum need to carry forward audit work from 2014/15 into next year except where draft reports still require management responses to enable final reports to be issued or where services have asked for timings and/or scope changes in work. Some work was deferred following review of the audit plan and these have been agreed at the Audit Committee throughout the year.

Structure

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

Audit and Risk Management

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

Training and Experience

17. The training and development within the Division encourages development through both the Institute of Internal Auditors (IIA) qualification and continuing professional development.

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

Experience 2014/15

Auditing Experience	No	%	Local Government Auditing	
			No	%
Up to 1 Year	0	0	0	0
1 to 2 Years	0	0	0	0
2 to 5 Years	1	5	1	5
5 to 10 Years	5	25	5	25
Over 10 Years	14	70	14	75
Total Employees	20	100	20	100

Qualifications

Accountants (CCAB)	7
Institute of Internal Auditors – Training	2
Certified Information System Auditor – Training	1
Association of Accounting Technicians	9
Association of Accounting Technicians – part qualified	1
Total	20

20. The level of experience of audit employees was increased with those training who completed the IIA certificate course and experience log. The skills level available remains high based on the substantial number of employees with over 10 years' experience and competencies in specific areas.
21. At 31 March 2014 the Section will have two vacancies. This is equivalent to 2.0 full time posts. This is reflected in the audit plan proposed for 2015/16 with the intention of deleting these posts as a contribution to Council MTFP savings. The composition and delivery of the audit plan for 2015/16 will not be affected by this reduction.

Conformance with UK Public Sector Internal Audit Standards (PSIAS)

22. Internal Audit completed a self-assessment against the key elements of the PSIAS and is attached as Appendix 2. For 2014/15 this demonstrated that the Section was generally conforming with the Code's requirements. A service improvement plan is attached at Appendix 2.
23. All employees were introduced to the ethics requirements (as described in PSIAS) in relation to the professional role of an auditor. While the basis of this remains the same as in previous years employees were also required to read and sign a document confirming they understand the ethics and behaviour requirements. All employees provided an annual declaration of interests for consideration to enable management to ensure that there was sufficient information to address any potential conflicts of interest which arise during audit activities. Employees are obliged to raise any conflicts or issues with management during the year. Records are maintained for this.
24. Quality of audit work was actively managed in year and the achievement of quality standards enabled the Chief Internal Auditor and Corporate Fraud Manager to confirm work has been completed in conformance with PSIAS. Individual audits had agreed and clear scope; activity was reviewed and assessed for its effectiveness and quality during and after completion of work; and customer feedback was received from post audit questionnaires. An annual report for Corporate Directors was produced for 2014/15 and was presented as part of the Internal Audit planning meetings with all Corporate Directors.
25. Liaison with the External Auditor was productive and audit plans were coordinated within this process. The two services continue to share information and to use this to inform risk assessments and direct audit activity.

Ensuring the Effective Prioritisation of Internal Audit Work

26. Prioritisation of the work of the Section is achieved by the development and delivery of an annual risk based audit plan. This describes the assurance plans for the Section and includes capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate. The plan is based on a mix of different types of audit and investigation work to ensure that assurance over the Council's systems of governance, risk management and internal control is obtained from a number of different directions and sources.
27. The section's methodology for establishing audit priorities is aligned with the Council's governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs to support the Council's overall objectives. The approach is set out in the Internal Audit Plan presented and agreed by the Audit Committee.

28. It is considered that the 2014/15 Internal Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with Senior Management and the Audit Committee. It was based on reasonable estimates of available resources and with management requests and fraud investigations and referrals the plan is largely on track to be delivered. The Internal Audit Plan for 2015/16 will be presented to Audit Committee in June 2015.

Performance Measures

29. Performance Management of the Section and for individual auditors is focused on deployment of auditor time to best effect. This has three main elements related to how much time is spent auditing, completion of audits within set timescales and effectiveness of time deployed. The key deliverable for the Section is the completion of the Internal Audit Plan within the year.
30. Performance and progress are monitored through Key Performance Indicators (KPIs). These are agreed with the Audit Committee as part of the Internal Audit Charter. And allow for benchmarking to assess effectiveness. Comparative figures are used to consider areas for closer review.
31. The key performance measures for the Section over the last 12 months are:

KPI	Measure of Assessment	Target	Actual as at 31 March 2015
Planned audits completed	% of plan achieved.	90%	96%
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure	90%	100%
Timeliness of Final Reports	% of final reports issued within 14 Calendar days of receipt of management response	95%	100%
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95%	100%
Post Audit Customer Surveys	% of customers scoring at least 4 out of 5	100%	100%
Customers providing feedback responses	% of customers returning satisfaction returns	70%	47%

32. For customer satisfaction there has been positive feedback on a number of specific assignments and this is reflected in the results from customer satisfaction questionnaires. A number of other positive comments were received from Service Groupings who commended the flexibility of the audit team was supporting them in addressing emerging issues as well as adapting audit plans to better address Service risks.
33. However the Service is concerned about the low level of customer satisfaction questionnaire returns from Services and as a result the indicator was based on a small return. Plans to carry out a programme of follow up with Services are intended to be carried out.
34. The issuing of draft reports is an assessment of the timeliness of the audit activity from the completion of a piece of work to the issuing of a draft report for consideration and response. This has improved in 2014/15 with all reports being issued within the set timescales.
35. No concerns have been raised in relation to the application of professional standards for audit work and there have been no formal complaints.

Implementation of Recommendations

36. The process for monitoring implementation of recommendations continued to build on improvements last year and there are good levels of engagement from all services across the Council. Working closely with managers allowed for greater understanding of the challenges faced and in ensuring practical recommendations were made and alternative solutions considered in order to address risk.
37. Internal Audit continue to engage with the Council's quarterly reporting process and deliver regular quarterly reports to Service Grouping Management Teams and to Corporate Management Team. This process has helped to ensure that the time spent on the Service is targeted on key issues and that appropriate support and advice is offered at the right time.
38. The Audit Committee are provided with regular updates from the Section during the year and have the opportunity to challenge progress and outcomes. This includes asking senior managers to provide updates as necessary where there is felt of be a significant risk or concern. This process has provided an effective method for obtaining assurance during 2014/2015.

Audit Committee

39. The system of Internal Audit includes the role of the Audit Committee and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in the ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for the Audit Committee remained the same during 2014/2015.

40. Audit Committee requested reports from management in response to issues raised in Audit reports, demonstrating the positive steps being taken by the Committee to seek assurance over actions being taken to respond to concerns.

Summary and key priorities

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

Recommendation

42. Members are asked to note the findings and conclusions of the 2014/2015 review of the effectiveness of the system of Internal Audit contained within this report.
43. Members are asked to note the Service Improvement Plan for Internal Audit as a result of this assessment detailed in Appendix 2.

Contact: Paul Bradley

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Appendix 1: Implications

Finance

None

Staffing

None

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Human Rights

None

Consultation

None

Procurement

None

Disability Discrimination

None

Legal Implications

Compliance with Accounts and Audit Regulations 2011

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REF	AREA FOR IMPROVEMENT	PSIAS REF	ACTION REQUIRED	RESPONSIBLE OFFICER	TARGET DATE	PROGRESS UPDATE
1.	Audit responsibilities are to be rotated periodically	1130	Rotation of auditors to deliver assignments is routine however rotation at Principal Auditor level to be complete in April 2015	Paul Bradley	April 2016	This has been achieved at April 2015. To be maintained on the action plan for consideration as resources are continually reviewed.
2.	External Assessment to be completed once every five years	1312	Formally agree and external assessor and the date for the assessment. Formally agree the form and scope of the external assessment.	Paul Bradley	March 2016	Discussions have taken place with North Tyneside, South Tyneside and Newcastle to enter into a quadripartite agreement to complete external assessments. To be formally documented.

REF	AREA FOR IMPROVEMENT	PSIAS REF	ACTION REQUIRED	RESPONSIBLE OFFICER	TARGET DATE	PROGRESS UPDATE
3.	Development of the Council's Assurance Framework	2010	Whilst there is an Assurance Framework that supports the Annual Governance Statement. The Audit Plan 2016/17 is to be developed referencing the 'Assurance Map' that details where the Council gets its assurance supported by the Council's Assurance Framework.	Paul Bradley	March 2016	
4.	The Chief Internal Auditor should share information and coordinate activities with internal and external providers of assurance	2050	Further development of the Assurance Map will identify those areas of assurance where further work should be developed e.g. Ofsted, Care Quality Commission etc.	Paul Bradley	March 2016	To support the Assurance Map. This work will also support the Annual Audit Report for 2015/2016.

AUDIT COMMITTEE**29 June 2015****Annual Audit Opinion and Internal Audit Report 2014/2015**

Report of Don McLure, Corporate Director, Resources

Purpose of the Report

1. This report provides members with the Chief Internal Auditor and Corporate Fraud Manager's assurance opinion on the adequacy and effectiveness of the Council's internal control environment.
2. The report also presents the Annual Internal Audit Report for 2014/2015.

Background

3. The Public Sector Internal Audit Standards (PSIAS) established in 2013 are the agreed professional standards for internal audit in local government. PSIAS was the Code under which the Internal Audit Service operated during 2014/2015. It sets out the requirement for the Chief Internal Auditor and Corporate Fraud Manager ("Chief Audit Executive") to report to officers and the Audit Committee ("The Board") to help inform their opinions on the effectiveness of the Internal Control environment in operation within the Council.
4. The Annual Internal Audit Report should therefore be considered in the context of fulfilling the above requirement.
5. The annual internal audit opinion contributes to the completion of the Annual Governance Statement (AGS). It is specifically timed to be considered as part of the Council's annual review of governance and internal control and is reported alongside the Review of Effectiveness of Internal Audit.
6. Internal Audit therefore has a professional duty to provide an unbiased and objective view of the Council's Internal Control environment. Internal Audit is independent of the processes that it evaluates and as such reports to Corporate Management Team and the Audit Committee.
7. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.

8. Based on the work undertaken during the year, Internal Audit is able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2014/2015.
9. This moderate opinion is the same as 2013/2014 and provides assurance that there is a sound system of control in place however there are some weaknesses and evidence of ineffective controls. Despite this similar opinion, given the constant extent of change the Council continues to face, the reduction in resources and the ever increasing diverse nature of the Internal Audit Plan the sustainment of this assurance opinion should be regarded as positive. This is supported by the improvements made over recent years particularly within key financial systems where significant improvements have been made since the Council's formation following Local Government Reorganisation and whilst further work is required this is actively being pursued through relevant working groups also supported by Internal Audit.
10. There are no adverse implications for the Authority's Annual Governance Statement arising from any of the work that Internal Audit has undertaken in 2014/2015. All of the risks raised within Internal Audit reports have been accepted. Internal Audits recommendations, or alternative proposed actions made by Management in response to the risk issues, have been agreed to be implemented. Full implementation of the agreed actions will realise the benefits of the control improvements detailed in each individual audit report. Internal Audit continue to follow up the implementation of its recommendations, or any agreed alternative actions, with the relevant responsible officers, as soon as is practically possible, after the target implementation dates. Again it should improvement is noted in the implementation rate (94%) and agreement to recommendation that the service is making (100%). Progress on the implementation of audit recommendations will continue to be reported through CMT and the Audit Committee in 2015/2016.

Recommendation

11. Members are asked to note the content of the Annual Internal Audit Report and the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's Internal Control environment for 2014/2015.

Contact: Paul Bradley

Tel: 03000 269645

Appendix 1: Implications

Finance

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

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

Compliance with the Accounts and Audit Regulations 2011

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INTERNAL AUDIT

ANNUAL REPORT

2014 / 2015

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2. Service Provided and Audit Methodology
3. Types of Audit Work Carried Out
4. Audit Quality Assurance Framework
5. Summary of Work Carried Out
6. Key Areas for Opinion
7. Audit Opinion Statement

APPENDICES

Appendix A: Performance Indicators

Appendix B: Key Advice and Consultancy Work

Appendix C: Control Issues, Limited Assurance Opinions and Fraud and Irregularity

Appendix D: Assurance Opinion Methodology

Appendix E: Summary of Assurance Work 2014/2015

1. Introduction and Background

- 1.1 This report summarises the work carried out by Internal Audit during the financial year 2014/15 and provides assurance on the effectiveness of the Council's control environment, risk management and corporate governance arrangements in place during the year.
- 1.2 The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires Local Authorities 'make arrangements for the proper administration of their financial affairs and ensure that one of its officers has responsibility for the administration of those affairs'.
- 1.3 The Accounts and Audit (England) Regulations 2011 requires the Council to, "undertake an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with proper practices in relation to internal control". The Council has delegated this responsibility to the Corporate Director, Resources and the Internal Audit and Risk service carry out the Internal Audit role.
- 1.4 From 1 April 2013 Public Sector Internal Audit Standards (PSIAS) define the proper internal control practices alongside the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note.
- 1.5 This report fulfils the requirement of PSIAS 2450 for the Chief Internal Auditor and Corporate Fraud Manager ("Chief Audit Executive") to provide an annual report to the Audit Committee ("The Board") timed to support the Annual Governance Statement (AGS).
- 1.6 The report sets out:
 - The annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment).
 - A summary of the audit work carried out from which the opinion is derived.
 - Details of the quality assurance arrangements in place during 2014/2015 which incorporates the outcomes of the last annual review of the effectiveness of Internal Audit carried out by the Audit Committee in June 2014. A review of effectiveness against compliance with the PSIAS.

2. Service Provided and Audit Methodology

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

3. Types of Audit Work Carried Out in 2014/2015

Assurance Reviews

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

Advice and Consultancy Work

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

Counter Fraud Work

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

Grant Certification

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

4. Audit Quality Assurance Framework

- 4.1 The Internal Audit Charter sets out the performance and quality framework for the service. This reflects the requirements of the PSIAS.
- 4.2 Key elements of the quality assurance framework operating during 2014/2015 include:
- Independent quality reviews undertaken by audit managers as a matter of routine and periodically by the Chief Internal Auditor and Corporate Fraud Manager to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained.
 - Key contacts, determined by appropriate Heads of Service, agree the Terms of Reference for each audit review and are able to challenge the findings and content of draft reports prior to them being finalised.
- 4.3 A summary of our performance against agreed indicators is provided in Appendix A.
- 4.4 It should be noted that the audit planning year was revised in 2014 and the approved audit plan for 2014/2015 covered work to be carried out in the period July 2014 to March 2015. The actual performance shown therefore does not relate to a full 12 months but to the period July 2014 to March 2015.
- 4.5 As at the 31 March 2015, the % of planned work completed indicated that the service has achieved its target to complete 90% of the audit plan in terms of productive days.
- 4.6 The Accounts and Audit (England) Regulation 2011 requires the Council to carry out an annual review of the effectiveness of Internal Audit. The outcome is reported to Audit Committee. This was last completed in June 2014 and will be performed again in June 2015. The assessment involves an evaluation against the requirements of PSIAS. Overall the Committee concluded that the service was effective and reliance could be placed on the audit opinion provided.
- 4.7 It is the intention of the Service to have an external assessment completed via peer review in early 2016, the results of which will be reported to management and the Audit Committee.

4.8 A further review of the effectiveness of the internal audit service has been completed and is informed by a formal review of the service in terms of its performance, skills and experience mix and against PSIAS completed by the Chief Internal Auditor and Corporate Fraud Manager and has been reviewed by the Corporate Director, Resources. An action plan has been produced to address areas of non or partial compliance and improvements that are required in order to strive towards full compliance. The outcomes of this latest review will be reported to Audit Committee.

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

5.1 The main areas of improvement were identified through the last annual review of the effectiveness of the service related to a number of areas of PSIAS compliance and progress has been made in all areas, however where further work is required these have again been highlighted in the 2015/16 action plan. The areas highlighted in the last review and the progress made are highlighted below:

- PSIAS Ref 1130 – Audit Responsibilities are to be rotated periodically.

On 1 April 2015 audit responsibilities were reallocated across all at Principal Auditor and Senior Auditor level. Work is regularly allocated on the basis to ensure individual auditors gain experience in a variety of areas in order to maintain their training and development. The rotation of responsibilities will now occur annually.

- PSIAS Ref 1230 – Internal Auditors Programme of Continuing Professional Development.

From June 2014, quarterly internal CPD sessions have been organised and delivered by the Chief Internal Auditor and Corporate Fraud Manager. On occasion sessions have been delivered by specialists from service areas. For example in March 2015 Corporate Procurement delivered a session on new procurement rules that have come into force. Additionally external training is provided for where required.

- PSIAS 1220 – Terms of Reference to be drafted for all audit engagements

From 2014/15 audit year all audit engagements have Terms of Reference and are evidenced via quarterly reviews by Audit Manager and Chief Internal Auditor and Corporate Fraud Manager.

- PSIAS 1300 – Development of a Quality Assurance and Improvement Programme (QAIP)

From 1 July 2014 a QAIP was established documented in an Internal Audit Manual. Audit Managers and Chief Internal Auditor and Corporate Fraud Manager conduct quarterly review of audit assignment files to ensure compliance with PSIAS and that the Audit Manual is consistently followed. Any common learning is shared at quarterly CPD meetings and longer term issues are added to the Service Improvement Group Agenda.

- PSIAS 1312 – An External Assessment of the Internal Audit Service compliance with PSIAS to be completed once every five years.

An external assessment has been arranged for early 2016 which will take place via peer review by one of Newcastle City Council, North Tyneside Council or South Tyneside Council, with a view that this will be reciprocated by Durham County Council across one of the other three authorities. The exact date of the assessment is to be confirmed.

- PSIAS 1320 – Formally report the results of the Quality Assurance and Improvement Programme. (QAIP)

The results of the QAIP are reported as part of this document and the internal self-assessment of the service compliance with PSIAS which is reported separately.

- PSIAS 2010 – Development of the Council's Assurance Framework

A first draft of an 'Assurance Map' has been developed with further work being completed in 2015/16 so that further reliance can be placed on it in developing future audit work.

- PSIAS 2050 – The Chief Internal Auditor should share information and coordinate activities with internal and external providers of assurance.

The first draft of the 'Assurance Map' has assisted in developing areas where further work can be focused, particularly with a view to ensuring all external inspections or reviews are captured so as to avoid any potential duplication of work.

- PSIAS 2110 – Internal Audit should evaluate the design, implementation and effectiveness of the Council’s ethics and its related ethics and its related objectives, programmes and activities.

Work has started on creating a programme of work that evaluates the Councils ethics. An initial review of the Council’s Gifts and Hospitality registers was conducted in 2014/15 and further work is planned for 2015/16.

- PSIAS 2410 – Audit reports to include acknowledgement of satisfactory and good performance where it is noted.

All audit reports from 1 July 2014 have been reviewed by the Chief Internal Auditor and Corporate Fraud Manager prior to their issue to clients. This has ensured upon review that satisfactory and good performance is noted in all reports where it is noted.

- 5.2 The service has a trainee IT auditor to provide business continuity to the service and it is pleasing to report that they are progressing well with their final exams to be completed in June 2015.
- 5.3 A specialist Procurement and Contract Auditor was appointed and has been in post from January 2014. This has added value to both the service and to Corporate Procurement who have found their experience and knowledge to be beneficial in developing improvements across the Council in matter relating to procurement.
- 5.4 The Corporate Fraud Team has been in place for over 12 months and has begun to influence pro-active fraud work and promote the counter fraud strategy across the organisation.
- 5.5 In addition one employee has successfully achieved the Institute of Internal Auditors (IIA) Diploma in Internal Auditing qualification and is progressing to the next stage during the year adding to the professional diversity of the section and another employee sitting their final papers in June 2015 in order to become a qualified IIA member.

6. Summary of Audit Work Carried Out

Assurance Work

- 6.1 Our work programme for the financial year 2014/2015 included work carried out in April to June 2014 from the 2013/2014 audit plan and work carried out between July 2014 and March 2015 from the approved 2014/2015 audit plan, therefore giving a full 12 months coverage.

6.2 A summary of assurance work completed during the year is attached at Appendix E.

Advice and Consultancy Work

6.3 All planned reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks and the development of controls. This evaluation and challenge supports the effective and efficient use of resources and value for money (VFM).

6.4 Through our advice and consultancy work we are able to add value proactively and reactively.

6.5 Reactive work involves positively responding to ad-hoc requests for advice and reviews added to the audit plan to address new or emerging issues and risks. It also includes responding to potential fraud and irregularities and we ensure that all such incidents are properly investigated and that appropriate action is taken by managers, whether or not fraud or malpractice is proven. This work is delivered from the contingency provision within the audit plan.

6.6 As summary of key advice and consultancy work completed during the year is attached at Appendix B.

7. Key Areas for Opinion

7.1 The three main areas of the control environment considered when determining our assurance opinion are:

- Financial Management
- Risk Management
- Corporate Governance

7.2 Assurance has been provided on some aspects of all key financial systems during the year. It is acknowledged that good progress continues to be made during the year in improving the operational efficiency and performance of key financial systems. However, testing of the control environment in operation during the year still highlighted some weaknesses in controls.

7.3 Independent assurance on the effectiveness of the Council's risk management arrangements has been provided by consideration of the adequacy and effectiveness of operational risk management through the risk based audit approach and the CRA methodology applied to individual audit assignments. This in turn provides some assurance on the management of related strategic risks.

- 7.4 A number of audits have been carried out during the year to provide independent assurance on the effectiveness of specific key corporate governance arrangements. In addition, compliance with relevant key council policies and procedures has also been considered as part of the risk based approach to the audit service related planned assurance reviews.
- 7.5 Key issues arising from audit work where controls have improved or further improvements have been identified are summarised in Appendix C.
- 7.6 The implementation of audit recommendations made to improve the control environment helps to embed effective risk management and strengthen the effectiveness of the Council's corporate governance arrangements. Details of progress made on the implementation of all High and Medium ranking recommendations are reported quarterly to Corporate Directors and the Audit Committee. A summary of progress on actions due at the 31 March 2015 is given 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)	4	4	0	0	0
Children and Adult Services (CAS)	72	70	2	2	0
Neighbourhood Services (NS)	177	168	9	9	0
Regeneration and Economic Development (RED)	64	53	11	11	0
Resources (RES)	382	362	20	20	0
TOTAL	699	657	42	42	0

- 7.7 The % of audit recommendations implemented by service managers within agreed target dates continues to improve and the Council out performs many of its benchmarked comparators. This statistic stands at 94% before revised targets are incorporated, this increases to 100% if revised to include revised target dates.

8. Audit Opinion Statement

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

- 8.2 Internal Audit is required to provide an opinion on the Council's risk management, control and governance process.
- 8.3 In giving this opinion it should be noted that assurance can never be absolute and therefore only reasonable assurance can be provided that there are no major weaknesses in these processes.
- 8.4 In assessing the level of assurance to be given, we based our opinion on:
- All of the audit work undertaken during the year.
 - Follow up actions on audit recommendations.
 - Any significant recommendations not accepted by management and the consequent risk.
 - The effects of any significant changes in the Council's systems.
 - Matters arising from previous reports to the Audit Committee.
 - Any limitations which may have been placed on the scope of the internal audit.
 - The extent to which resource constraints may impinge on internal audit's ability to meet the full audit needs of the Council.
 - The outcomes of the audit quality assurance process.
 - The reliability of other sources of assurance considering when determining the scope of audit reviews.
- 8.5 Consideration of the direction of travel on the adequacy and effectiveness of the control environment since becoming a unitary authority. We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Councils system of internal control. Based on the work undertaken, we are able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2014/2015. This moderate opinion ranking provides assurance that there is a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls.

- 8.6 This overall 'moderate' opinion reflects the same overall opinion as the last five years and reflects the widening scope of internal audit, with new audit areas being undertaken each year as part of the agreed audit strategy to review key service activities over a five year rolling programme.
- 8.7 The adequacy and effectiveness of key financial controls is a major consideration in our opinion. Whilst good progress continues to be made during the year, including improvements to a number of key financial systems which has provided a better operational platform for effective financial risk management, there has been however some key controls not operating effectively in 2014/2015 hence the same 'moderate' opinion on the financial control environment as the last four years. The expectation is that the financial control environment will continue to improve as new systems and processes become more robust and the recently refreshed and enhanced financial management standards become embedded.
- 8.8 All audits with a limited assurance opinion have disclosed at least one high risk finding or a number of medium priority recommendations and these are subject to a follow up audit six months after the final report has been issued and are reported to Audit Committee on an exception basis.
- 8.9 Where Internal Audit has identified areas for improvement, recommendations are made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within target dates is high, in many cases there is a time gap between a control weakness being reported and the date determined by management for when the action can practically and realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion. Work is ongoing with management with regard to timely and realistic implementation dates for actions being agreed.

PERFORMANCE INDICATORS

Appendix A

Efficiency		Objective: to provide maximum assurance to inform the annual audit opinion	
KPI	Measure of Assessment	Target (Frequency of Measurement)	Actual as at 31/03/2015
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% (Annually)	96%
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)	Actual as at 31/03/2015
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 responses	% of Customer returning satisfaction returns	70% (Quarterly)	47%

KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2014/2015

Information Governance

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

Grant Work

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

Review of Contracts (Ongoing)

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

Internet and Intranet Development

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

Oracle R12 / Oracle Project Board (Ongoing)

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

Debtors Working Group (Ongoing)

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

Invoice Payment Improvement Group (Ongoing)

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

Banking Contract (Ongoing)

Following the decision of the Coop Bank to withdraw its services from its Local Government clients, the Council has procured a new banking arrangement with Lloyds Bank. The service is represented on the working group to ensure a smooth transfer and to ensure all necessary steps are taken to avoid any errors occurring. The service is also advising on any improvements to systems or controls as part of the process and ensuring they are robust. This is a proactive piece of work that supports the assurance level as this underpins the key systems work completed by the service.

Housing Stock Transfer

The service has been represented throughout the year on the working group that has been involved in the transfer of the Council's Housing Stock to County Durham Housing Group. This was to ensure all necessary steps were taken to avoid errors and that the process was well controlled to facilitate a smooth transfer. This work was completed as part of the transfer in early April 2015.

KEY CONTROL ISSUES

Key Financial Systems

It is acknowledged that good progress continues to be made to improve the financial management framework, including the recent refresh of financial management standards. However the overall assurance opinion on the financial control environment operating during 2014/2015 was, overall, still considered to be Moderate.

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

The testing of the financial control environment is now substantially however some reports are still to be issued and agreed by management. However it should be noted that there continues to be good progress made on the implementation of audit recommendations arising from both internal work and completion of internal audit work

Limited Assurance Opinions

During the year limited assurance opinions were delivered against the following areas with follow up working either currently being in progress or is planned to be completed in the coming months.

Sundry Debtors – 2013/14

This was a corporate review that examined the sundry debtors system, this included the raising of invoices through to the collection of debt. The weaknesses identified were a combination of corporate and service issues.

An action plan has been agreed to address the control weaknesses identified and a corporate working group has been established to monitor the implementation of actions and continue to make improvements to systems and processes going forward. Internal Audit are a representative on the working group.

Fleet Management

This review covered fleet procedures in operation both centrally and at each of the Council's four depots:

- Meadowfield,
- Morrison Busty
- Chilton
- Hackworth Road

The areas covered included vehicle acquisitions and disposals, hire of vehicles and plant, vehicle parts stores, and maintenance for both Durham County Council (DCC) owned vehicles, hired vehicles and private vehicles. A number of issues were identified throughout the review. The service has established a working group to address the issues identified from the agreed action plan.

Data Quality – 3 Specific Performance Indicators

Overall data quality arrangements include a corporate Data Quality Framework. An audit of the framework is completed annually and was last completed on 16 April 2014. The audit delivered a moderate assurance opinion. As an extension to this work it was agreed with the Performance and Planning Group (PPG) that a selection of indicators would be selected on annual risk basis to examine compliance with the framework.

Three performance indicators (PIs) were selected for specific review work on a 'risk' basis by Performance Management Officers following ongoing data quality work throughout the year and issues were found. An action plan has been agreed to address the control weaknesses identified in these three indicators and PPG have co-ordinated the response to the report and are actively monitoring that the relevant services make the necessary improvements.

Hawthorn House

This review focused upon the effectiveness of financial practices undertaken at Hawthorn House. The review identified a number of administrative issues that require attention.

Adaptations

The review considered processes in place within the Occupational Therapy Service as is operating within the North Area of the County in relation to major and minor adaptations and including testing on a sample of provisions made through the Home Equipment Loans Service (HELS). A number of issues were raised that require attention. The review identified

Following the completion of the review Internal Audit provided findings of the sample testing results to the Strategic Manager OP/PDSI. Analysis of these identified that the majority of compliance issues raised related to a minority of individuals. In looking to determine whether these findings were systematic of the service as a whole, the Strategic Manager OP/PDSI instructed her employees to review a further random sample of 18 cases from across the three Occupational Therapy Teams including Occupational Therapists and Occupational Therapy Assistants where major adaptations were recommended.

This further sample provided management with increased assurance that these findings were not widespread issues.

An action plan has been agreed with the service in order to address the improvements required.

Animal Health

A number of service specific and administrative issues were identified as part of this review that require attention. Again an action plan has been agreed with the service to ensure relevant controls are in place to make the improvements required.

Fraud and Irregularity

Weaknesses in Control Identified through fraud and irregularity investigations

The Counter Fraud and Corruption Strategy which was refreshed in 2014 and potential cases of suspected fraud and / or irregularity are reported to Internal Audit. Details of cases reported and the work being undertaken to combat the strategic corporate risk of fraud are reported to Corporate Management Team and the Audit Committee in the Annual Protecting the Public Purse Report.

It should be noted that of the potential cases reported in 2014/2015, improvements in controls weaknesses were identified in many of the cases, irrespective of whether or not any wrong doing was substantiated.

Assurance Opinion Methodology

Appendix D

Findings

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

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

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

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

Priority of our recommendations

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

High	Action that is considered imperative to ensure that the service/system/process objectives are not exposed to significant risk from weaknesses in critical or key controls
Medium	Action required to ensure that the service/system/process objectives are not exposed to major risk from weaknesses in controls
Best Practice	Action required to ensure that the service/system/process objectives is not exposed to minor risk from weaknesses in controls

Overall Assurance Opinion

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

Substantial Assurance	Whilst there is a sound system of control, there are some weaknesses, which may put some of the system objectives at minor risk. (No H or M findings/recommendations)
Moderate Assurance	Whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk. (No H findings/recommendations)
Limited Assurance	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk.(H findings/recommendations)

Summary of Assurance Work 2014 / 2015

Appendix E

Service Grouping	Service	Audit Activity	Assurance Opinion
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	County Durham Children and Families Trust	Substantial
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Economic Partnership	Substantial
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Environment Partnership	Moderate
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Partnerships	Moderate
Assistant Chief Executive (ACE)	Planning and Performance	Data Protection: Procurement	Moderate
Assistant Chief Executive (ACE)	Planning and Performance	Data Quality – Performance Indicators	Moderate
Assistant Chief Executive (ACE)	Planning and Performance	Data Quality – 3 Specific Performance Indicators	Limited
Assistant Chief Executive (ACE)	Policy and Communications	Business Continuity Planning	Substantial
Assistant Chief Executive (ACE)	Policy and Communications	Intranet	Moderate
Children and Adult Services (CAS)	Adult Services	Establishment: Pathways Ebony Woodwork Unit	Moderate
Children and Adult Services (CAS)	Adult Services	Supported Housing Linked to Staffing Houses	Moderate
Children and Adult Services (CAS)	Adult Services	Adaptations Service	Limited
Children and Adult Services (CAS)	Adult Services	Establishment: Hawthorn House	Limited
Children and Adult Services (CAS)	Children's Services	Application of Think Families Grant	Substantial
Children and Adult Services (CAS)	Children's Services	First Contact Service	Substantial
Children and Adult Services (CAS)	Children's Services	Out of County Placements	Substantial
Children and Adult Services (CAS)	Children's Services	Review of Out of Hours Safeguarding Arrangements in Secure Services	Substantial
Children and Adult Services (CAS)	Commissioning	Direct Payments	Moderate
Children and Adult Services (CAS)	Education	School Financial Performance	Substantial
Children and Adult Services (CAS)	Education	School Organisation and Capital Programme	Substantial
Children and Adult Services (CAS)	Education	School's Audit Programme	15 Substantial 16 Moderate 5 Limited
Children and Adult Services (CAS)	Planning and Service Strategy	Blue Badge Scheme	Substantial
Children and Adult Services (CAS)	Planning and Service Strategy	Caldicott Arrangements	Substantial
Children and Adult Services (CAS)	Planning and Service Strategy	Partnerships: Domestic Abuse Forum Executive Group (DAFEG)	Moderate
Children and Adult Services (CAS)	Planning and Service Strategy	POPPIE System	Moderate
Neighbourhood Services (NS)	Culture and Sport Services	Bishop Auckland Town Hall – Income and Banking	Substantial
Neighbourhood Services (NS)	Culture and Sport Services	Countryside and Parks Management	Substantial
Neighbourhood Services (NS)	Culture and Sport Services	Durham Town Hall – Income and Banking	Substantial
Neighbourhood Services (NS)	Culture and Sport Services	Freemans Quay – Income and Banking	Substantial
Neighbourhood Services (NS)	Culture and Sport Services	Gala Theatre: Catering and Bars	Substantial
Neighbourhood Services (NS)	Culture and Sport Services	Gala Theatre: Box Office	Moderate
Neighbourhood Services (NS)	Culture and Sport Services	Gala Theatre: Variation Orders	Moderate

Service Grouping	Service	Audit Activity	Assurance Opinion
Neighbourhood Services (NS)	Culture and Sport Services	Libraries: Review of Procurement, Payments and Custody of Assets	Moderate
Neighbourhood Services (NS)	Direct Services	Durham Crematorium (Joint Committee)	Substantial
Neighbourhood Services (NS)	Direct Services	Mountsett Crematorium (Joint Committee)	Substantial
Neighbourhood Services (NS)	Direct Services	Clean and Green – Housing Association Contracts	Moderate
Neighbourhood Services (NS)	Direct Services	Pest Control	Moderate
Neighbourhood Services (NS)	Direct Services	Trade Waste – Follow Up Audit	Moderate
Neighbourhood Services (NS)	Direct Services	Allotments Management	Limited
Neighbourhood Services (NS)	Direct Services	Fleet	Limited
Neighbourhood Services (NS)	Environmental Health and Consumer Protection	Premises Licensing – Fee Setting	Substantial
Neighbourhood Services (NS)	Environmental Health and Consumer Protection	Private Sector Housing – Housing Complaints	Substantial
Neighbourhood Services (NS)	Environmental Health and Consumer Protection	Fair Trading	Moderate
Neighbourhood Services (NS)	Environmental Health and Consumer Protection	Animal Health	Limited
Neighbourhood Services (NS)	Projects and Business Services	Strategic Waste Management	Substantial
Neighbourhood Services (NS)	Technical Services	Winter Maintenance	Substantial
Neighbourhood Services (NS)	Technical Services	Stores	Moderate
Regeneration and Economic Development (RED)	Economic Development and Housing	Economic Development: Apprenticeship Programme	Substantial
Regeneration and Economic Development (RED)	Economic Development and Housing	Private Sector Housing	Substantial
Regeneration and Economic Development (RED)	Economic Development and Housing	Heart of Teesdale Landscape Partnership	Substantial
Regeneration and Economic Development (RED)	Economic Development and Housing	Empty Homes Loan Fund	Moderate
Regeneration and Economic Development (RED)	Planning and Assets	Asset Management – Follow Up Audit	Moderate
Regeneration and Economic Development (RED)	Transport and Contract Services	Strategic Transport – Integrated Transport Block	Substantial
Regeneration and Economic Development (RED)	Transport and Contract Services	Traffic Accident Data Unit (TADU) – Prevention and Investigation	Substantial
Regeneration and Economic Development (RED)	Transport and Contract Services	Civil Parking, Park and Ride and Off Street Parking	Moderate
Regeneration and Economic Development (RED)	Transport and Contract Services	Supported Housing: CCTV	Moderate
Resources (RES)	Corporate Finance	Bank Reconciliation	Substantial
Resources (RES)	Corporate Finance	Capital Accounting	Substantial
Resources (RES)	Corporate Finance	General Ledger 2014/15	Substantial
Resources (RES)	Corporate Finance	Procurement: Award of Contracts	Substantial
Resources (RES)	Corporate Finance	Procurement: Specifications	Substantial
Resources (RES)	Corporate Finance	Procurement: Tendering and Quotations	Substantial
Resources (RES)	Corporate Finance	Procurement: Variations	Substantial
Resources (RES)	Corporate Finance	Treasury Management	Substantial
Resources (RES)	Corporate Finance	VAT Arrangements	Substantial
Resources (RES)	Corporate Finance	Collection Fund	Moderate
Resources (RES)	Corporate Finance	General Ledger 2013/14	Moderate
Resources (RES)	Corporate Finance	Journal Transfers	Moderate
Resources (RES)	Corporate Finance	Procurement: Contract Management	Moderate

Service Grouping	Service	Audit Activity	Assurance Opinion
Resources (RES)	Corporate Finance	Procurement: Contract Register	Moderate
Resources (RES)	Financial Services	Budgetary Control	Substantial
Resources (RES)	Financial Services	Business Improvement Districts (BIDS)	Substantial
Resources (RES)	Financial Services	Calculation of School Budgets	Substantial
Resources (RES)	Financial Services	Central Establishment Charges	Substantial
Resources (RES)	Financial Services	Payment Card Industry Scheme Compliance – Follow Up Audit	Substantial
Resources (RES)	Financial Services	Public Health – Financial Arrangements	Substantial
Resources (RES)	Financial Services	Revenues and Benefits – Reconciliations	Substantial
Resources (RES)	Financial Services	Business Rates 2014/15	Moderate
Resources (RES)	Financial Services	Cash Collection 2013/14	Moderate
Resources (RES)	Financial Services	Cash Collection 2014/15	Moderate
Resources (RES)	Financial Services	Council Tax 2014/15	Moderate
Resources (RES)	Financial Services	Creditors 2013/14	Moderate
Resources (RES)	Financial Services	Creditors 2014/15	Moderate
Resources (RES)	Financial Services	Housing Benefit and Council Tax Reduction	Moderate
Resources (RES)	Financial Services	Payroll 2013/14	Moderate
Resources (RES)	Financial Services	Payroll 2014/15	Moderate
Resources (RES)	Financial Services	Sundry Debtors 2014/15	Moderate
Resources (RES)	Financial Services	Welfare Assistance Scheme – Follow Up Audit	Moderate
Resources (RES)	Financial Services	Sundry Debtors 2013/14	Limited
Resources (RES)	Human Resources and Organisational Development	Health and Safety	Substantial
Resources (RES)	Human Resources and Organisational Development	Attendance Management Framework (Phased Returns)	Moderate
Resources (RES)	Human Resources and Organisational Development	Comensura (Agency Workers)	Moderate
Resources (RES)	Human Resources and Organisational Development	Disciplinary Procedures	Moderate
Resources (RES)	Human Resources and Organisational Development	Homeworking	Moderate
Resources (RES)	Human Resources and Organisational Development	Performance Appraisals	Moderate
Resources (RES)	Human Resources and Organisational Development	Potentially Violent Persons Register	Moderate
Resources (RES)	Information and Communication Technology	ICT Purchasing	Substantial
Resources (RES)	Information and Communication Technology	Asset Management	Moderate
Resources (RES)	Information and Communication Technology	Change Control	Moderate
Resources (RES)	Information and Communication Technology	ISP's – 3 rd Party Access	Moderate
Resources (RES)	Information and Communication Technology	ISP's – Operational Procedures	Moderate
Resources (RES)	Information and Communication Technology	Mobile Computing	Moderate
Resources (RES)	Information and Communication Technology	Networks	Moderate
Resources (RES)	Information and Communication Technology	Oracle Database	Moderate
Resources (RES)	Information and Communication Technology	Software Licenses	Moderate
Resources (RES)	Information and Communication Technology	SQL	Moderate

Service Grouping	Service	Audit Activity	Assurance Opinion
Resources (RES)	Internal Audit, Risk and Fraud	Insurance	Moderate
Resources (RES)	Internal Audit, Risk and Fraud	Risk Management	Moderate
Resources (RES)	Legal and Democratic Services	Elections	Moderate
Resources (RES)	Legal and Democratic Services	Registrars	Moderate

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AUDIT COMMITTEE

29 June 2015

**Draft Annual Governance Statement for
April 2014 – March 2015**



Report of Don McLure, Corporate Director Resources

Purpose of the Report

- 1 This report seeks approval of the draft Annual Governance Statement (AGS) for 2014/15, attached in Appendix 2.

Background

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

Presentation of the Annual Governance Statement

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

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

(a) Consideration of corporate sources of assurance

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

(b) Service assurance on the effectiveness of the governance framework

Corporate Directors and the Assistant Chief Executive were asked to complete an assurance statement, which noted any changes implemented during the 2014/15 year, and to identify any improvements required/ planned.

Recommendations and reasons

7 Audit Committee is requested to approve the first draft of the AGS for 2014/15 attached in Appendix 2.

Contact: David Marshall Tel: 03000 269648

Appendix 1: Implications

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

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

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

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

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

Crime and Disorder – None.

Human Rights - None.

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

Procurement – None.

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

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

Appendix 2: Annual Governance Statement 2014/15

SCOPE OF RESPONSIBILITY

1. Durham County Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
2. The Accounts and Audit (England) Regulations 2011 require the Council to prepare an Annual Governance Statement, which must accompany the Statement of Accounts. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
3. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
4. In January 2014, the Council approved, adopted and published on its website, a revised Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – “Delivering Good Governance in Local Government”.
5. This statement explains how the Council has complied with the code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

6. The governance framework comprises of the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services for the people of County Durham.
7. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to

evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

8. The governance framework has been in place at the Council for the year ended 31 March 2015 and up to the date of approval of the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

9. The key elements of the systems and processes that comprise the Council's governance arrangements are detailed in the Council's Local Code of Corporate Governance, which is documented in the Council's [Constitution](#). This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the six core principles of the CIPFA/ SOLACE Framework.
10. The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we have further improved our corporate governance arrangements during 2014/15.

The Six Principles of Good Governance

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

11. The [Sustainable Community Strategy \(SCS\) 2014 – 2030](#) which has been produced by the Council in conjunction with its partners on the County Durham Partnership, demonstrates its shared long-term vision for the future of County Durham. This vision for County Durham, namely 'Altogether Better Durham' outlines two areas of focus – **Altogether Better Place** and **Altogether Better for People** and five priority themes, which represent the major issues identified by residents:
 - Altogether wealthier – focusing on creating a vibrant economy and putting regeneration and economic development at the heart of all our plans. This theme is supported by the [Regeneration Statement 2012 – 2022](#) and the [County Durham Plan](#);
 - Altogether better for children and young people – ensuring children and young people are kept safe from harm and that they can 'believe, achieve and succeed'. This theme is supported by the [Children, Young People and Families Plan 2015 - 2018](#);
 - Altogether healthier – improving health and wellbeing, supported by the [Joint Health and Wellbeing Strategy 2015 - 2018](#);

- Altogether greener – ensuring an attractive and ‘liveable’ local environment and contributing to tackling global environmental challenges. This theme is supported by the [County Durham Plan](#);
 - Altogether safer – creating a safer and cohesive county, supported by the [Safe Durham Partnership Plan 2014 - 2017](#) and the [Police and Crime Plan 2015 - 2017](#).
12. The SCS was renewed and launched in November 2014 and identified six new areas of cross-thematic focus that will benefit from additional joined up working: Job Creation, Volunteering, Inequalities, Alcohol, Mental Wellbeing and Think Family. This refreshed version of the strategy reflects changes in local priorities and the need to deliver services with fewer resources.
13. The County Durham Partnership, which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners, and is underpinned by thematic partnerships set around the five priority themes. Operationally, it is supported by the Delivery and Improvement Group, whose role is to monitor performance towards implementing the SCS, and consider strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.
14. The [Council Plan 2015 -2018](#) was approved in April 2015 and contains the Council’s corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the Council’s own improvement agenda. The [Council Plan](#) is supported by a series of Service Plans at a Service Grouping level which detail the planned actions to deliver the Council’s vision.
15. The [Medium Term Financial Plan 2015 - 2018 \(MTFP\)](#) was approved by the Council in February 2015. This provides a financial framework associated with the [Council Plan](#) that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes. It also enables the continued provision of value for money (VFM). The key risk facing the Council continues to be the challenge of managing unprecedented budget reductions in the current period of economic austerity. To meet this challenge, a comprehensive schedule of savings targets has been programmed to achieve the necessary savings to enable us to deliver a balanced budget and [MTFP](#). Assurance over the delivery of this programme is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT) and, during the four years up to the end of March 2015, a sum of £136.9m of savings has been delivered. These arrangements will equip the Council well for dealing with further austerity measures announced as part the latest central government spending review. The Council has maintained prudent levels of reserves enabling us to meet unanticipated expenditure as

necessary whilst still achieving planned savings targets and meeting service level expectations.

16. In April 2014, the Council submitted the County Durham Plan to the Government and this was followed by an examination in public. In February 2015, the Independent Planning Inspector published his interim report rejecting the plan in parts. Following legal advice and further correspondence with the Planning Inspectorate, the Council has submitted an application for judicial review in May 2015 in order to challenge the inspectorate's findings. A decision is expected from the High Court on whether our application for judicial review can proceed in June 2015.
17. Through good governance, the Council continues to improve the quality of services, and this is confirmed by external independent sources of assurance, including Ofsted, the Care Quality Commission, Housing Inspections and accreditation to professional standards. Further assurance on the performance and direction of travel of the Council was gained by winning the Council of the Year category at the 2014 Local Government Chronicle Awards, described as "the biggest celebration of innovation and talent across British councils". Judges were impressed by relations with local businesses, support for small and medium enterprises, real progress in community asset transfer and the contribution made to the wider area.
18. Assurance can also be taken from the positive conclusions of the [Peer Review](#) by the Local Government Association which was undertaken in 2012 and the actions taken since based on their findings and recommendations. Peer challenges were also completed during the year at a service level and in partnerships such as the Local Safeguarding Children's Board, Health and Wellbeing Board and the Youth Offending Service.
19. To manage and measure service improvement, the Council has a locally led performance management framework that links to the SCS and the [Council Plan](#) and ensures that attention is focused on Council priorities. Key target indicators are used in areas where improvements can be measured regularly and can be actively influenced by the Council and its partners. Where possible, performance is compared with that of other Councils using a recognised, online tool.
20. The Council continues to improve or maintain service delivery and key examples that demonstrate where good governance enabled this during 2014/15 are:-
 - Successfully completed the transfer of ownership of the Council's housing stock to the new County Durham Housing Group Ltd on 13 April 2015, representing a significant opportunity to increase investment in homes, local neighbourhoods and housing services to further improve the lives of tenants;

- Reviewed and updated the Debt Management Strategy. The Strategy has been amended to include specific reference to and provisions for Pension Fund Debtors;
- Established and embedded corporate working groups to co-ordinate the approach to processing debtors and creditors through the Oracle e-Business suite. These groups meet monthly and have helped improve invoice payment performance and adherence to corporate policies and procedures.

21. The Council continues to seek value for money (VFM) through its high level objective 'effective use of resources' under the Altogether Better Council theme. In this way, pursuit of VFM is built into all of the Council's plans and activities, and numerous reviews have been undertaken across the Council to provide assurance that VFM services are being provided. Senior Management Teams have used benchmarking data from statutory returns, such as budget statements collected by the Department for Education and the Personal Social Services Expenditure Return, to inform programmes of VFM reviews and savings options in various service areas. Where necessary, this has been supplemented by data from commercial benchmarking clubs, such as Chartered Institute of Public Finance and Accountancy (CIPFA), to facilitate meaningful comparisons with other organisations. The results of these benchmarking exercises demonstrate that the Council compares favourably against other Councils in the majority of cases. Nevertheless, in the context of continuous improvement, the Council assesses any weaknesses identified from these exercises where improvements in performance can be achieved. Independent assurance of our VFM was also gained from our External Auditor, who issued an unqualified VFM conclusion for our 2013/14 Accounts.

22. The Council's Cabinet is responsible for monitoring performance and ensures that effective arrangements are put in place to deal with any failures in service delivery. Assurance is gained through quarterly performance reporting to Cabinet and through performance clinics between the Chief Executive and individual Corporate Directors and the Assistant Chief Executive during the year. Members have robustly scrutinised the performance of the Council, demonstrated by a number of key scrutiny reviews of Council services during 2014/15, which are outlined in the [Overview and Scrutiny Annual Report](#).

23. The Annual Statement of Accounts was approved by the Audit Committee in September 2014, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2011. Further independent assurance of the Council's financial management was provided by the External Auditor in both their Audit Completion Report and Certification of Claims and Returns Annual Report. Governance reviews are also led by Services, such as the quality assurance team in Children and Adults Services, who carried out a number of audits during the year.

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

- Financial Awareness training was given to budget holders;
- Phase 2 of the Office Accommodation Programme has commenced and a report is scheduled to go to cabinet in July 2015 setting out strategic options for the future;
- Following its roll out in 2013/14, the Business Intelligence module of the Oracle e-Business Suite is now fully utilised and is providing improved management information, which is recognised in the Finance Customer Satisfaction Survey undertaken in February 2015;
- Rollout of the ICON income management system was completed, leading to improvements in the collection and accounting of income through a range of payment channels;
- An improved robust approach to capital project outputs and financial monitoring was implemented;
- A Procurement Training Programme was developed and delivered to over 100 officers across the Council.

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

26. The Council's Corporate Asset Management Plan (CAMP) and Property Strategy were approved by Cabinet in July 2013. The CAMP sets out the Council's approach to ensuring that it makes best use of its assets in terms of service benefit, financial benefit and value for money. The Property Strategy sets out the main principles to ensure that opportunities to share the use of property are identified, and to make sure that assets are fit for purpose, cost effective and used to support regeneration and economic development. Following the completion in 2013/14 of a major programme to transfer control of around 100 public buildings to the local community, the Council established the Community Assets programme. A key element of the programme is to work with local communities and our partners to consider alternative ways of continuing to provide front line services within communities, and community organisations

were invited to make expressions of interest to take over or run assets and services within the county.

27. Service Asset Management Plans are also in place and these include any heritage assets of the holding service.

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

28. The key governance documents supporting this principle are contained in the [Constitution](#). These arrangements are further strengthened by a number of formal member and officer working groups.
29. The [Constitution](#) sets out how the Executive is made up and how appointments to this committee are made. The roles and responsibilities allocated by the Leader under the terms of the [Constitution](#), to individual members and the committee as a whole, are set out in detail in the [Constitution](#) as well as the Scheme of Delegation for Senior Officers. The [Constitution](#) allows joint arrangements to be established for specific purposes such as the provision and maintenance of crematoria, and sets out details of existing joint arrangements, including purpose, parties and effective dates.
30. The Constitution Working Group, which consists of the lead members of each political party, and is chaired by the Leader of the Council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the Council in May 2015.
31. The arrangements and rules of procedure for the Overview and Scrutiny function, including the membership, functions and scope of the Overview and Scrutiny Board and each Committee is set out in detail in the [Constitution](#). Terms of Reference for the Board and Committees are set within the context of the [Council Plan](#) and the [Sustainable Community Strategy](#).
32. Under the terms of the [Constitution](#), the Council elected a Leader and made appointments to a number of committees with various regulatory and scrutiny responsibilities. The Leader has nominated nine other councillors, including a Deputy Leader, with specific responsibilities to form the Cabinet.
33. The Health and Wellbeing Board, a Committee of the Council, was established as a consequence of the transfer of public health responsibilities from the NHS to the Council in April 2013. Its functions include:

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

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

35. The Children Act 2004 requires every top tier local authority to appoint a Director of Children's Services with professional responsibility for the leadership, strategy and effectiveness of local authority children's services. The Council completed a Local Test of Assurance (LTA) in accordance with statutory guidance, and Audit Committee will be asked to approve this in July 2015. The purpose of the LTA is to ensure that the focus on outcomes for children and young people is not weakened or diluted as a result of combining this statutory role with other functions.

36. Members and Officers work together on the work programme of the Cabinet which is managed through a system of Cabinet pre-agenda meetings. To support this, Corporate Directors have held regular briefing sessions with Cabinet Portfolio Members and their support Members.

37. Members' remuneration is overseen by an independent panel, and their report was approved by Council in January 2015.

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

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

39. The Standards Committee has the key governance role of promoting and monitoring high standards of conduct by elected Members, independent Members and co-opted Members. The Localism Act 2011 introduced a new duty to promote and maintain high standards of conduct and an ethical framework was adopted accordingly.

40. In terms of disclosure of gifts, hospitality and interests, assurance is gained over Member declarations and registrations by the Monitoring Officer maintaining and monitoring the Register of Gifts, Interests and Hospitality for Members, which is available online. Staff declarations are maintained and monitored by their Head of Service. The Monitoring Officer issued a formal reminder during the year to Corporate Directors about their responsibilities in relation to gifts and hospitality. Internal Audit also completed a review of Gifts and Hospitalities and a report recommending improved arrangements for maintaining registers was approved by Corporate Management Team in March 2015.
41. A climate of openness has been encouraged by the Council Leader who holds regular Cabinet meetings at various locations throughout County Durham. The key elements of the Council's approach to communicating and embedding the expected standards of behaviour for Members and staff are also detailed in the Council [Constitution](#). The Council's Codes of Conduct included in the [Constitution](#) also apply to its partnership working, and the revised Code of Conduct for Employees was approved by Corporate Management Team in September 2014. The [Constitution](#) also sets out a protocol for the Chairman and Vice-Chairman of the Council that includes an expectation of political neutrality and acting as the conscience of the Council.
42. The values of the Council are further promoted in the [Equality Policy](#), which was approved in January 2014 and includes 'protected characteristics' covered by the Equality Act. Supporting this scheme is an impact assessment process, which ensures that the impact on equality is considered in the Council's decision making. For example, in 2014/15, the [MTFP](#) was fully equality impact assessed. A schedule of impact assessments is monitored through the Equality, Diversity and Cohesion Working Group. The implementation of the Access Strategy is monitored by the Equality, Diversity and Cohesion Working Group and a programme is in place for making access improvements to identified priority buildings.
43. During the year, improvements were made to the way the Council uses its powers under the Regulation of Investigatory Powers Act 2000 (RIPA):-
- A new CCTV Policy and Code of Practice were implemented; and
 - Following a favourable inspection by Office of Surveillance Commissioner, two recommendations for improvement were implemented.

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

44. The key governance documents supporting this principle are the [Constitution](#); the [Corporate Complaints Policy and Procedure](#); the Risk Management Strategy

and Policy; the Counter Fraud and Corruption Strategy; and the [Confidential Reporting Code \(Whistleblowing policy\)](#).

45. The Council's [Constitution](#) sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are effective, transparent and accountable to local people. Amendments made to the Constitution during the year include updated officer scheme of delegations, the inclusion of a civic handbook and an update to the Members' Allowance Scheme.
46. All major decisions as identified in the officer delegations scheme are documented, with the reports and decisions made for those that are in the public domain being available on the website. All Cabinet reports must state that legal advice on proposals has been sought, as well as the source of the advice, and Chief Officers and Heads of Service were briefed on this by way of a refresher in February 2014 by the Head of Legal and Democratic Services.
47. The following improvements to governance arrangements in this area were implemented during the year:-
- The process for responding to Petitions, which is included in the Constitution, was revised. Overview and Scrutiny Management Board now oversee the status of petitions received;
 - Revised guidance on the Officer Scheme of Delegations was issued;
 - Amended Decision Making Guidance was circulated; and
 - The Local Government Transparency Code was implemented.
48. A notice of key decisions covering a rolling period of four months is published on the Council's website. Decisions made by the Executive are published on the Council's website within two days of the respective meeting.
49. The key mechanism provided for employees, and contractors and suppliers providing services for the Council, to raise concerns about potential breaches of conduct in decision-making is the [Confidential Reporting Code \(Whistleblowing policy\)](#), which is part of the Council's [Constitution](#), and is monitored by the Audit Committee. The policy is referenced in the Scheme of Financing of Schools, and the School Financial Value Standard requires schools to have appropriate whistleblowing procedures. A revised [Confidential Reporting Code](#) was approved by Audit Committee on 20 May 2014.
50. An updated Counter Fraud & Corruption Strategy was approved by Audit Committee in May 2014. To further strengthen fraud awareness across the Council, training was rolled out to services in 'high risk' areas. Sessions were also delivered to the Audit Committee in July 2014 and through the Durham Managers programme in February 2015. This will continue during 2015/16. Work has also progressed during the year to improve the effectiveness of the Strategy,

which has been strengthened by the formation of the Corporate Fraud Team in December 2013.

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

- The [County Durham Plan](#);
- Joint Health and Wellbeing Strategy;
- The Council's [MTFP](#);
- Joint Strategic Needs Assessment; and
- Flood Risk Management Authorities flood mitigation plans for County Durham.

52. A number of key in-depth evidence based reviews have also been carried out by Overview and Scrutiny Committees including:

- Organised Crime, looking at community intelligence, illegal waste sites and the potential financial risk to the Council;
- Self-Harm amongst children and young people;
- Tourism Marketing undertaken by Visit County Durham; and
- Customer First Strategy, focusing on ensuring that the Council's key objectives regarding customer service provision are delivered.

53. The Chairs of the Council's Adults Wellbeing and Health OSC and Children and Young Peoples' OSC were interviewed as part of a peer challenge undertaken in respect of the Health and Wellbeing Board. Key issues addressed included how the Health and Wellbeing Board had developed its relationships with the statutory Health Scrutiny Committee and how decisions of the Health and wellbeing Board were subject to robust Scrutiny. Feedback from the peer challenge team stated that Durham is in a strong place and is at the forefront of health and wellbeing boards.

54. A diagnostic review was undertaken on the Local Safeguarding Children Board by the Local Government Association in October 2014 which provided an external view of its effectiveness and impact on safeguarding and protecting children.

55. Further assurance on the effectiveness of the Overview and Scrutiny function can also be gained from the [Peer Review](#) in 2012, which concluded that it is

making a useful contribution through influencing policy development in areas related to the [Council Plan](#).

56. As part of the annual review of the [Constitution](#), the Terms of Reference of the Overview and Scrutiny Management Board and Committees were updated to reflect the refresh of the co-optee appointments. This demonstrates that the work of Overview and Scrutiny contributes to the strategic priorities of the Council and its partners, and reflects the legislative requirements placed on the Council in respect of scrutiny arrangements.

57. With regard to the Overview and Scrutiny Committees, key points to note include:

- The Adults Wellbeing and Health Overview and Scrutiny Committee has been conferred with the Council's powers of review and scrutiny in respect of NHS Service changes in accordance with the Health and Social Care Act 2012;
- Cross party representation on all Overview and Scrutiny Committees serves to promote an independent, non-partisan approach in their activities;
- A Joint Health Scrutiny Committee with Hartlepool and Stockton Borough Councils formally engages and responds to proposals to reconfigure emergency medical and critical care services at North Tees and Hartlepool NHS Foundation Trust.

58. The Police and Crime Panel, which includes councillors from Durham County Council and from Darlington Borough Council, scrutinises the annual report, decisions and actions of the Police and Crime Commissioner (PCC). In March 2015, the Panel approved the refreshed Police and Crime Plan 2015 – 2017. An update on activity from the Panel is presented to each meeting of the Council's Safer and Stronger Communities Overview and Scrutiny Committee.

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

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

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

61. An Audit Charter, which was approved in line with Public Sector Internal Audit Standards (PIAS), is in place. The Council's self-assessment against both the principles of the CIPFA Statement on the Role of Head of Internal Audit and the PIAS, which were presented to Audit Committee in June 2014, illustrates a high degree of compliance.
62. A Corporate Complaints policy is in place for non-statutory complaints, and details of complaints, and of investigations by the Commissioner for Local Administration, have been reported to Corporate Issues Overview and Scrutiny Committee.
63. A Freedom of Information (FOI) Policy and Publication Scheme are in place, and details of how to make a FOI request for information can be found on the Council's website.
64. To strengthen the Council's arrangements for maintaining good-quality information, a number of further improvements to governance in this area have been implemented in 2014/15. For example:
- An online Data Protection Act training module was developed, which the majority of officers had completed by April 2015;
 - Specialist data protection training was delivered for 60 social workers during September and October 2014;
 - Completion of the Information Governance Toolkit for Public Health;
 - Through the continued development and availability of dashboards and use of the Geographical Information System (GIS), the decision making processes have been enhanced;
 - A Data Protection Practical Guide was developed for use within Customer Services; and
 - The Neighbourhoods Service strengthened information governance arrangements by developing Document Retention Registers and updating associated guidelines. The updated guidelines protect both data subjects and staff by stipulating the retention periods for different classes of document and specifying the actions to be taken when those records are no longer of further administrative use.

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

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

66. The Council is committed to continually reviewing the development needs of Members and Officers.
67. Our approach to Member development is outlined in the Member Learning and Development Strategy, and the Member Learning and Development Policy, both of which were revised in October 2014. Induction training was provided for new Members elected during 2014/15 and individual training and development plans exist for all Members.
68. The Council continues to be a member of the North East Public Service Academy, which promotes excellence in learning across the public sector. Improvements to further develop the capacity and capability of officers during the year include:
- The “The Durham Manager” development programme was enhanced after seeking feedback from managers through a course evaluation and focus groups programme;
 - Following extensive consultation, a revised Organisational Development Strategy was finalised in July 2014. The Council continues to adopt the principles of the Investor in People Standard through the Organisational Development Strategy, without seeking accreditation under the scheme; and
 - The Mental Wellbeing in the Workplace Policy, procedure and toolkit, which is based on the Health and Safety Executive Stress Standards, has replaced the Stress Management Policy and Toolkit. A focus group was established during 2014/15 with representation from service groupings, public health, trade unions, occupational health, human resources and health and safety, and this group will be involved in reviewing the policy during 2015/16.
 - Several improvements have been made to increase the number and quality of individual appraisals undertaken across the Council with a view to enhancing individual and organisational performance, such as performance appraisal training and electronic data management of appraisal documentation. Assurance has been gained through an internal audit of the appraisal process and quarterly performance reports to CMT, which show that completion rates have increased significantly during 2014/15.
69. A revised corporate Health and Safety policy was launched in May 2014, and a revised Health and Safety and Wellbeing strategy was issued in June 2014. Independent assurance over the effectiveness of the Council’s Occupational Health Service was demonstrated when it was awarded Safe, Effective, Quality Occupational Health Service (SEQOHS) accreditation, which is the formal recognition that it has demonstrated the competence to deliver against the measures in the SEQOHS Standards developed by the Faculty of Occupational Medicine. The Council also continues to support employees through the change

process with, for example, Jobcentre Plus information sessions and confidential counselling services through the Employee Assistance Programme.

70. A programme of actions has been implemented to improve attendance and the management of sickness absence and associated costs, such as mandatory attendance management training for managers, improved reporting to managers when triggers are exceeded to enable timely action to be taken, and Attendance Management Groups which identify and implement service specific responses to reduce sickness absence. Assurance has been gained through a review of the operation of Attendance Management Groups by service groupings to identify areas of good practice.
71. The Council has taken steps, in consultation with various organisations, including the Royal Society for the Prevention of Accidents, to improve arrangements around managing water safety. A revised Water Safety Policy has been drafted and this will be finalised in June 2015, following consultation with the Council's Water Safety Group and Health, Safety and Wellbeing Strategic Group.

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

72. The key governance documents supporting this principle are the [Constitution](#); the [Consultation and Engagement Strategy](#); and the County Durham Partnership Community Engagement and Empowerment Framework.
73. As the strategic partnership for the County, the County Durham Partnership (CDP) is the lead umbrella partnership for most other partnerships in County Durham, and the Leader of the Council is the chair of the CDP. The Council's relationships with partners are managed through the Partnership Governance Framework. There are several examples of effective partnership working by the Council, including County Durham Economic Partnership (CDEP). The EU Investment Plan was created through the CDEP and used to inform the strategic approach developed through the Strategic Economic Plan and North East European Structural and Investment Fund (ESIF) Strategy for the effective use of funds to address Durham priorities. Clarity on relationships between the Council and these partners is provided through the County Durham Economic Partnership governance prospectus.
74. The Council's approach to engaging stakeholders is outlined in the [Consultation and Engagement Strategy](#). This is complemented by the County Durham Partnership Community Engagement and Empowerment framework, which has shaped and supported a common vision and approach for community engagement by partners in County Durham. The County Durham Compact

provides a framework for partnership and engagement with the voluntary and community sector, and most partners within the County Durham Partnership are signatories. E-learning on the Compact has been delivered to partners and [VCS](#) organisations. Attendance by the public at Council meetings and the protocols for asking questions are contained in the [Constitution](#).

75. In achieving Council of the Year at the 2014 Local Government Chronicle Awards, the Council impressed judges with its community engagement arrangements across the Council, collaborative community strategies, a pioneering approach to engaging local communities through area action partnerships and participatory budgeting.
76. The Council has a strong commitment to working with partners to meet the needs of its communities. There are 14 [Area Action Partnerships \(AAPs\)](#) in place across the County, who are each governed by a board comprising members of the public, partner organisations and elected Councillors. These are multi-agency partnerships that are fully engaged with the community in identifying and addressing local priorities, and utilise locality budgets to drive improvements to the local area.
77. Through its partnership governance framework, the Council has gained assurance that:
- Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority;
 - there is clarity about the legal status of the partnership; and
 - representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.
78. The Council's new website, which was launched October 2014, includes much-improved functionality for online interactions with customers. The site has also made it easier for residents to communicate with the Council because of its responsive design, which adapts its display to the type of device being used. Under new website governance arrangements, the Corporate Website Group ensures a co-ordinated approach for any website developments.
79. Following extensive consultation with customers, employees and council members, the implementation of the Customer First Strategy, which aims to put the people it serves at the heart of everything it does, is well underway. In addition to the new website, projects include streamlining telephone numbers and using telephone systems better to provide an integrated call centre. Delivery of the Strategy will be supported by the procurement of a new customer relationship management system, following a review of the existing system.

REVIEW OF EFFECTIVENESS

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

81. Prior to 13 April 2015, we were in a group relationship with East Durham Homes and Dale and Valley Homes and have undertaken significant activities through this group. The main features of their governance arrangements are documented each year through written assurance statements.

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

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

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

- The Corporate Director Resources co-ordinates and oversees the Council's corporate assurance arrangements by:
 - Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the Council's governance arrangements;
 - Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
 - Preparing an Annual Governance Statement to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
- Internal and External Audit provide independent assurance on the effectiveness of the corporate governance framework.

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

85. Based on the delivery of the internal audit plan, Internal Audit is able to provide a moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2014/15. This opinion ranking provides assurance that, whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk. Given the extent of change across the Council and the overall reduction in resources during the year, the sustainment of this assurance opinion should be regarded as a positive outcome.

SIGNIFICANT GOVERNANCE ISSUES

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

Update on improvements identified in the 2013/14 Annual Governance Statement

87. Following the production of the Annual Governance Statement for 2012/13, no improvement actions were identified.

Conclusion

88. In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2014/15 were sound. As a result of the review of governance arrangements, and the work of both internal and external audit, we have identified one action as being necessary to improve governance arrangements in 2015/16. This is shown in the table below.

Governance Improvements required during 2015/16

Proposed Improvements

No.	Actions to be taken	Lead Officer
1	Production of County Durham Plan Strategy in response to interim report from Planning Inspector	Head Of Planning and Assets, Regeneration and Economic Development

Signed:

Simon Henig
Leader of Durham County Council

George Garlick
Chief Executive

Don McLure
Corporate Director, Resources

AUDIT COMMITTEE



29 June 2015

External Audit: Audit Progress June 2015

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. In the last quarter work has commenced on planning for the 2014/15 audit year. This work has included:
 - Refreshing the understanding of the business
 - Walkthrough of the key financial systems.
 - Ongoing liaison with Senior Officers and consideration of key agendas and papers.
5. The next phase of work will begin upon receipt of the financial statements at the end of June.

Emerging Issues and Developments

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

Recommendation

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

Contact: Catherine Banks

Tel: 03000 267452

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

None

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Durham County Council

External Audit Progress Report

29 June 2015

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- 02 Summary of audit progress
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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.

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01

Purpose of this paper

This paper updates the Audit Committee on progress in meeting my responsibilities as your external auditor. It also highlights key emerging national issues and developments which may be of interest to you.

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

Finally, please note the website address www.mazars.co.uk

which sets out the range of work Mazars carries out across the UK public sector. It also details the services provided within the UK and abroad.

02

Summary of audit progress

In the last quarter we have carried out the following work for the 2014/15 audit year.

We have:

- carried out our planning and risk assessment, refreshing our understanding of the Council's business and what we consider are the significant risks of material misstatement in respect of the financial statements and the Value for Money Conclusion to inform our testing strategy;
- documented a walkthrough of the key financial systems;
- held on-going liaison meetings with senior officers.

We presented our Audit Strategy Memorandum , which sets out our planned work and assessments in more detail, to the previous meeting of the Audit Committee.

We have completed a similar process for the audit of Durham County Pension Fund and we presented our Audit Strategy Memorandum at the previous meeting and at the last Pension Fund Committee meeting.

We start the next phase of our work on receipt of the financial statements at the end of June.

03

Certification of grants 2014/15

As your appointed auditor, Mazars LLP acts as an agent of Public Sector Audit Appointments (PSAA) in carrying out certification work on the housing benefit subsidy claim. In previous years the Audit Commission made arrangements with the Department for Work and Pensions (DWP) for claim certification but this function has transferred to PSAA following the closure of the Audit Commission on 31 March 2015.

Prior to closure the Audit Commission made arrangements with DWP for appointed auditors to certify the housing benefit subsidy claims for 2014/15. In certifying these claims, all auditors are required to comply with a specified approach set out in a certification instruction.

We certify the claim by issuing a certificate which states whether the claim has been certified:

- without qualification;
- without qualification following an agreed amendment made by the Council; or
- with a qualification letter.

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or claw back funding which has already been provided or has not been returned.

The proposed fee for the certification of housing benefit subsidy claim for 2014/15 is £32,210 . The proposed fee reflects the scale fee set by the Audit Commission. In addition to certification work carried out as agents of PSAA, we may also be engaged directly by the Council to carry out other certification work. Where this is the case we will agree separate engagement terms for each claim or return.

04

Audit fees 2015/16

Durham County Council

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

The Commission has reduced scale fees by a further 25 per cent from 2015/16, based on the scale fees applicable for 2014/15 with no changes to the overall work programme. The fee reduction will apply to all principal bodies, with the exception of 15 local government bodies whose scale audit fees are already below £20,000, and of the fees for pension fund audits at local authorities.

The Commission published the final work programme and scales of fees for 2015/16 on 23 March 2015.

The table below outlines our proposed fees for completion of our Code audit work.

Area of work	Proposed fee 2015/16	Provisional fee 2014/15
Code audit	£250,688 plus VAT	£334,250 plus VAT
Certification of claims	£20,062 plus VAT	£32,210 plus VAT

At this stage we are not proposing to carry out any additional services for the Council.

The Audit Commission's scale fee assumes that you are able to provide us with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

Outline of work programme

For 2015/16 we are required to meet the requirements of the National Audit Office's Code of Audit Practice and the Local Audit and Accountability Act 2014. The programme of work we are required to carry out in respect of the new Code remains largely unchanged. Our proposed fee for Code audit work includes:

- the audit of your financial statements;
- our work to conclude on your arrangements to secure value for money in your use of resources; and
- a programme of work specified by the National Audit Office in respect of your Whole of Government Accounts submission.

In addition, we will address any legal challenge work prompted by local electors at the rate prescribed by the Audit Commission.

Durham County Pension Fund

The Commission published the final work programme and scales of fees for 2015/16 on 23 March 2015. The Commission concluded that fees for pension fund audits at local authorities will remain unchanged.

We can confirm that fees are in line with the scale fee set by the Audit Commission. The proposed fee for the Code audit for 2015/16 is £25,918 plus VAT which is unchanged from 2014/15.

05

Emerging issues and developments

The following pages outline for your attention some significant emerging issues and developments in respect of:

- Moving ahead with integration (CIPFA Briefing); and
- Accounting for transport infrastructure.

CIPFA briefing paper: Moving ahead with integration, *May 2015*

With health and social care finances under increasing pressure and little sign that the government can afford to pump in the additional resources which would be needed to maintain historic arrangements, the integration of health with social care has emerged as a key initiative. However, many local health and social care providers do not yet have a secure basis for medium-term planning, and without that there is a danger that the promising start represented by the Better Care Fund will be dissipated. If the best is to be made of such integration, CIPFA thinks that three conditions will need to be met as set out below.

First, it will need to recognise that combining two financially challenged systems will not in itself increase resources available. All the indications are that additional funding or changes to the regime for charging will also be needed

Second, it is critical that the new government moves quickly to address the financial and policy framework for integration in 2016/17 and beyond.

Third, central and local health and social care leaders must take the right local actions to facilitate successful integration, concentrating on frontline practice.

The Council is well aware of the integration agenda. We will discuss with senior officers over the coming months.

<http://www.cipfa.org/cipfa-thinks/briefings>

Accounting for transport infrastructure – The long and winding road, Room 151 (Mazars briefing), April 2015

CIPFA published the original Code of Practice on Transport Infrastructure Assets in 2010, setting out significant changes in the measurement of transport infrastructure assets captured by the code. CIPFA has now confirmed that local authorities are required to implement the requirements for the first time in 2016/17.

The sheer size and complexity of the network of transport assets managed by local authorities is leading many in the sector to begin to worry about how prepared authorities are to meet the challenges that implementing the code brings.

One of the primary reasons for the change is the continuing qualification of the Whole of Government Accounts on the grounds of inconsistency in the measurement basis for transport infrastructure assets between central and local government. HM Treasury estimates that the impact of this inconsistency is a potential £232bn understatement of asset values, which gives a good idea of the scale of the restatements required by each local authority adopting the code.

Even a fairly small unitary authority is likely to have a few billion pounds worth of assets on their balance sheet with larger county areas potentially exceeding £10bn.

We have already started discussing this issue with senior officers who are aware of the task ahead.

<http://www.room151.co.uk/technical/accounting-for-transport-infrastructure-the-long-and-winding-road/>

06

Contact details

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AUDIT COMMITTEE

29 June 2015



Compliance with International Auditing Standards

Report of Councillor Edward Bell, Chair of the Audit Committee

Purpose of the Report

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

Background

2. As part of the 2014/15 final accounts audit process, the external auditor is required to comply with a number of International Standards on Auditing and needs to obtain an understanding from, 'those charged with governance', of the processes regarding fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements. This covers the opinion on the Council's 2014/15 accounts including the pension fund accounts.
3. A copy of the letter from Mazars and a copy of the response provided by the Corporate Director Resources, in relation to a similar request, are attached for information as Appendices 2 and 4 respectively.
4. The response provided by the Chair on behalf of the Audit Committee, is attached at Appendix 3.

Recommendation

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

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

Appendix 1: Implications

Finance

None

Staffing

None

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Human Rights

None

Consultation

None

Procurement

None

Disability Discrimination

None

Legal Implications

None

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11 June 2015

Dear Cllr Bell

Durham County Council (including the Pension Fund) 2014/15

Introduction

This letter aims to summarise for the Audit Committee the requirements under International Auditing Standards (UK and Ireland) in respect of preventing fraud in the annual accounts, and compliance with laws and regulations, litigation and claims, going concern and related parties. It sets out the information we will require from the Audit Committee before we give our opinion on the Durham County Council's 2014/15 accounts including the Pension Fund accounts.

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

Background

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

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

The ISA views fraud as either:

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

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What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities if we are to properly discharge our responsibilities under ISA240. We are therefore making requests from the Audit Committee and management on the following, or similar, issues:

- 1) How does the Audit Committee, in its role as those charged with governance, exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
 - identifying and responding to risks of fraud in the organisation, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
 - communicating to employees of views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the organisation's code of conduct); and
 - communicating to those charged with governance the processes for identifying and responding to fraud or error
- 2) How does the Audit Committee oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control? Is the Audit Committee aware of any breaches of internal control during 2014/15?
- 3) Has the Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2014 – 31 March 2015?
- 4) Has the Audit Committee any suspicion that fraud may be occurring within the organisation?
 - Has the Audit Committee identified any specific fraud risks within the organisation?
 - Does the Audit Committee have any concerns that there are areas within the organisation that are at risk of fraud?
 - Are there particular locations within the organisation where fraud is more likely to occur?
- 5) Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively? If 'yes', please provide details. If not:
 - where are the risk areas?
 - what other controls are in place to help prevent, deter or detect fraud?
- 6) How do you encourage staff to report their concerns about fraud and what concerns about fraud are staff expected to report?
- 7) From a fraud and corruption perspective, what are considered by the Audit Committee to be high risk posts within the organisation?
 - How are the risks relating to these posts identified, assessed and managed?

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

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

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

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

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

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

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

Background

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

What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA250. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:

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

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

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

Background

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

What are we required to do?

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

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

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

Background

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

What are we required to do?

If used, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements if we are to properly discharge our responsibilities under ISA570. We are therefore making the following request from the Audit Committee:

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

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

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

Background

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

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

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

What are we required to do?

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

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

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

16) Confirmation that the Audit Committee have:

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

The way forward

The information you provide will inform our understanding of the Council and its business processes, and to enable an opinion to be given on your 2014/15 financial statements.

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

Yours sincerely

Catherine Banks
Senior Manager

Contact: Corporate Director Resources
Direct Tel: 03000 261943
email: don.mclure@durham.gov.uk
Our ref: DM/PC



Catherine Banks
Senior Manager
Mazars LLP
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29 June 2015

Dear Catherine

Audit of Durham County Council's Financial Statements (including the Pension Fund) 2014/15 – Compliance with International Auditing Standards

Thank you for your letter dated 11 June 2015 regarding the above.

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

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

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

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

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

The Audit Committee is responsible for considering proposed changes to the Council's Counter Fraud and Corruption Strategy and the Confidential Reporting Code (Whistleblowing) a revised version of both was approved by the Committee in May 2014. The Audit Committee will also consider any changes to the Fraud Response Plan that supports the strategy and to the Council's Money Laundering policy and monitor their effectiveness. These are due to be reviewed by the Committee in 2015/16.

Resources

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Members of the Committee are aware of how to report any suspected fraud and are satisfied that employees are encouraged to report their concerns about fraud and both are supported by the Confidential Reporting Code (Whistleblowing) which was formally reviewed and amended in May 2014 with a further review to be put to the Audit Committee for approval on 29 June 2015.

2) *How does the Audit Committee oversee management processes to identify and respond to the risk of fraud and possible breaches of Internal Control? Is the Audit Committee aware of any breaches of internal control during 2014 / 2015?*

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

3) *Has the Audit Committee any knowledge of any actual, suspected or alleged fraud during the period 1 April 2014 to 31 March 2015?*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

is not aware of any related party relationships or transactions that could give rise to instances of fraud.

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

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

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

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

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

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

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

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

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

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

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

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

ISA 550 Related parties

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

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

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

The Committee is also aware that Corporate Finance are preparing a list of all related party transactions, with an explanation of the nature of these and whether any transactions have been entered into with these related parties during 2014 / 2015. These will be included in the 2014 / 2015 statement of accounts for the Committee's approval in July 2015.

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

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

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

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

The Audit Committee will consider a report of the Corporate Director, Resources at its meeting on 29 June 2015 relating to an assessment of the going concern assumption. The Committee is satisfied that it is appropriate to adopt the going concern basis in preparing the 2014 / 2015 financial statements.

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

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

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

Yours sincerely

Councillor Edward Bell
Chair of Durham County Council Audit Committee

Contact: Corporate Director Resources
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Catherine Banks
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18 June 2015

Dear Catherine

Audit of Durham County Council's Financial Statements 2014/15 including the Pension Fund Accounts – Compliance with International Auditing Standards

Thank you for your letter dated 11 June 2015. Please find below my responses to the questions that you have asked.

ISA 240 Management processes in place in relation to fraud

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

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

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

Internal Audit review key financial systems on an annual basis, using a risk based approach, to provide independent assurance that expected controls are effective in reducing the likelihood of material fraud error. Internal Audit will also consider financial risks as part of planned assurance reviews of key service activities agreed within the annual Internal Audit plan. The risk based approach used by Internal Audit involves working with service managers to agree and assess key risks, key controls and other assurance sources using a Control Risk Assessment (CRA) methodology. This enables Internal Audit resources to be targeted to high risk areas where there is little or no

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assurance. At the end of an audit, the CRA is updated with details of actual controls in place which provides a basis for responsible officers to carry out Control Risk Self Assessments (CRSA).

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

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

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

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

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

The Chief Internal Auditor and Corporate Fraud Manager is responsible for the development and effective implementation of the Council's Counter Fraud and Corruption Strategy which has recently been refreshed and leads on a number of initiatives to help combat fraud through raising awareness of the risks, supported through a dedicated Corporate Fraud Team which in 2014/15 included Housing Benefit and Council Tax Benefit investigations. The function of investigating Housing Benefit and Council Tax Benefit Fraud transferred to Department for Work and Pensions on 1 June 2015. Fraud and corruption risks will be considered in consultation with service managers as part of the CRA process outlined above.

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

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

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

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

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

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

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

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

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

More counter fraud work is planned to help embed and maintain a strong counter fraud culture across the whole Council. Improvements made during 2014/2015 include the delivery of a 'Durham Managers' counter fraud awareness training.

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

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

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

Amendments to the Council's Counter Fraud and Corruption Strategy and Confidential Reporting Code (Whistleblowing) were reported to the Audit Committee in May 2014. The Fraud Response Plan and Anti Money Laundering Policy are expected to be reported to the Audit Committee for approval in 2015 / 2016.

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

2) Does management have knowledge of any actual, suspected or alleged fraud, either within the Council as a whole or within your department during the period 1 April 2014 to 31 March 2015? If so, what actions is management taking to address it?

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

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

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

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

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

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

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

Independent assurance on the effectiveness of the control environment is provided through the work of Internal Audit as reported through individual audit reports, quarterly progress reports and the Annual Internal Audit Report. The latter is to be presented to Corporate Management Team and the Audit Committee in June 2015.

Corporate Directors also consider other assurance sources and the effectiveness of internal controls operating within their service groupings when providing assurance statements in support of the Council's Annual Governance Statement (AGS). This is currently being prepared and will be reported to Corporate Management Team and the Audit Committee in June 2015.

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

The Council has a Confidential Reporting Code (Whistleblowing) that has been refreshed in May 2014 and has been effectively communicated to all employees through an employee update, induction and is easily accessible. A 'Durham Managers' Fraud Awareness Training package is now offered to reinforce managers' responsibilities in relation to fraud and encourages staff to be more vigilant and report their concerns. There are dedicated counter fraud pages on the Council's intranet that provide information to employees on how to raise any concerns and what to do and what not to do if they suspect something is wrong. Whilst employees are encouraged to report any concerns initially through their line managers or Internal Audit, external contacts are also provided.

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

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

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

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

Fidelity guarantee insurance is also in place.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11) *Is management aware of any instances where the Council has not complied with any laws or regulations during 2014/15?*

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

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

The Council has complied with the Bribery Act 2010.

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

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

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

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

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

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

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

ISA 501 Litigation and claims that would effect the financial statements

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

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

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

Collectively, potential values are not considered to be material although I am aware of some cases where a contingent liability and / or provision may be necessary and these will be detailed in the Statement of Accounts 2014/15.

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

- 14) *What controls does the Council have in place to identify, authorise, approve, account for and disclose related party transactions and relationships? For any new related parties (not disclosed in 2013/14 audited financial statements) please provide a list of them, explain the nature of these and whether you have entered into any transactions with these related parties during the year to 31 March 2015***

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

A list is being prepared of all related party transaction, with an explanation of the nature of these and whether any transactions have been entered into with these related parties during 2014/15.

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

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

A full assessment has been carried out and the outcomes reported to the Audit Committee at its meeting on 29 June 2015. Based on the assessment undertaken I have concluded

that the County Council is a going concern and it is appropriate for the Statement of Accounts to be prepared on this basis because:

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

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

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

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

Yours sincerely



Don McLure
Corporate Director of Resources

AUDIT COMMITTEE

29 June 2015

**Internal Audit Plan, Strategy and Charter
2015/2016**

Report of the Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. To submit the proposed Annual Internal Audit Plan for 2015/2016, the Internal Audit Strategy and the Audit Charter which are attached as Appendices 2, 3 and 4, for approval.

Background

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

“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
3. The agreed terms of reference for the internal audit service to fulfil this objective are detailed in the Internal Audit Charter.
4. The Internal Audit Strategy which has informed the development of the 2015 / 2016 audit plan has been reviewed and is provided in Appendix 2.

Preparation of 2015 / 2016 Audit Plan

5. Members will recall receiving the Emergent Internal Audit Plan at its meeting in 26 February 2015. As discussed in that paper, the plan has had further refinement and discussion has taken place with Corporate Management Team prior to presenting the final version to this Committee.
6. In consultation with Service Groupings’ Senior Management Teams, Heads of Service and Corporate Directors, the Internal Audit plan has been reviewed and revised to reflect changes in structures, changes in key service activities and management’s preference for the timing of reviews.
7. The Audit Plan has been prepared for the twelve months from 1 April 2015 to 31 March 2016.

8. The proposed Audit Plan for 2015/2016 attached at Appendix 3 is for endorsement by Corporate Management Team and includes provision for :
 - Work started in 2014/2015 which was not complete by 31 March 2015.
 - Work that was approved in the 2014/2015 audit plan but has been deferred and carried forward into 2015/2016 as previously agreed.
 - Planned assurance work scheduled from the 5 year strategic audit plan.
 - Annual due diligence on key systems and compliance with key corporate policies.
 - Service requests identified through the consultation process with senior management.
 - Grant certification work.
 - Work by the Corporate Fraud Team to complete proactive counter fraud reviews aimed at detecting and preventing fraud in high risk areas.
 - Corporate provision for reactive advice and consultancy work and new emerging risks, including any reactive fraud investigations and irregularities.
 - Corporate provision for planning, quality assurance and reporting.
 - Follow up of agreed audit recommendations.
9. The detailed scope of audit reviews included in the plan are not yet finalised, however an initial outline scope of each audit has been prepared. These will be further developed as part of the planning and preparation stage of each individual assignment in accordance with the agreed audit strategy. This ensures that audit resources assigned to individual reviews are focused upon operational risks, controls and the assurance environment expected to be in place at the time reviews are actually carried out. This is particularly important due to the extent of change management across the Council.
10. Operational risks are those that arise directly from the core activities of delivering services and include:
 - Financial Management Risks
 - Project Risks
 - Performance Management Risks
 - Partnership Risks
 - Human Resources Risks
 - IT and Information Governance Risks
 - Procurement and Contract Risks
 - Legal Risks
 - Service Specific Risks

11. In evaluating the management of these risks, Internal Audit aims to help the achievement of corporate priorities and objectives by providing assurance on:
 - The adequacy of risk identification, assessment and mitigation – including the adequacy and effectiveness of the strategic risk management process.
 - The adequacy and application of controls to mitigate identified risk.
 - The adequacy and extent of compliance with the Council's corporate governance framework.
 - The extent of compliance with relevant legislation.
 - The extent to which the Council's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money .
 - The quality and integrity of financial and other management information utilised within the Council.

12. In accordance with the Internal Audit Strategy, in consultation with the Head of Service and nominated service manager or key contact, the Service will prepare an agreed Terms of Reference prior to the start of each planned audit and where applicable a Control Risk Assessment (CRA) so as to:
 - Inform the scope for audit
 - Identify and agree key service/system operational objectives
 - Assess and agree key risks
 - Identify and agree expected / existing key controls
 - Identify other key sources of assurance and what assurance they provide that risks are effectively managed
 - Identify key stakeholders/contacts and circulation list for report
 - Provide a mechanism for ongoing self-assessment post audit

13. The Service will make all reasonable endeavours to schedule audit work within the timing preference expressed by services, but inevitably this may not always be possible due to the practicalities of scheduling work across all service groupings to match estimated audit resources available.

14. Given the continuous extent of the transformation and change agenda with which the Council is faced at this time, it is particularly important that the annual audit plan is flexible and allows for the service to be pro-active in supporting management in the consideration of control issues relating to new or emerging risks. As such a contingency provision is included to respond to new and emerging risks and changes to the strategic audit plan to reflect changes in service priorities and / or risks.

15. Service requests are actively encouraged and will be considered in relation to the risk and the type of audit work required e.g. control design and / or compliance assurance, grant certification work, advice and consultancy etc. and whether or not the service has the necessary skills and resources to undertake the work requested.

16. It would be the preference for Internal Audit to be involved in any changes to systems to advise on the appropriate controls before they are implemented rather than potentially auditing a system in retrospect that then requires any improvements.

17. Any proposals to amend approved plans will be discussed and agreed with Corporate Directors and any significant changes will be reported to the Audit Committee for approval.

Delivery of the 2015 / 2016 Audit Plan

18. The productive audit days required to deliver the proposed audit plan, which includes provision for a contingency provision for any new and emerging risks, has been estimated to be 4,888 days.
19. The audit days available to deliver the Council's Internal Audit Plan for 2015/16, based on actual staff in post is illustrated in the following table:

Audit Days required to complete and close audit reports relating to 2014/15	495
<u>Audit Plan 2015 / 2016</u>	
Assistant Chief Executive (ACE)	104
Children and Adult Services (CAS)	341
Neighbourhood Services (NS)	308
Regeneration and Economic Development (RED)	205
Resources (RES)	768
Grant Certification	50
Durham Police and Crime Commissioner / Durham Constabulary	160
Durham and Darlington Fire and Rescue Authority	75
Durham County Council – Pension Fund	39
Durham City Charter	6
Durham City Crematorium	19
Mountsett Crematorium – Joint committee	19
Schools (Service Level Agreements)	255
Productive Time – not directly allocable to services e.g. Audit Planning, Quality Assurance Reviews, Performance Management, Fraud Investigation (Pro-active and Reactive), Service Improvement and Follow Up of Recommendations etc.	2,044
TOTAL DAYS REQUIRED	4,888

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

Audit Charter

21. The Audit Charter was last approved by the Audit Committee in June 2014. The Charter is attached at Appendix 4. Following a review of the Charter a small administrative change is required prior to the commencement of the new Audit year on 1 April 2015 specifically this relates to:
- Follow Up Audits (Page 7, Paragraph 13.18) – Where a limited assurance opinion is given, it is the intention of Internal Audit to follow up the audit within 6 months of issue to verify that the recommendations have been made in line with the agreed actions. A revised assurance opinion will then be given.

Recommendations

22. It is recommended that members:
- Note the change in audit year (April to March) as per paragraph 7.
 - Approve the Internal Audit Strategy in Appendix 2.
 - Approve the proposed Internal Audit Plan for 2015/2016, as detailed in Appendix 3.
 - Approve the revised Audit Charter in Appendix 4

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

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

All Corporate Directors and Heads of Service have been consulted.

Procurement

None

Disability Issues

None

Legal Implications

Compliance with the Accounts and Audit Regulations 2011 and Public Sector Internal Audit Standards (PSIAS)

DURHAM COUNTY COUNCIL



Internal Audit Strategy

1. Introduction

- 1.1 The Internal Audit Strategy for 2015/2016 focuses on the delivery of the assurance opinion and the Internal Audit plan to support this opinion. This strategy reflects Internal Audit's contribution to the Council's 'Altogether' agenda and fully supports the Council's ambitions as set out in the Sustainable Community Strategy. The Internal Audit Strategy incorporates best practice from Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Audit (CIIA).
- 1.2 The requirement for an Internal Audit function for local authorities is within section 151 of the Local Government Act 1972 and authority has been delegated to the Corporate Director, Resources to fulfil this function. Regulation 6 of the Accounts and Audit Regulations 2011 requires that "a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control".
- 1.3 The mission for of the Internal Audit service is to provide value for all of our stakeholders. There are three ways that we achieve this by providing:
 - Assurance
 - Objectivity; and
 - Insight
- 1.4 The assurance is provided through three elements:
 - Governance
 - Internal Control; and
 - Risk Management
- 1.5 The Terms of Reference of Internal Audit are contained within the Audit Charter. The measures in place to deliver these are set out below.

2. Strategy Statements

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

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

- Provide time within the Internal Audit Plan for advice and consultancy with respect to internal controls for all of our clients.
 - Detailed Terms of Reference are prepared for each audit based on close liaison with clients.
 - Provide all Corporate Directors with quarterly and annual reports on the activity within their Service Groupings.
 - Providing a training module on internal control, risk management and fraud awareness through the 'Durham Managers' programme.
- 2.7 We aim to support good value for money in all that we do. Our work is designed to help in the promotion of continuous performance and internal control improvement through the issue of reports containing relevant and valued recommendations and action plans. We support effective financial management, help prevent fraud and corruption and undertake investigations where it is felt appropriate to do so. The service also participates in benchmarking to measure our performance and value for money against peer organisations.
- 2.8 We plan, record and monitor the time spent on all audit activities to manage our staffing resources efficiently and economically.

3. Delivery of the Service

- 3.1 The Chief Internal Auditor and Corporate Fraud Manager is responsible for the Internal Audit Service and delivering of the Audit Plan in accordance with the Terms of Reference detailed in the Audit Charter.
- 3.2 The Internal Audit Service will be delivered on the basis of a five year risk based Strategic Audit Plan which is approved annually by the Audit Committee and is based on risks identified by the Chief Internal Auditor and Corporate Fraud Manager in consultation with Service Groupings. The Chief Internal Auditor and Corporate Fraud Manager maintains a continuous review of the risks and issues affecting the Council and thus the Audit Plan using the following:
- Review of Council's priorities and objectives;
 - Continuous assessment of risk identified by the strategic risk register and senior managers;
 - Issues arising from changes in legislation;
 - The implications of external inspection reports.
- 3.3 The Audit Plan must balance the needs to:
- Provide assurance on the effectiveness of internal controls operating within the Council
 - Adequately review the assurance provided by key financial systems for management and the external auditor to place reliance on.
 - Allow for the Internal Audit Service to offer advice and guidance on control issues to the Council's managers
 - Investigate all suspected or detected frauds or irregularities.
 - Provide time to allow Internal Audit to carry out appropriate unplanned work requested by managers.

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

4. Review of the Strategy

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

ANNUAL INTERNAL AUDIT PLAN 2015 / 2016 (April 2015 to March 2016)

CORPORATE PROVISIONS	DAYS
PLANNING, REPORTING AND SERVICE DEVELOPMENT	
Audit Planning and Reporting	450
Follow Up of Audit Recommendations	100
Quality Assurance and Performance Management	250
Service Development	50
Assurance Mapping (Combined Assurance)	50
External Audit Liaison	4
Audit Committee Reporting and Support	30
COUNTER FRAUD	
Irregularity Investigation	400
Counter Fraud Awareness	100
National Fraud Initiative	50
Proactive Counter Fraud Reviews including:	200
<i>Housing Tenancy</i>	
<i>Procurement</i>	
<i>Blue Badge Misuse</i>	
<i>Payroll</i>	
<i>Right to Buy</i>	
<i>Single Person Discount</i>	
<i>Council Tax Reduction</i>	
<i>Business Rates</i>	
<i>Direct Payments</i>	
<i>Car Mileage</i>	
CONTINGENCY	
Advice and Consultancy	215
Contingency	145
GRANT CERTIFICATION	50

2015 / 2016 INTERNAL AUDIT PLAN					
Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
Business Continuity Planning	Assistant Chief Executive (ACE)	Policy and Communications	Key System	10	Altogether Better Council
Strategy for Social Media	Assistant Chief Executive (ACE)	Policy and Communications	Advice & Consultancy	5	Altogether Better Council
Durham Ask Governance	Assistant Chief Executive (ACE)	Policy and Communications	Advice & Consultancy	5	Altogether Better Council
Data Quality Framework	Assistant Chief Executive (ACE)	Planning and Performance	Assurance	15	Altogether Better Council
Data Protection	Assistant Chief Executive (ACE)	Planning and Performance	Assurance	20	Altogether Better Council
Freedom of Information	Assistant Chief Executive (ACE)	Planning and Performance	Assurance	10	Altogether Better Council
Information Governance Group	Assistant Chief Executive (ACE)	Planning and Performance	Advice & Consultancy	2	Altogether Better Council
Area Action Partnerships (AAPs) - Performance Management Framework	Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Assurance	10	Altogether Better Council
Community Engagement (Consultation Strategy)	Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Advice & Consultancy	5	Altogether Better Council
Partnership Governance Framework	Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Key System	5	Altogether Better Council
Community Buildings Funding (Part 3)	Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Advice & Consultancy	2	Altogether Better Council
Community Grants (Governance and payments)	Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Assurance	15	Altogether Better Council
Continuing Health Care / S117 Payments - Review of effectiveness of service arrangements	Children and Adult Services (CAS)	Adult Care	Assurance	20	Altogether Healthier
Continuing Health Care	Children and Adult Services (CAS)	Adult Care	Advice & Consultancy	10	Altogether Healthier
Extra Care	Children and Adult Services (CAS)	Adult Care	Assurance	15	Altogether Healthier
Implementation of the Care Act	Children and Adult Services (CAS)	Adult Care	Advice & Consultancy	10	Altogether Healthier
Integration of Financial Services Team within Revenues and Benefits	Children and Adult Services (CAS)	Commissioning	Advice & Consultancy	10	Altogether Better Council

2015 / 2016 INTERNAL AUDIT PLAN					
Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
Direct Payments – Advice and Consultancy activity to continue to provide support on direct payment cards as required.	Children and Adult Services (CAS)	Commissioning	Advice & Consultancy	10	Altogether Better Council
Procurement – Arrangements for the management and monitoring of contract information across the service	Children and Adult Services (CAS)	Commissioning	Assurance	15	Altogether Better Council
Transport – Outcomes of People 2 review.	Children and Adult Services (CAS)	Commissioning	Advice & Consultancy	10	Altogether Better Council
Commissioning of Drug and Alcohol Services - Review of Service contract management arrangements	Children and Adult Services (CAS)	Commissioning	Assurance	15	Altogether Healthier
Personal Budgets	Children and Adult Services (CAS)	Commissioning	Assurance	20	Altogether Better Council
Post Contract Arrangements	Children and Adult Services (CAS)	Commissioning	Advice & Consultancy	10	Altogether Better Council
Stronger Families Programme	Children and Adult Services (CAS)	Children's Services	Advice & Consultancy	5	Altogether Better for Children and Young People
Stronger Families Programme - Q1	Children and Adult Services (CAS)	Children's Services	Grant Certification	2	Altogether Better for Children and Young People
Stronger Families Programme - Q2	Children and Adult Services (CAS)	Children's Services	Grant Certification	2	Altogether Better for Children and Young People
Stronger Families Programme - Q3	Children and Adult Services (CAS)	Children's Services	Grant Certification	2	Altogether Better for Children and Young People
Stronger Families Programme - Q4	Children and Adult Services (CAS)	Children's Services	Grant Certification	2	Altogether Better for Children and Young People
Adoption Service	Children and Adult Services (CAS)	Children's Services	Assurance	10	Altogether Better for Children and Young People
Review of collection and banking of income / petty cash management as part of wider review across the Aycliffe Site	Children and Adult Services (CAS)	Children's Services / Planning and Service Strategy	Key System	20	Altogether Better Council
Children's Centres / Homes - Cash handling arrangements	Children and Adult Services (CAS)	Children's Services	Assurance	10	Altogether Better for Children and Young People
Review of the arrangements for the brokering of external providers of school improvement services	Children and Adult Services (CAS)	Education Services	Assurance	10	Altogether Better for Children and Young People
Adult Learning Service - Collection of Fees (Review deferred from 2014/15)	Children and Adult Services (CAS)	Education Services	Assurance	15	Altogether Better for Children and Young People
Careers Service (Review deferred from 2014/15)	Children and Adult Services (CAS)	Education Services	Assurance	10	Altogether Better for Children and Young People
Education and Business Link (Review deferred from 2014/15)	Children and Adult Services (CAS)	Education Services	Assurance	10	Altogether Better for Children and Young People
School Programme	Children and Adult Services (CAS)	Education Services	Assurance	255	Altogether Better for Children and Young People
Governor Training	Children and Adult Services (CAS)	Education Services	Advice & Consultancy	5	Altogether Better Council
SBM Training	Children and Adult Services (CAS)	Education Services	Advice & Consultancy	5	Altogether Better Council
Headteacher Group	Children and Adult Services (CAS)	Education Services	Advice & Consultancy	1	Altogether Better Council
Youth Employment Initiative	Children and Adult Services (CAS)	Education Services	Advice & Consultancy	15	Altogether Better Council
Caldicott Group	Children and Adult Services (CAS)	Planning and Service Strategy	Advice and	2	Altogether Better Council
Caldicott Compliance - POPPIE	Children and Adult Services (CAS)	Planning and Service Strategy	Assurance	10	Altogether Better Council
Caldicott Compliance - SSID System Review	Children and Adult Services (CAS)	Planning and Service Strategy	Assurance	10	Altogether Better Council
Caldicott Compliance - County Durham Wellbeing for Life Services (DCRS System)	Children and Adult Services (CAS)	Planning and Service Strategy	Assurance	10	Altogether Better Council
Petty Cash and Imprest Accounts	Children and Adult Services (CAS)	Planning and Service Strategy	Key System	10	Altogether Better Council
E Market Place	Children and Adult Services (CAS)	Planning and Service Strategy	Advice and	5	Altogether Better Council
Public Health Data Quality	Children and Adult Services (CAS)	Public Health	Assurance	5	Altogether Better Council
County Durham Wellbeing for Life Services (DCRS system)	Children and Adult Services (CAS)	Public Health	Assurance	10	Altogether Better Council
Drug and Alcohol Estate	Children and Adult Services (CAS)	Public Health	Advice & Consultancy	10	Altogether Better Council
SevenHills	Neighbourhood Services (NS)	Culture & Sport	Assurance	15	Altogether Better Council
Stanley Bowls	Neighbourhood Services (NS)	Culture & Sport	Audit of Accounts	5	Altogether Better Council
CLUK Income Share Agreement	Neighbourhood Services (NS)	Culture & Sport	Assurance	5	Altogether Better Council
Spennymoor Leisure Centre	Neighbourhood Services (NS)	Culture & Sport	Assurance	10	Altogether Better Council
Newton Aycliffe Leisure Centre	Neighbourhood Services (NS)	Culture & Sport	Assurance	10	Altogether Better Council
Killhope Museum	Neighbourhood Services (NS)	Culture & Sport	Assurance	15	Altogether Better Council
Locomotion Museum	Neighbourhood Services (NS)	Culture & Sport	Assurance	15	Altogether Better Council
Gala Theatre – Cinema Operator Procurement and links to Box Office	Neighbourhood Services (NS)	Culture & Sport	Advice & Consultancy	10	Altogether Better Council
County Durham Sport	Neighbourhood Services (NS)	Culture & Sport	Grant Certification	5	Altogether Better Council
Fixed Play (Sn 106)	Neighbourhood Services (NS)	Culture & Sport	Assurance	10	Altogether Better Council
Leisureworks	Neighbourhood Services (NS)	Culture & Sport	Advice & Consultancy	10	Altogether Better Council
QMS (Monitoring Visit)	Neighbourhood Services (NS)	Direct Services	Advice & Consultancy	5	Altogether Better Council
Property Help Desk - Schools and Public Building Maintenance	Neighbourhood Services (NS)	Direct Services	Assurance	10	Altogether Better Council
Fleet Management - Follow Up	Neighbourhood Services (NS)	Direct Services	Assurance	15	Altogether Better Council
Use of Fuel Cards	Neighbourhood Services (NS)	Direct Services	Assurance	5	Altogether Better Council
Safer Communities / Anti-Social Behaviour Teams	Neighbourhood Services (NS)	Direct Services	Assurance	10	Altogether Safer
Bereavement Services - Central Durham Crematorium	Neighbourhood Services (NS)	Direct Services	Assurance	19	Altogether Better Council
Bereavement Services - Mountsett Crematorium (Joint Committee)	Neighbourhood Services (NS)	Direct Services	Assurance	19	Altogether Better Council

2015 / 2016 INTERNAL AUDIT PLAN					
Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
Clean and Green Complaints Handling	Neighbourhood Services (NS)	Direct Services	Assurance	10	Altogether Better Council
Livin Housing Association Contract - Follow Up Audit	Neighbourhood Services (NS)	Direct Services	Assurance	10	Altogether Better Council
School Billing Process	Neighbourhood Services (NS)	Direct Services	Key System	10	Altogether Better Council
Markets	Neighbourhood Services (NS)	Environment, Health and Consumer Protection	Assurance	15	Altogether Better Council
Review of Miscellaneous Registrations - Fee setting and cost recovery	Neighbourhood Services (NS)	Environment, Health and Consumer Protection	Assurance	10	Altogether Better Council
Licensing Enforcement	Neighbourhood Services (NS)	Environment, Health and Consumer Protection	Assurance	5	Altogether Better Council
Weights and Measures Approved Body Status	Neighbourhood Services (NS)	Environment, Health and Consumer Protection	Assurance (3rd Party)	5	Altogether Better Council
Food Safety	Neighbourhood Services (NS)	Environment, Health and Consumer Protection	Assurance (3rd Party)	5	Altogether Healthier
Pest Control and Accumulations	Neighbourhood Services (NS)	Environment, Health and Consumer Protection / Direct Services	Assurance	10	Altogether Healthier
Works in Default	Neighbourhood Services (NS)	Environment, Health and Consumer Protection / Direct Services	Assurance	10	Altogether Healthier
Technically, Environmentally and Economically Practical (TEEP) - EU Legislation	Neighbourhood Services (NS)	Projects and Business Services	Advice & Consultancy	8	Altogether Greener
Customer Services Complaints	Neighbourhood Services (NS)	Projects and Business Services	Assurance	10	Altogether Better Council
Environmental Compliance	Neighbourhood Services (NS)	Projects and Business Services	Advice & Consultancy	10	Altogether Greener
Fly Tipping	Neighbourhood Services (NS)	Projects and Business Services	Assurance	10	Altogether Greener
CDM Compliance	Neighbourhood Services (NS)	Technical Services	Assurance	10	Altogether Better Council
Stores Management - On site processes for disposal of surplus materials	Neighbourhood Services (NS)	Technical Services / Direct Services	Assurance	15	Altogether Better Council
Carbon Reduction Commitment	Regeneration and Economic Development	Planning and Assets	Assurance	10	Altogether Green
Warm Up North	Regeneration and Economic Development	Planning and Assets	Advice & Consultancy	5	Altogether Green
Community Infrastructure Levy	Regeneration and Economic Development	Planning and Assets	Advice & Consultancy	2	Altogether Wealthier
Building Control - Online Payments	Regeneration and Economic Development	Planning and Assets	Advice & Consultancy	3	Altogether Better Council
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
Project Management Arrangements	Regeneration and Economic Development	Strategy, Programmes and Performance	Advice & Consultancy	5	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
Durham Villages Regeneration Company	Regeneration and Economic Development	Economic Development and Housing	Advice & Consultancy	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
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	Key System	10	Altogether Better Council
MFTP	Resources	Corporate Finance	Key System	10	Altogether Better Council
Capital Accounting	Resources	Corporate Finance	Key System	10	Altogether Better Council
Journal Transfers	Resources	Corporate Finance	Key System	5	Altogether Better Council
2015 / 2016 INTERNAL AUDIT PLAN					

Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
Bank Reconciliation	Resources	Corporate Finance	Key System	5	Altogether Better Council
Direct Debit Payments	Resources	Corporate Finance	Assurance	7	Altogether Better Council
Treasury Management	Resources	Corporate Finance	Key System	10	Altogether Better Council
Teachers Pension Fund- Follow Up Audit	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 - Procurement Cards	Resources	Corporate Finance	Assurance	10	Altogether Better Council
Procurement - Document Retention	Resources	Corporate Finance	Advice & Consultancy	10	Altogether Better Council
Procurement - Contract Management	Resources	Corporate Finance	Assurance	10	Altogether Better Council
Procurement - Off Contract Spend	Resources	Corporate Finance	Assurance	20	Altogether Better Council
Procurement - Contract Procedure Rules	Resources	Corporate Finance	Assurance	10	Altogether Better Council
Oracle Project Group	Resources	Corporate Finance	Advice & Consultancy	4	Altogether Better Council
Payroll	Resources	Financial Services	Key System	15	Altogether Better Council
Payroll - Service Testing	Resources	Financial Services	Key System	30	Altogether Better Council
Taxation - PAYE	Resources	Financial Services	Assurance	10	Altogether Better Council
Agency	Resources	Financial Services	Assurance	10	Altogether Better Council
Budgetary Control (lighter touch)	Resources	Financial Services	Key System	10	Altogether Better Council
Revs and Bens Reconciliations	Resources	Financial Services	Key System	10	Altogether Better Council
Creditor Payments	Resources	Financial Services	Key System	15	Altogether Better Council
Creditors - Service Testing	Resources	Financial Services	Key System	30	Altogether Better Council
Creditors Working Group	Resources	Financial Services	Advice & Consultancy	2	Altogether Better Council
Business Rates	Resources	Financial Services	Key System	40	Altogether Better Council
HB, CTR and Welfare Assistance Scheme	Resources	Financial Services	Key System	50	Altogether Better Council
HB Sundry Debtor Overpayments	Resources	Financial Services	Key System	5	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
Cash Collection - Service Testing	Resources	Financial Services	Key System	30	Altogether Better Council
Debtors	Resources	Financial Services	Key System	15	Altogether Better Council
Debtors - Service Testing	Resources	Financial Services	Key System	30	Altogether Better Council
Debtors Working Group	Resources	Financial Services	Advice & Consultancy	2	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



INTERNAL AUDIT CHARTER

**June
2015**

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1. Introduction

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

2. Statutory Basis

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

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

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

3. Definition

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

4. Code of Ethics

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

5. Strategic Aims

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

6. Objectives of Internal Audit

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

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

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

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

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

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

6.5 Other objectives include:

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

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

7. Outcomes of Internal Audit

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

8. Independence, Objectivity and Authority

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

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

9. Scope of Audit Work

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

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

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

10. Strategic Audit Planning

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

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

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

10.4 In consultation with service managers internal audit will

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

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

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

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

11. Annual Audit Plans

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

12. Audit Approach

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

Strategic Risk

12.2 Reviews of strategic risks will provide assurance that:

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

Operational Risk

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

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

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

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

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

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

13. Audit Reporting

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

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

- 13.17 To help focus attention on areas of significant risk, quarterly progress reports will include by exception details of all audits resulting in a limited assurance opinion.
- 13.18 Where a limited assurance opinion is given, it is the intention of Internal Audit to follow up the audit within 6 months of issue to verify that the recommendations have been made in line with the agreed actions. A revised assurance opinion will then be given.
- 13.19 In accordance with the PSIAS, to maintain organisational independence, Internal Audit will report on the functionality of the audit service to Audit Committee by:

Reporting a draft annual risk based audit plan for approval

Presenting Quarterly Internal Audit Progress reports:

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

Presenting an Annual Audit Report to:

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

14. Responsibilities of Managers

- 14.1 Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence.
- 14.2 Internal Audit will strive to build effective working relationships with all our stakeholders, internal and external, by encouraging an environment of mutual trust, confidence and understanding.
- 14.3 A key relationship is with managers. Managers at all levels need complete confidence in the integrity, independence and capability of internal audit.
- 14.4 Managers' role is to manage the risks facing their service and to maintain an adequate and effective system of internal control to mitigate these risks. Managers are also responsible for ensuring that employees are aware of the processes and procedures required to operate the control systems in place.
- 14.5 It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of fraud and irregularities. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.
- 14.6 Internal Audit will endeavour to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- 14.7 Managers are encouraged to maximise the effectiveness of the outcome of internal audit work by:
- Commenting on, and inputting to, strategic and annual audit plans.
 - Working with audit staff in the development of a control and risk assessment (CRA) for the service activity or system as part of the preparation and planning stage of each assurance review.
 - Agreeing terms of reference, informed by the CRA where applicable, for each audit assignment to ensure attention is focused on areas of greatest risk or concern.
 - Giving information and explanations that are sought during audit reviews.
 - Providing access at all reasonable times to premises, personnel, documents and assets as necessary.
 - Giving early notification of plans for change, including potential new initiatives, operational systems and processes.

- Ensuring key contacts provide responses to draft audit reports within the required timescales.
- Ensuring agreed actions arising from audit recommendations are carried out efficiently and on a timely basis
- Notifying internal audit of any suspected fraud, irregularity, improper use or misappropriation of the Council's property or resources.
- Pending investigation and reporting, take all responsible steps to prevent further loss and to secure records and documents against removal or alteration.
- Acting in line with the Council's disciplinary procedures.

15. Relationship with the Audit Committee

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

16. Audit Resources, Skills and Service Quality

- 16.1 In order for Internal Audit to demonstrate high standards of professional conduct, the Internal Auditor must be impartial in discharging all responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity.

- 16.2 The service is required to operate in accordance with compliance with both the PSIAS and the LGAN. Policies and standard working practices have been put in place to ensure all audit staff understand and comply with the PSIAS/LGAN.
- 16.3 An important element of the PSIAS is the requirement to undertake regular quality assurance assessments and maintain a quality assurance and improvement programme.
- 16.4 A quality assurance framework, detailing the policies, procedures and working practices under which the service operates has been defined and documented in an Audit Manual.
- 16.5 The Head of Internal Audit is responsible for providing periodically a self-assessment on the effectiveness of the internal audit service and compliance with agreed procedures to ensure professional standards are maintained. Any areas of non-compliance with the standards and or the LGAN will be reported as part of the Annual Audit Report to Corporate Management Team and the Audit Committee.
- 16.6 In accordance with the PSIAS, an external assessment will be carried out at least every five years. The results of this external assessment will also be reported to the Corporate Management Team and the Audit Committee.
- 16.7 The service is provided by Durham County Council's in house internal audit team, supported in specialist areas as and when considered necessary by a third party partner. The staffing structure will, as far as possible, be comprised of a suitable mix of qualifications, experience and skills.
- 16.8 The Head of Internal Audit ensures internal audit resources are sufficient to meet its responsibilities and achieve its objectives. Resource requirements are reviewed annually in relation to draft annual audit plans. Resources will be considered in terms of available days and the skills and experience of audit staff. Any concerns that the Head of Internal Audit has regarding resources available to deliver the service in accordance with the PSIAS will be reported to the Corporate Director Resources and the Audit Committee.
- 16.9 Individual training needs are identified in accordance with the Council's Performance Appraisal Scheme and supplemented by regular audit skills assessments and post audit reviews. As well as basic training in audit techniques and the development of specialist skills, the service is committed to coaching and mentoring its staff and to providing opportunities for continuous professional development to all staff.
- 16.10 Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Technical Information Service, "TIS online", the Finance Advisory Network (FAN), and through liaison with external audit.

- 16.11 The service will keep abreast of best audit practice by adhering to CIPFA's and the IIA's practice advisories and practice guides, where applicable, as well as networking with other internal audit service providers.
- 16.12 A suite of performance indicators (PIs) and targets has been developed to measure and monitor the performance and effectiveness of the service. The current PI's are detailed in Appendix B. PIs and targets will be reviewed annually.
- 16.13 In accordance with the requirements of the Accounts and Audit Regulations 2011, an annual review of the effectiveness of the internal audit service is undertaken by the Audit Committee. This will be informed by a review of the service carried out by the Corporate Director Resources and from consideration of the Quality Assurance and Improvement Programme and any internal or external assessments required by the PSIAS. By reviewing the service the Audit Committee is able to gain assurance that the service maintains its independence and objectivity, that it is effective and conforms to the expected professional quality standards so that it can place reliance on its work and the annual audit opinion.
- 16.14 The outcome from the annual effectiveness review is reported to the Corporate Management Team and Audit Committee as part of the Annual Internal Audit Report.

17. Approval and Review

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

18. Key Contact

Head of Internal Audit

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19. Other Related Documents

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

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

ASSESSMENT OF AUDIT FINDINGS, RECOMMENDATIONS AND AUDIT OPINIONS

APPENDIX A

Findings

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

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

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

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

Priority of our recommendations

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

High	Action that is considered imperative to ensure that the service/system/process objectives are not exposed to significant risk from weaknesses in critical or key controls
Medium	Action is required to ensure that the service/system/process objectives are not exposed to major risk from weaknesses in controls
Best Practice	The issue merits attention and its implementation will enhance the control environment or promote value for money.

Overall Assurance Opinion

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

Substantial Assurance	Whilst there is a sound system of control, there are some weaknesses, which may put some of the system objectives at minor risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk.
Limited Assurance	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk.

PERFORMANCE INDICATORS

APPENDIX B

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

Public Sector Internal Audit Standards

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

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

DEFINITIONS UNDER PSIAS

APPENDIX C

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

DEFINITIONS UNDER PSIAS

APPENDIX C

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

DEFINITIONS UNDER PSIAS**APPENDIX C**

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

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

AUDIT COMMITTEE

29 June 2015

**Confidential Reporting Code
(Whistleblowing)**

Report of Don McLure, Corporate Director, Resources

Purpose of the Report

1. The purpose of the report is to seek approval of the revised Confidential Reporting Code (Whistleblowing).

Background

2. The previous version of this code was agreed by Audit Committee on 20 May 2014.
3. The Department for Business, Innovation and Skills (BIS) has issued a new Code of Practice for Employers on Whistleblowing in March 2015 and this guidance has been taken into consideration for the annual review of this code.

Confidential Reporting Code (Whistleblowing)

4. The revised Confidential Reporting Code (Whistleblowing) together with the associated reporting form is attached as Appendix '2'. The main changes to the code are as follows:
 - Inclusion of the term whistleblowing in the title of the code;
 - Inclusion of the definition of whistleblowing and associated legislation;
 - Reference included that the code also applies to former employees;
 - The scope of the code has been revised to reflect the new BIS Code of Practice on Whistleblowing e.g. to be covered by whistleblowing law a worker who makes a disclosure must reasonably believe that they are acting in the public interest and that the disclosure tends to show past, present or likely future wrongdoing in one of the 6 categories listed;

- Inclusion of a link to a list of prescribed persons to which a worker may make an external disclosure if they feel unable to raise the matter internally. Prescribed persons are mainly regulators and professional bodies but include other persons and bodies such as MPs. The relevant prescribed person depends on the subject matter of the disclosure, for example a disclosure about wrongdoing in a care home could be made to the Care Quality Commission.
5. During 2014/15 there have been no cases referred via the confidential reporting code form, however the Protecting the Public Purse Annual Report, to be presented to Audit Committee later in the agenda highlights 32 potential cases of fraud and irregularity that have been investigated or are currently under investigation. Of these 32 cases, three were reported to Internal Audit from employees.

Consultation

6. The revised code has been subject to appropriate consultation with the following key stakeholders:
 - Internal Consultation – Human Resources, Legal Services, Internal Audit and Corporate Fraud, Corporate Procurement and Trade Unions.
7. Feedback has been received from all key stakeholders and where appropriate included in the code.

Implementation

8. It is proposed that the code is publicised through the following mechanisms:
 - HR Business Leads to raise with service management teams;
 - Intranet and Employee Update.
 - The policy is to be published on the Council's internet page to enable 'former' employees to access it. This is consistent with the approach taken by other authorities in the region.

Recommendations and Reasons

9. Members are asked to agree:

- The revised Confidential Reporting Code (Whistleblowing).

Contact:

Paul Bradley, Chief Internal Auditor & Corporate Fraud Manager,

Tel: 03000 269645

Kim Jobson, Head of Human Resources

Tel: 03000 267308

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

Internal stakeholders including the Trade Unions have been consulted as part of the process.

Procurement

None

Disability Issues

None

Legal Implications

None

Confidential Reporting Code (Whistleblowing)



Please think before printing this document.

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

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1 Introduction

1.1 What is the code about?

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

'Whistleblowing' is the term used when an employee passes on information concerning wrongdoing. This is generally referred to as 'making a disclosure' or 'blowing the whistle'. Whistleblowing law is located in the Employment Rights Act 1996 (as amended by the Public Interest Disclosure Act 1998).

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

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

1.2 Who does the policy apply to?

This code applies to all employees except for school-based employees, where schools need to give consideration to their own code adopted by the governing body.

The code also applies to former employees, agency staff working for the council, contractors and suppliers.

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

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

2 Aims and scope of the code

2.1 Aim of the code

This code aims to:

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

2.2 Scope of the code

There are existing procedures in place to enable you to lodge a grievance relating to your own employment (see section 2.3 below).

An employee who makes a disclosure under this code must reasonably believe:

- (i) That they are acting in the public interest;
- (ii) That the disclosure tends to show past, present or likely future wrongdoing falling into one or more of the following categories:
 - criminal offences;
 - failure to comply with an obligation set out in law;
 - miscarriages of justice;
 - endangering of someone's health and safety;
 - damage to the environment;
 - covering up wrongdoing in the above categories;

Examples of the above could include:

- conduct which is an offence or a breach of law;
- health and safety risks, including risks to the public as well as other employees;
- the unauthorised use of public funds;
- negligence;
- unauthorised disclosure of confidential information;
- possible fraud and corruption;
(NB. The council's counter fraud and corruption strategy is also accessible on the Intranet and Extranet or by clicking [here](#))
- sexual or physical abuse of children and/or vulnerable young people/adults;
- deliberate concealment of the above matters.

The above list is neither exclusive nor exhaustive.

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

2.3 Other procedures

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

2.3.1 The council's complaints procedure

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

The council deals with two main types of complaint:

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

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

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

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

2.3.2 Financial procedure rules and financial management standards

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

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

2.3.3 Arrestable offences

In any case where a Corporate Director has reason to believe that an employee of the council may have committed an arrestable offence, the Corporate Director of Resources or the Chief Internal Auditor and Corporate Fraud Manager must be informed and where it is considered an arrestable offence has occurred, the Corporate Director of Resources or the Chief Internal Auditor and Corporate Fraud Manager in consultation with Legal Services will inform the police.

2.3.4 Grievance procedure

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

If it is unclear which procedure the employee wishes to pursue, the employee or manager should seek advice from the Human Resources (HR) Advice and Support Team.

2.3.5 Contract procedure rules

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

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

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

All procurement procedures must:

- realise value for money by achieving the optimum combination of whole life costs and quality of outcome;
- be consistent with the highest standards of integrity;
- operate in a transparent manner;
- ensure fairness in allocation of public contracts;
- comply with all legal requirements including European Union (EU) treaty principles;
- support all relevant council priorities and policies including the Medium Term Financial Plan, and
- comply with the council's Corporate Strategy for Commissioning and Procurement, and the Sustainable Commissioning and Procurement Policy.

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

3 Safeguards

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

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

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

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

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

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

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

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

4 Confidentiality

All concerns will be treated in confidence and every effort will be made not to reveal your identity if you so wish. Any breach of confidentiality will be regarded as a serious matter and will be dealt with accordingly.

Although every effort will be made not to reveal your identity you may however be called as a witness if this matter is progressed.

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

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

5 Anonymous allegations

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

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

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

6 Untrue allegations

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

7 How to raise a concern

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

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

The completed form should then be sent to the Corporate Fraud inbox: corporatefraudteam@durham.gov.uk as soon as practicable, so to prevent any delay and allow for any urgent action to be taken. Alternatively telephone concerns can be reported to 03000 266745.

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

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

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

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

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

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

Colette Longbottom Head of Legal and Democratic Services	☎ 03000 269 732 email: colette.longbottom@durham.gov.uk
Kim Jobson Head of Human Resources	☎ 03000 267 308 email: kim.jobson@durham.gov.uk
Don McLure Corporate Director, Resources	☎ 03000 261 945 email: don.mclure@durham.gov.uk
Paul Bradley Chief Internal Auditor and Corporate Fraud Manager	☎ 03000 269 645 email: paul.bradley@durham.gov.uk
Darren Knowd Corporate Procurement Manager	☎ 03000 265 416 email: darren.knowd@durham.gov.uk

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

Catherine Banks Senior Manager	☎ 03000 267 452 (County Hall) 0191 383 6317 (Rivergreen) email: Catherine.Banks@mazars.co.uk
Cameron Waddell Director	☎ 0191 383 6314 e-mail: Cameron.Waddell@mazars.co.uk Address: The Rivergreen Centre, Aykley Heads, Durham, DH1 5TS ☎ 020 7404 6609

Or alternatively you can seek advice at the following independent whistleblowing charity:

Public Concern at Work	Address: 3 rd Floor, Bank Chambers, 6-10 Borough High Street London SE1 9QQ Website: www.pcaw.org.uk email: whistle@pcaw.co.uk (UK Advice Line) Tel: 020 7404 6609 (Whistleblowing Advice Line)
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You may wish to consider discussing your concern with a colleague first and you may find it easier to raise the matter if there are two (or more) of you who have had the same experience or concerns.

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

Ideally you should feel able to make a disclosure within the council however there may be circumstances where you feel unable to. You can make a disclosure under whistleblowing law to prescribed person(s) who are mainly regulators and professional bodies but include other persons and bodies such as MPs. The relevant prescribed person depends on the subject matter of the disclosure, for example a disclosure about wrongdoing in a care home could be made to the Care Quality Commission. A full list of prescribed persons can be found [here](#).

8 How the council will respond

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

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

Where appropriate, the matters raised may:

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

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

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

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

- acknowledging that the concern has been received;
- indicating how we propose to deal with the matter;

- giving an estimate of how long it will take to provide a final response;
- telling you whether any initial enquiries have been made;
- supplying you with information on employee support mechanisms; and
- telling you whether further investigations will take place and if not, why not.

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

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

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

Important:

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

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

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

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

This code is intended to provide you with an avenue within the council to raise concerns. The council hopes you will be satisfied with any action taken.

If you are not, and if you feel it is right to take the matter outside the council, the following are possible contact points:

- the council's External Auditors, Mazars;
- your local Citizens' Advice Bureau;
- the police;

- the independent whistleblowing charity Public Concern at Work – telephone 020 7404 6609 or further details are available at www.pcaw.org.uk;
- prescribed person(s) as detailed in Section 7.

9 The responsible officer

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

10 Further information

10.1 Supporting documents

The following document can be downloaded from the intranet:

A	Confidential Reporting Code Form
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The following documents can be downloaded from the intranet:

B	Code of Conduct
C	Grievance Policy
D	Counter Fraud and Corruption Strategy
E	Corporate Strategy for Commissioning and Procurement
F	Sustainable Commissioning and Procurement Policy
G	Regulation of Investigatory Powers (RIPA) Policy
H	Disciplinary Policy

10.2 Review of the code

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

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

10.3 Equality and diversity

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

10.4 Contact details

The Confidential Reporting Code Form (available via the intranet) should be forwarded by email to:


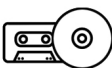

Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager,
email: paul.bradley@durham.gov.uk,
tel: 03000 269 645

If you would like any further advice or would like the document in an alternative format, please contact the HR Advice and Support Team using the contact details below:

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

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

hradviceandsupport@durham.gov.uk
03000 265 360

 Braille
  Audio
  Large Print

Private and Confidential

A - Confidential Reporting Code Form

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

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

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

Please use additional sheets if necessary

Declaration (may be anonymous)

Signature:
(of person raising initial concern)

Please print name:

Date:

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

Name:

Job title:

Service grouping:

Contact details

Tel:

Place of work:

Email:

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

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

Signature:
(of person to whom
complaint is raised)

Please print name:

Date:

**The completed form should be forwarded by email to:
Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager,
email: paul.bradley@durham.gov.uk
(tel: 03000 269 645)**

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

Document is Restricted

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