



Audit Committee

Date Monday 29 February 2016
Time 10.00 am
Venue Committee Room 1B, County Hall, Durham

Business

Part A

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

1. Apologies for absence
2. Minutes of the meeting held on 30 November 2015 (Pages 1 - 8)
3. Declarations of interest, if any
4. Co-opted Members to the Audit Committee - Report of Corporate Director, Resources (Pages 9 - 12)
5. Agreement of Accounting Policies for Application in the 2015-16 Financial Statements - Report of Corporate Director, Resources (Pages 13 - 46)
6. Final Accounts Timetable for the Year Ended 31 March 2016 - Report of Corporate Director, Resources (Pages 47 - 52)
7. Changes to the Code of Practice for Local Authority Accounting in the UK 2015-16 - Report of Corporate Director, Resources (Pages 53 - 58)
8. External Audit Progress Report - February 2016 - Report of External Auditor (Pages 59 - 70)
9. External Audit Certification of Claims and Returns - Report of External Auditor (Pages 71 - 80)
10. Local Code of Corporate Governance - Report of Corporate Director, Resources (Pages 81 - 98)
11. Counter Fraud and Corruption Policy and Fraud Response Plan - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 99 - 130)
12. Anti Money Laundering Policy - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 131 - 156)

13. Strategic Risk Management - Progress Report for the quarter ended 31 December 2015 - Report of Corporate Director, Resources (Pages 157 - 170)
14. Emergent Internal Audit Plan 2016/2017 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 171 - 180)
15. Internal Audit Progress Report for the quarter ended 31 December 2015 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 181 - 202)
16. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
17. 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)

18. Internal Audit Progress Report for the quarter ended 31 December 2015 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 203 - 216)
19. 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 February 2016

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

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Monday 30 November 2015 at 10.00 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:

Councillors J Rowlandson (Vice-Chairman), L Armstrong, C Carr, J Carr, M Davinson and O Temple

Co-opted Members:

Mr T Hoban and Ms K Larkin-Bramley

1 Apologies for absence

Apologies for absence were received from Councillors J Robinson and W Stelling

2 Minutes

The minutes of the meeting held on 30 September 2015 were agreed and signed by the Chairman as a correct record, with the amendments on page 2, items 5 and 6, that the Annual Governance Report of the Audit Commission be changed to Annual Governance Report of Mazars.

3 Declarations of interest, if any

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

4 Whole of Government Accounts - Implications for Technical Services

The Committee received a presentation from the Head of Technical Services, Neighbourhood Services about the Whole of Government Accounts - Implications for Technical Services (for copy see file of Minutes).

The Head of Technical Services advised that Technical Services produce an annual valuation of the highway asset for the Whole of Government Accounts and highlighted the following:-

- Process
- Implications
- Issues and Risks

- Transport Asset Management Plan (TAMP)
- TAMP Valuation
- TAMP Investment Levels

Ms K Larkin-Bramley asked if the inventory cost was the same as the market value regarding the Valuation of the Capital Asset. The Head of Technical Services advised that it was exactly the same and that the assets when re-valued as at 31 March were based on local Durham rates. He added that there could be fluctuation but that it would be picked up. The Assistant Finance Manager, Corporate Finance said that the Asset Register was based on historic costs in the accounts. Ms Larkin-Bramley asked if it was a new accounting treatment and was advised that it was.

With reference to street lighting, Councillor C Carr asked if the replacement columns had a major effect as some columns would have still had life left in them. He was advised that it had had an impact on the valuation but was not major. The Chairman asked what was included and was advised that the definition was inclusive of all assets from highway verge to highway verge.

Ms Larkin-Bramley was informed that the inventory remains reasonably static with changes from new developments with the occasional asset being deleted.

Councillor C Carr asked if bridges were included in the valuation, especially given the recent work carried out on Milburngate Bridge as would be a huge asset to hold. The Head of Technical Services confirmed that they were and the work carried out at Milburngate would be fed into the next financial year's budget.

Referring to the budget Councillor C Carr asked how much was received from the government and how much was met from capital. The Head of Technical Services advised that the DoT funding, including LTP and pot hole funding was £14.2m and DCC topped up with additional capital funding of £5.4m.

The Corporate Director, Resources said that the Council does give high priority to highways maintenance and that significant resources are added to it from the County Council Budget. He reported that although a lot of work had gone into the bidding process for top slicing of the formula grant, it had been a huge disappointment not to receive anything from the bid. He added that it would be flagged up in the spending review and that there would be potholes funding working through the system. The Head of Technical Services explained that the share of national funding was roughly 1% and had a huge impact on the Council.

Councillor O Temple said that looking at the figures there appears to be a shortfall every year of £4m and asked if this implied a decline in the standard. The Head of Technical Services advised that this was the case for every authority and depended upon funding from the DoT. Councillor L Armstrong asked if the actual maintenance backlog add £4m each year and was advised that the figures were based on long term averages. The condition data was calculated on a 4 year cycle and milder weather meant less deterioration.

Ms K Larkin-Bramley asked if there was a separate inventory list and was advised that there was a detailed database for highways. The new system would use

accredited national systems. The Assistant Finance Manager, Corporate Finance added that the list was based on historical costs and the new system would become live in 2017/18.

With regards to valuations, Ms Larkin-Bramley asked if they were carried out internally and was informed that the CIPFA guidance was followed and that there had been a move to local rates.

Councillor C Carr said that the 30 years figure provided in the CIPFA guidance was a long period of time for highways, especially when the surface of a road would break up after 22-25 years. The Head of Technical Services said that the 30 year model did not mean that the asset only would be replaced after 30 years. It also included periodic replacement based upon a prioritisation criteria. He added that it was imperative to inspect and that highways were constructed to an adoptable standard.

The Chairman thanked the Head of Technical Services for his detailed and informative presentation.

Resolved:

That the presentation be noted.

5 Annual Audit Letter 2014/2015

The Committee received the Annual Audit Letter 2014/15 from Mazars summarising the 2014/15 audit of Durham County Council and Durham County Council Pension Fund (for copy see file of Minutes).

Mr C Waddell, Mazars advised that all deadlines had been met and an unqualified opinion had been issued for both the County Council and Pension Fund Accounts. He added that robust arrangements were in place with regards to value for money.

The Committee were advised that Mazars had signed off and closed the whole of government accounts (WGA) on the same day as the accounts, and that the certificate had been issued.

Mr Waddell informed the Members that he would give a presentation at the next meeting about the Value for Money conclusion, as they moved to one overall criteria, including partnership working.

Resolved:

That the contents of the letter are noted.

6 Strategic Risk Management - Progress Report for the quarter ended 30 September 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 July to September 2015 (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager informed the Committee that there were 26 strategic risks with the addition of two and the removal of three since the last report. He brought to Members attention information about the risks contained within the Community Risk Register detailed in paragraph 8 of the report.

Resolved:

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

7 IT Audit Review Completed by Mazars

The Committee considered a report of the Technical Services Manager, ICT Services that gave an update on the recent audit completed by Mazars of the general controls relating to the authority's financial/pension IT systems (for copy see file of Minutes).

The Technical Services Manager summarised the findings and actions carried out. He advised that to date, all of the recommended actions had been completed with the exception of the testing of systems and replacement of equipment at Tanfield. There had been a delay on works due to the introduction of a solar farm next to the depot.

Councillor C Carr asked who had agreed the overall review and was advised that it had been signed off by the ICT Senior Leadership Team.

Councillor L Armstrong referred to the system recovery arrangements and the back up arrangements with Sunderland City Council. He understood that we had undertaken testing but asked how confident we were that Sunderland could do the same. The Technical Services Manager advised that the arrangements were independent of the Council and that we rent space from Sunderland City Council with 24 hour access to the building, power supply and equipment.

Referring to the review Councillor O Temple said that it had been very thorough and asked why the number of generic accounts were so high compared to the number of employees. The Technical Services Manager said that they were not attributable to a person as they relate to machines rather than the employee. Councillor Temple asked where the risk would lie with this and was advised that it was monitored as you could not track the system to a person.

Mr T Hoban asked about the programme for protecting the UPS and was advised that it was tested on a monthly basis and that there were three generators at Tanfield. The Technical Services Manager explained that the system had been in place for 8 years with a review to replace in the New Year.

Councillor J Rowlandson referred to the back-up plan and asked why there was still no date about the full check of the system. He was informed that it was programmed. The Chairman asked that concerns were taken back to the team but did understand that works had been put back work due to electrical work.

Mr C Waddell, Mazars informed the Committee that the review was carried out as part of the core audit with a focus on ICT Systems. He added that it had been a big piece of work, updating assessments from the 2015/16 audit testing any changes and controls. Any weaknesses found had been followed up and the Chief Internal Auditor and Corporate Fraud Manager said that Internal Audit had found the same issues as Mazars.

The Chairman said that it was a positive report with a lot of work carried out.

Resolved:

- (i) That the report and appendices are noted.
- (ii) That the actions be added to the ICT Services Audit Action Log and monitored as part of the regular service management team meetings on a monthly basis, be noted.

8 Framework for Delivering Good Governance in Local Government

The Committee considered a report of the Corporate Director, Resources that informed of a consultation by CIPFA and SOLACE on their revised Framework for Delivering Good Governance in Local Government and that presented, for information, the County Council's response to the consultation, which was sent on 28 September 2015 (for copy see file of Minutes).

Resolved:

That the report be noted.

9 Work of the Audit Committee - Report to Council

The Committee considered report of the Audit Committee which covered the period February to September 2015 and would be presented to the County Council at its next meeting in accordance with best practice guidelines (for copy see file of Minutes).

Resolved:

That the draft report be agreed and reported to the meeting of the County Council being held on 9 December 2015.

10 Internal Audit Progress Report for the quarter ended 30 September 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 July to September 2015 (for copy see file of Minutes).

The Audit and Fraud Manager highlighted the movements in the plan, removed audits and unplanned reviews added to the plan. The service had completed 47% of the total plan, and were on target. The Committee were advised that there were no draft audit reports outstanding and that 96% of actions had been implemented. Improvements had been made to the Service groupings response rate, with an

average score of 4.4 out of 5. No audits finalised in the quarter that had been given a limited assurance opinion.

Councillor M Davinson noted the survey response rates and asked if CAS were aware of the targets as were slightly lower than the other areas. The Chief Internal Auditor and Corporate Fraud Manager advised that they were liaising a lot more closely with the schools with e-mails sent to all head teachers. Councillor Davinson recommended that any Members who sit on governing bodies could pass the message on.

Resolved:

- (i) That the amendments made to the 2015/2016 Annual Audit Plan, be noted.
- (ii) That the work undertaken by Internal Audit during the period ending 30 September 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.

11 Exclusion of the public

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

12 Internal Audit Progress Report for the quarter ended 30 September 2015

The Committee considered Appendix 5 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).

Resolved:

That the report be noted.

13 Overdue Audit Recommendations

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

Resolved:

That the recommendations contained within the report be approved.

14 Protecting the Public Purse - Activity Update as at 30 September 2015

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager that provided an update on the Council's counter fraud activity as at 30 September 2015 (for copy see file of Minutes).

Resolved:

That the recommendation contained within the report be approved.

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Audit Committee

29 February 2016

Co-opted Members to the Audit Committee



Report of Don McLure, Corporate Director Resources

Purpose of the Report

- 1 To advise the Committee that it will be the last meeting for the two co-opted members on the Committee following 9 years of service, and of the process of appointment of two new co-opted members.

Background

- 2 On 10 December 2007 the Audit Committee agreed to appoint two co-opted non-voting members to the Audit Committee for a three year fixed contract. The co-options accorded with CIPFA's "Audit Committees: practical guidance for local authorities". Following an advert in the press inviting applications, prospective candidates were interviewed, and Tom Hoban and Kathryn Larkin-Bramley were appointed as the two co-opted Members.
- 3 Their appointments were due to expire on 28 February 2011, however Council agreed extensions to their contracts up to 30 April 2016. On the basis of both Tom Hoban and Kathryn Larkin-Bramley appointments ending on 30 April 2016, the process of seeking to appoint two new co-opted members should now be undertaken.
- 4 Full Council agreement is sought on the appointment process for recruitment for two new non-voting members at their meeting on 24 February 2016. An advert will be placed in the press and on the council's website. Council is asked to agree the delegation of the appointments to the Corporate Director, Resources in consultation the Chairman and Vice-Chairman of the Audit Committee. Council will also consider a process for filling any subsequent vacancies that may arise within the two new appointees' three year term of office. An update following the council meeting will be provided at the meeting.

Recommendation

- 5 To note that the Council agree to make two new appointments of non-voting co-opted members to the Committee for a three year period commencing on 1 May 2016, and of the recruitment process agreed by Council.

- 4 To place on record the excellent service and contribution of Tom Hoban and Kathryn Larkin-Bramley during their 9 years' service as co-opted members to the Audit Committee.

Contact: Ros Layfield, Committee, Member & Civic Services Manager 03000 269 708

Appendix 1: Implications

Finance- Travelling and subsistence costs of the successful applicants in attending meetings/ training events of the Audit Committee will be paid. Advertising and printing costs can be met from within existing budgets.

Staffing- None specific in this report

Risk- None specific in this report

Equality and Diversity/ Public Sector Equality Duty-

A recruitment process would be carried out in accordance with the Council's recruitment procedure.

Accommodation- None specific in this report

Crime and disorder- None specific in this report

Human rights- None specific in this report

Risk- None specific in this report

Consultation- None specific in this report

Procurement- None specific in this report

Disability Issues- A recruitment process would be carried out in accordance with the Council's recruitment procedure.

Legal Implications- None specific in this report

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Audit Committee

29 February 2016



Agreement of Accounting Policies for Application in the 2015/16 Financial Statements

Don McLure, Corporate Director Resources

Purpose of the Report

1. To update the Audit Committee on the County Council's accounting policies to be applied in the preparation of the 2015/16 Statement of Accounts and to seek confirmation from the Audit Committee that appropriate policies are being applied.

Background

2. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
3. Accounting policies are defined in the Code as *"the specific principles bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements"*.
4. Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as it applies to omissions and misstatements:

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

5. Appendix 2 provides a summary of all changes to be applied in preparing the 2015/16 Statement of Accounts.
6. Objective 2 of the Audit Committee's Terms of Reference requires it to provide *'Independent assurance over the financial reporting of the Council's Statement of Accounts ensuring that any issues arising from the process of drawing up, auditing and certifying the Council's annual accounts are dealt with properly to maintain an understanding of accounting policies and internal and external reporting requirements'*.

New and Amended Accounting Policies

7. The proposed accounting policies are in line with those used in the preparation of the 2014/15 accounts, with the following exceptions:
 - Financial Instruments (10) and Property, Plant and Equipment (21) – amended to reflect the Code’s adoption of IFRS 13 (Fair Value Measurement).
8. There have been minor amendments made to the following policies to align with the Code guidance notes:
 - Charges to Revenue for Non-Current Assets (7) – references to “fixed assets” changed to “non-current assets”
 - Employee Benefits - Termination Benefits (8) – updated to reflect the latest recognition requirements
 - Disposals and Non-current Assets Held for Sale (22) – merged with Property, Plant and Equipment (21)
9. The policy in respect of Landfill Allowance Schemes (25 in 2014/15) has been deleted, as the Landfill Allowances Trading Scheme (LATS) has now ended.
10. There are no new accounting policies.
11. The full list of accounting policies the Council proposes to disclose in its Statement of Accounts notes are detailed in Appendix 2.

Recommendations and reasons

12. The Committee is recommended to:
 - review the accounting policies;
 - approve their use in the preparation of the 2015/16 financial statements.
 - authorise the Corporate Director Resources to review the accounting policies as necessary, and report changes to the Audit Committee.

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance -

The report considers the Accounting Policies for the County Council's Statement of Accounts for 2015/16.

Staffing -

None

Risk -

None

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

Appendix 2: Accounting Policies 2015/16

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

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

Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Council is required by the Accounts and Audit (England) Regulations 2011 to prepare an annual Statement of Accounts. In line with the Regulations, the Statement of Accounts is prepared in accordance with proper accounting practices.

Those practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and the Service Reporting Code of Practice 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

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

2. Accruals of Income and Expenditure

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

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

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

3. Business Improvement District Schemes

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

4. Cash and Cash Equivalents

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

5. Exceptional Items

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

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

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

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

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

7. Charges to Revenue for Non-Current Assets

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

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

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

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

8. Employee Benefits

Benefits Payable During Employment

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

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end.

Post Employment Benefits

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

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

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

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

The Local Government Pension Scheme

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

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

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

- Service cost, comprising:
 - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
 - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
 - Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- Remeasurements, comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the Durham County Council Pension Fund – cash paid as employer’s contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

9. Events After the Reporting Period

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

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

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

10. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Available-for-Sale Assets

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

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

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

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

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

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

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

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

11. Foreign Currency Translation

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

12. Government Grants and Contributions

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

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

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

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

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

13. Heritage Assets

Tangible and Intangible Heritage Assets

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

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

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

Recognition and measurement

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

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

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

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

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

Museum Collections and Artefacts

This includes museum exhibits and items such as books of remembrance and miners banners. Some items in this collection are reported in the Balance Sheet at insurance value, others at the amount at which they have been valued by professional valuers.

Artwork, including Public Art and Sculptures

This includes paintings, sculptures and outdoor public art installations around the county. Some items in this collection are reported at insurance value, others at cost and some at the amount at which they have been valued by professional valuers. There are a number for which no value is available so they are not reported on the Balance Sheet.

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

Monuments, Statues and Historic Buildings

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

Civic Regalia and Silverware

This includes civic chains, badges of office and silverware used for civic purposes, and are recorded at insurance value, or the amount at which they have been valued by professional valuers.

Geophysical / Archaeological

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

Depreciation

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

Impairment

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

Disposal

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

14. Intangible Assets

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

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

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

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

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

15. Interests in Companies and Other Entities

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

16. Inventories and Long Term Contracts

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

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

17. Investment Property

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

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

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

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

18. Joint Operations

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

19. Leases

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

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

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

The County Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The County Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

20. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

21. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost.

- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council’s housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant’s perspective
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

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

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

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

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

All valuations have been undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). The effective date for valuations is 1 April of the financial year and assets are revalued on a five-year rolling programme. Council dwellings are reviewed annually. All valuations undertaken in 2015/16 were carried out by Council staff. In addition to this rolling programme, assets which have been subject to potentially material change as a result of transactions in any given year will be revalued as and when such changes occur.

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer up to a maximum of 50 years.

- Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer, mainly up to a maximum of 10 years, however, some specialised items are depreciated over up to 25 years.
- Infrastructure – straight-line allocation over 40 years.
- Surplus Assets – Buildings up to 50 years, Land not depreciated

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

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

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

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

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

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge of 10.15% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

23. Provisions

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

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

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

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

24. Carbon Reduction Commitment Allowances

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

25. Contingent Liabilities

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

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

26. Contingent Assets

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

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

27. Reserves

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

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

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

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

29. Value Added Tax (VAT)

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

30. Schools

In line with accounting standards on group accounts and consolidation, all maintained schools in the County are now considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts. The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled

- Foundation/Foundation Trust

Schools Non-Current (fixed) Assets are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school Governing Body own the assets or have had rights to use the assets transferred to them.

Community schools are owned by the Council and are, therefore, recognised on the Balance Sheet.

The Council's Voluntary Aided and Controlled schools are owned by the respective Diocese with no formal rights to use the assets through a licence arrangements passed to the School or Governing Bodies. As a result these schools are not recognised on the Balance Sheet.

The ownership of the Council's Foundation Schools is with the school or the schools Governing Body and as a result the school is recognised on the Council's Balance Sheet.

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Audit Committee

29 February 2016

Final Accounts Timetable for the year ended 31 March 2016



Don McLure, Corporate Director Resources

Purpose of the Report

- 1 The purpose of the report is to provide Members with the Final Accounts Timetable for 2015/16. This timetable details the deadlines for key actions to complete the Statement of Accounts in line with statutory deadlines.
- 2 The report is presented in accordance with paragraph 4.2.3 of the Committee's operational terms of reference which requires it **'to maintain an understanding of internal and external reporting requirements'**.
- 3 The key dates taken from the Final Accounts Timetable are attached at Appendix 2.

Background

- 4 The 'Accounts and Audit Regulations 2011' introduced a two stage approval process for the Statement of Accounts; the first stage is in June each year. The Regulations require that the responsible financial officer, by no later than 30 June, signs and certifies that the Statement of Accounts presents a true and fair view of the financial position of the County Council for the year to 31 March previous, subject to the views of the External Auditor.
- 5 The second stage, as set out in the Regulations, requires that on or before the 30 September, approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take into account the views of the External Auditor. This is done so that the Statement of Accounts can then be published.
- 6 The 2011 Regulations have now been superseded by the 'Accounts and Audit Regulations 2015'. The new Regulations require that, from 2017/18, the first stage approval be completed by 31 May and the second stage by 31 July. Transitory provisions permit the current deadlines to continue for 2015/16 and 2016/17.

- 7 In order to ensure that the County Council can meet these statutory deadlines, the process of 'closing the accounts' must be closely managed and monitored. The Final Accounts timetable is a tool for the effective management and monitoring of this process.

The Timetable

- 8 Each year the timetable is compiled in Strategic Finance with input from services to ensure that deadlines are achievable and will lead to completion of a Statement of Accounts for signing by the Section 151 Officer by 30 June. New and amended processes are considered for the impact on the achievement of dates, as well as reference to the previous year's problems and meeting of deadlines.
- 9 Strategic Finance monitors the achievement of the dates in the timetable throughout the period February to September. Although every effort is made to meet every deadline set, there will inevitably be some delays that will lead to some of the deadlines being missed.
- 10 Strategic Finance will follow up all delays and missed deadlines to ensure that the overall timetable will be achieved, and identify improvements that can be made to the next year end process.
- 11 Final Accounts Monitoring Meetings are also held each week during April to May to ensure that practitioners apply accounting procedures consistently; best practice is shared; there is a shared understanding of any difficulties or delays that are happening, and to disseminate updated information quickly and consistently. These meetings are not shown in the timetable.
- 12 This process has been in operation for the closedown of the Accounts since 2011/12 and has successfully delivered the Statement of Accounts in line with the statutory deadline.
- 13 This continues to be of great importance due to the requirement for earlier deadlines for the preparation and audit of financial statements from 2017/18.

Recommendations and reasons

- 14 Members are asked to note the key dates in the Final Accounts Timetable for 2015/16 detailed in Appendix 2.

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance –

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

Staffing -

None

Risk -

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

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

Appendix 2: Key dates from the Final Accounts Timetable

Task	Responsibility	Proposed completion date
Final Accounts Timetable and Guidance Notes issued to key personnel	Strategic Finance	Mon 22 Feb 2016
All cash posted up to and including 31 March	Financial Services – Revenues and Benefits	Thu 31 Mar 2016
Final Postings by Benefits Section	Financial Services – Revenues and Benefits	Thu 31 Mar 2016
Last creditors paysheet for 2015/16	Financial Services – Revenues and Benefits (Creditors)	Thu 31 Mar 2016
All stock checks completed at 31 March	Services	Thu 31 Mar 2016
All amounts banked by 31 March to be receipted in Oracle	Services	Thu 31 Mar 2016
Sending out of Related Party Declarations for Members and Senior Officers	Resources – Democratic Services	Fri 1 Apr 2016
Last Monthly Salaries and Wages information for 2015/16 processed into ledger	Payroll / Strategic Finance	Mon 4 Apr 2016
Details of Related Party Declarations for Members and Senior Officers to be returned to Democratic Services	Members / Senior Officers	Fri 15 Apr 2016
All Bank Reconciliations to 31 March completed	Strategic Finance	Fri 29 Apr 2016
Service Ledgers finalised and final reports produced and net revenue outturn for each Service Grouping notified to Strategic Finance	Financial Services / Strategic Finance	Thu 12 May 2016

Task	Responsibility	Proposed completion date
Analytical Review of service balance sheets and outturn to Strategic Finance	Financial Services	Fri 10 Jun 2016
Draft Statement of Accounts completed	Strategic Finance	Thu 16 Jun 2016
Draft Statement of Accounts to External Audit for Technical Review	Strategic Finance	Mon 20 Jun 2016
Chief Financial Officer to sign the Statement of Accounts	Strategic Finance / Corporate Director Resources	Thu 30 Jun 2016
Statement of Accounts to External Audit	Strategic Finance	Fri 1 Jul 2016
Start of Statement of Accounts Audit	External Audit	Fri 1 Jul 2016
Start of Inspection Period (proposed)		Mon 1 Jul 2016
Unaudited Whole of Government Accounts (WGA) return to External Audit and CLG – provisional	Strategic Finance	Fri 8 Jul 2016
Cabinet – Overall Outturn Report considered	Strategic Finance	Wed 13 Jul 2016
Audit Committee Meeting to consider report on the Statement of Accounts	Audit Committee	Fri 29 Jul 2016
End of Inspection Period (proposed)		Fri 12 Aug 2016
Audit Committee Meeting – approval of Statement of Accounts – Statutory deadline date	Strategic Finance	Fri 30 Sep 2016
Publication of Accounts – Statutory deadline date	Strategic Finance	Fri 30 Sep 2016
Audited Whole of Government Accounts (WGA) return to CLG – provisional	Strategic Finance	Fri 30 Sep 2016

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Audit Committee

29 February 2016



Changes to the Code of Practice for Local Authority Accounting in the UK for 2015/16

Don McLure, Corporate Director Resources

Purpose of the Report

- 1 The purpose of the report is to provide the Audit Committee with a summary of the key accounting changes in the latest edition of the **Code of Practice for Local Authority Accounting in the UK** (the Code). These changes apply to the 2015/16 accounts.
- 2 The report is presented in accordance with paragraph 4.2.3 of the Committee's operational terms of reference which requires it **'to maintain an understanding of internal and external reporting requirements'**.
- 3 Appendix 2 provides a summary of the changes and their relevance to the Council.

Background

- 4 The Code is based on International Financial Reporting Standards (IFRS), and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.
- 5 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2015. It supersedes the 2014/15 Code.
- 6 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.

- 7 The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances. A Code update was issued in early February 2016 in respect of:
- amendments as a result of legislative changes and particularly the Accounts and Audit Regulations 2015 for English authorities
 - CIPFA/LASAAC's decision to introduce specific transitional reporting requirements for the measurement of the highways network asset in 2016/17 which relate to the production of preceding year information (i.e. 2015/16).

Recommendations and reasons

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

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance –

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

Staffing -

None

Risk -

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

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

Appendix 2: Changes to the Code of Practice for Local Authority Accounting in the UK for 2015/16

The table below provides a summary of the changes in the 2015/16 CIPFA Code and their applicability to Durham County Council.

	Change	Relevant to Durham County Council
1	Amendments to chapter one to underline CIPFA/LASAAC's view of the importance of the consideration of materiality when preparing disclosures for local authority financial statements.	Yes
2	<p>The introduction of a new section on fair value measurement in chapter two (Concepts and Principles) to reflect the adoption of IFRS 13 Fair Value Measurement. The 2015/16 Code also includes a number of consequential amendments following the adoption of the standard. The most substantial of these are the amendments to:</p> <ul style="list-style-type: none"> i) section 2.1 (Concepts) – the table in this section has been updated to summarise the application of the measurement of fair value or current value measurement bases to the transactions of local authorities ii) section 4.1 (Property, Plant and Equipment) introduces the new definition and disclosure requirements for fair value measurement to surplus assets (see 4 below for further consequential amendments to section 4.1 of the Code to property, plant and equipment) iii) the definitions of fair value in sections 2.7 (Revenue Recognition), 4.4 (Investment Property), 4.9 (Non-current Assets Held for Sale and Discontinued Operations), 5.1 (Inventories), 5.3 (Debtors), 6.1 (Employee Benefits – Definitions) and 8.1 (Creditors) of the Code iv) a number of the definitions and disclosure requirements in section 4.7 (Impairment of Assets) v) the definitions of fair value and the disclosure requirements of chapter seven (Financial Instruments). 	Yes

	Change	Relevant to Durham County Council
3	Clarification in section 3.4 (Presentation of Financial Statements) of the reporting requirements for disclosures that support the Movement in Reserves Statement.	Yes
4	Clarification in section 4.1 (Property, Plant and Equipment) of the current adaptation of the measurement requirements for property, plant and equipment following the adoption of IFRS 13 and the introduction of the concept of current value. Current value in section 4.1 includes four measurement bases. Note that the new definition of current value means that the measurement requirements for property, plant and equipment providing service potential for an authority have not changed from the 2014/15 Code. The 2015/16 Code has changed the measurement requirements for assets classified as surplus assets. These assets are now to be measured at fair value in accordance with the definition in IFRS 13 and without any adaptations to that definition.	Yes
5	Introduction in section 4.1 of an interpretation to clarify what a short period means for the measurement of a class of assets for local authorities.	Yes
6	Following adoption of the amendments in the Update to the 2014/15 Code, minor clarifications of the reporting requirements in Appendix E (Accounting for Schools in Local Authorities in England and Wales).	Yes
7	Confirmation in section 4.10 (Heritage Assets) that the measurement of heritage assets shall continue to be made by any method that is appropriate and relevant and rationalises the disclosures of heritage assets following the introduction of FRS 102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland).	Yes
8	Amendments as an Update to the 2015/16 Code to chapter one (Introduction), chapter three (Financial Statements), chapter four (Non-Current Assets) and Appendix B (Sources and Legislation) as a result of the Accounts and Audit Regulations 2015 for English authorities and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.	Yes

	Change	Relevant to Durham County Council
9	Amendments as an Update to the 2015/16 Code to section 3.1 (Narrative Report) to reflect the new requirements in the Accounts and Audit Regulations 2015 for English authorities for a narrative statement. The section has also been updated to reflect the provisions of Statutory Guidance issued by the Scottish Government on the Management Commentary.	Yes
10	Amendments as an Update to the 2015/16 Code that confirm the decision to measure the Highways Network Asset at Depreciated Replacement Cost in accordance with the requirements in the 2016/17 Code. They include confirmation of the reporting requirements for that change in the 2015/16 financial statements and the transitional reporting requirements for the 2016/17 financial statements (though for the full reporting requirements direct reference will be needed to the 2016/17 Code).	Yes

Audit Committee



29 February 2016

External Audit Progress Report February 2016

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
 - Updated Value for Money conclusion guidance.
 - Emerging Issues and Developments
3. The external auditor's report is attached at Appendix 2.

Summary of Audit Progress

4. Planning for the 2015/16 audit has commenced and includes:
 - Refreshing the understanding of the business
 - Walkthrough of the key financial systems.
 - Liaison with Internal Audit to share knowledge and avoid duplication
 - Ongoing liaison with Senior Officers and consideration of key agendas and papers.
5. The National Audit Office (NAO) has issued updated guidance on the Value for Money (VfM) conclusion.

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.

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

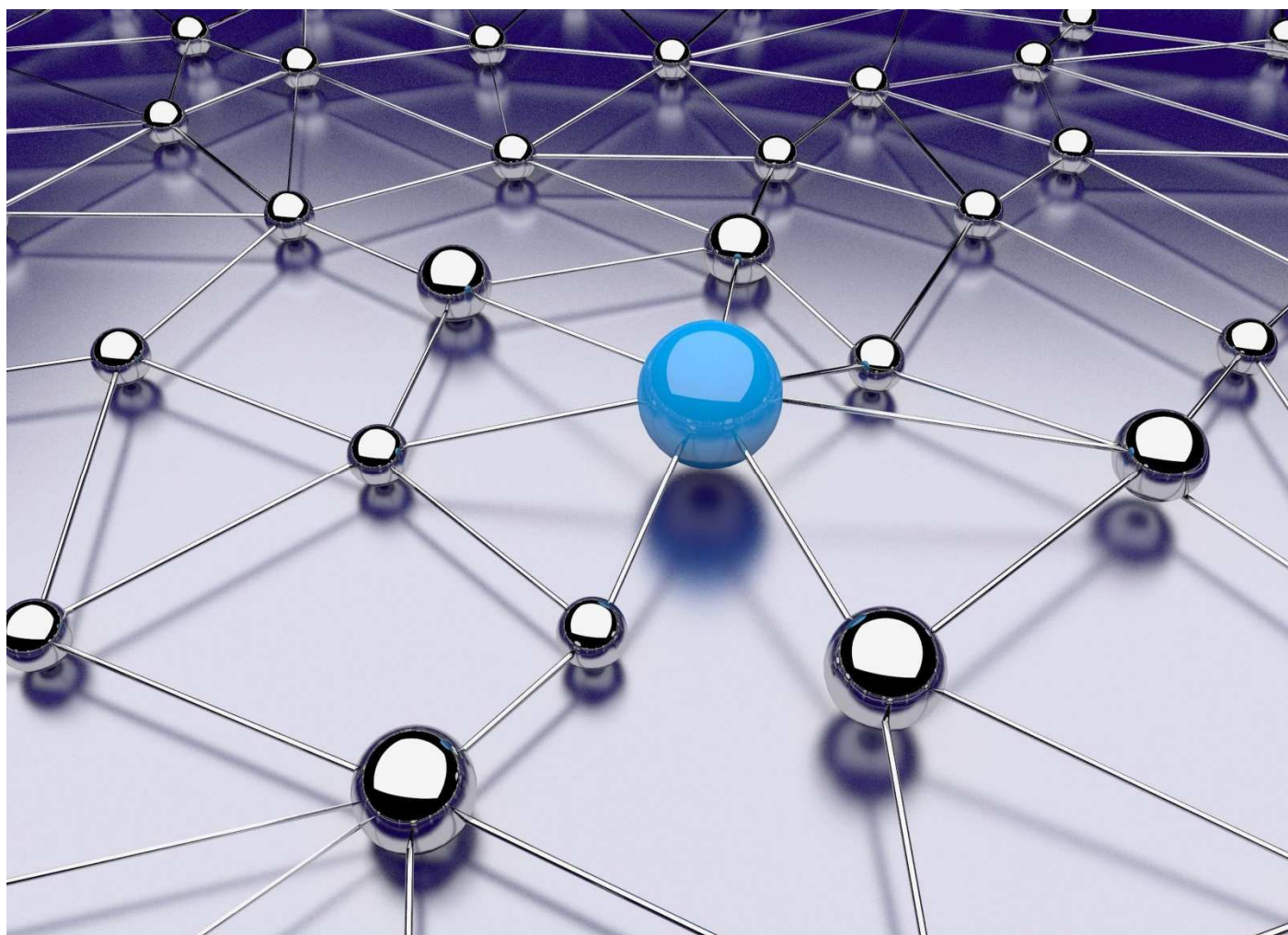
Legal Implications

None

Durham County Council

Audit Progress Report

February 2016



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Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Durham County Council, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.

01 Introduction

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

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

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

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

02 Summary of audit progress

Completion of 2014/15 audit

Certification of claims and returns

Our 2014/15 Certification report has been included on the agenda for this Audit Committee.

2015/2016 planning

Our planning work for the 2015/2016 audit year has commenced and includes:

- our initial planning in respect of 2015/2016, refreshing our understanding of the business and what we consider are the significant risks of material misstatement in respect of the financial statements and also the Value for Money (VfM) conclusion so as to inform our testing strategy;
- walkthroughs the key financial systems;
- meeting with your internal auditors to share common knowledge and ensure no duplication;
- on-going meetings with senior officers and consideration of key agendas and papers; and
- planning our interim substantive testing.

Our detailed Audit Strategy Memorandum will set out our planned work and assessments in more detail and we will present the plan to the Audit Committee meeting on 17 May 2016.

Audit team changes

James Collins has replaced Catherine Banks as Audit Manager. James is replaced by Sharon Liddle as Team Leader. James and Sharon have significant experience of Durham County Council and will ensure continuity of our arrangements. Cameron Waddell remains as the Engagement Lead for the audit.

03 Updated Value for Money conclusion guidance

Summary

The National Audit Office has published updated guidance in respect of the Value for Money (VfM) conclusion. The guidance sets out the revised criterion applying to 2015/2016 audits and consists of an overarching document, along with a local authority-specific paper which provides details of supporting background information on key issues facing local authorities.

Overarching guidance: <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-03-VFM-Arrangements-Work-09-11-15.pdf>

Local-authority specific background: <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Supporting-information-AGN-03-Local-authorities-Nov-2015.pdf>

Revised criteria

In previous years, auditors were required to reach their statutory conclusion on arrangements to secure VfM in respect of two main criteria; these have now been replaced by one overall criterion, supported by three sub-criteria, as set out in the two tables below

Previous year criteria

Previous year criteria	Focus of each criterion
The Council has proper arrangements in place for securing financial resilience.	The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The Council has proper arrangements for challenging how it secures economy, efficiency, and effectiveness.	The Council is prioritising resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

New criterion from 2015/2016

New overall criterion	Sub-criteria
In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.	<ul style="list-style-type: none"> • Informed decision-making. • Sustainable resource deployment. • Working with partners and other third parties.

Sub-criteria – further detail

In both local government and the NHS, organisations are already required to have arrangements in place to ensure proper governance, resource and risk management, and internal controls, and to report on the design and operation of those arrangements through Annual Governance Statements.

The recently issued guidance draws on relevant requirements applicable to each sector and aligns the scope of proper arrangements with those that responsible parties are already required to have in place and to report on through documents such as annual governance statements and annual reports (where applicable).

Drawing on the relevant requirements applicable to local bodies, proper arrangements cover the following:

Sub-criteria	Guidance
Informed decision-making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance. Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management. Reliable and timely financial reporting that supports the delivery of strategic priorities. Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. Managing and utilising assets effectively to support the delivery of strategic priorities. Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities. Commissioning services effectively to support the delivery of strategic priorities. Procuring supplies and services effectively to support the delivery of strategic priorities.

Next steps

As in previous years, the VfM conclusion requires auditors to reach a conclusion on whether arrangements are in place for securing VfM as opposed to an absolute determination on whether VfM is being achieved. The guidance also highlights that auditors should note that while all bodies will work with partners and other third parties (including contractors), the significance of these arrangements, and consequently the extent to which they will impact on the auditor's risk assessment, will vary.

We will carry out an initial risk assessment in respect of the VfM conclusion for 2015/2016, drawing on the newly issued guidance. This will inform our assessment of any significant risks and the extent of work required and we will report this in our Audit Strategy Memorandum for the 2015/2016 audit.

04 National publications and other updates

This section contains updates on the following:

1. **Regulatory Compliance and Quality Report, Quarter 1 2015/16**
2. **Whistleblowing e-learning for the public sector**
3. **Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Limited**
4. **A short guide to the Department for Communities and Local Government, National Audit Office, August 2015**
5. **A short guide to the National Audit Office's work on local authorities, National Audit Office, August 2015**
6. **Extension of existing external audit contracts by one year**

1. **Regulatory Compliance and Quality Report, Quarter 1 2015-16**

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The results of monitoring provide audited bodies and other stakeholders with assurance that auditors within the regime are delivering high-quality audits. In its Annual Regulatory Compliance and Quality Report PSAA reported that Mazars met all standards for overall audit quality and regulatory compliance. For 2014/15, Mazars' combined audit quality and regulatory compliance rating was **green** (the highest available).

The quarter 1 report summarises the performance of Mazars LLP (Mazars) against key quarterly performance indicators and is available on the PSAA website <http://www.psaa.co.uk/wp-content/uploads/2015/07/Mazars-Q1-2015-16-monitoring-report.pdf>

Mazars are rated **green** in all areas. The all firm comparison is also provided.

2. **Whistleblowing e-learning for the public sector**

The CIPFA Counter Fraud Centre has worked with the leading whistleblowing charity, Public Concern at Work (PCaW) and Mazars to create an accessible, easy to navigate e-learning course on whistleblowing.

The whistleblowing course is designed for use in organisations, to show all staff how to raise and report concerns at work and to clarify 'grey areas' around processes, complaints and definitions.

Featuring high profile examples plus sector specific case studies, the course aims to help staff to understand:

- what is and what is not whistleblowing;
- the arrangements you have in place;
- how best to blow the whistle/raise concerns;
- where staff can blow the whistle/raise concerns;

- what staff can expect and how their organisation will support them;
- rights and options for support; and
- why whistleblowing is so important.

3. Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Limited

This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. It replaces the previous statement issued by the Audit Commission and applies to audit engagements in respect of 2015/2016.

The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the Code of Audit Practice, now produced by the National Audit Office (NAO). Nothing in the Statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence, the role of the appointed auditor does not include providing financial or legal advice or consultancy services to the audited body.

The statement covers the following areas:

- responsibilities in relation to the financial statements;
- responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources (the VfM conclusion);
- specific powers and duties of auditors (public interest report, referral to Secretary of State);
- reporting the results of audit work;
- ad hoc requests for auditors' views; and
- access to information, data security and confidentiality.

http://www.psa.co.uk/wp-content/uploads/2006/08/Statement-of-responsibilities-of-auditors-and-audited-bodies-2015_16.pdf

Code of Audit Practice applying to 2015/2016 audits

As a reminder, earlier in 2015/2016, the NAO published the new Code of Practice applying to 2015/2016 audits. The Code prescribes the way local auditors are to carry out their functions and is supplemented by guidance issued by the NAO during the year.

<https://www.nao.org.uk/code-audit-practice/>

4. A short guide to the Department for Communities and Local Government, National Audit Office

The National Audit Office (NAO) is publishing a suite of short guides; one for each government department, to assist House of Commons Select Committees. This guide is designed to provide a quick and accessible overview of the Department and focuses on what the Department does, how much it costs and recent and planned changes.

<https://www.nao.org.uk/report/a-short-guide-to-the-department-for-communities-and-local-government/>

5. A short guide to the National Audit Office's work on local authorities, National Audit Office

The NAO has also published a short guide to its work on local authorities; this guide is designed to provide a quick and accessible overview of how local government is funded, the pressures local authorities face, staffing, and major recent and future developments.

<https://www.nao.org.uk/report/a-short-guide-to-the-naos-work-on-local-authorities/>

6. Extension of existing external audit contracts by one year

The current local government audit contracts with audit firms end with completion of the audit of the accounts for 2016/17, with an option to extend contracts after this date. The Government has taken a decision to extend local authority contracts by one year to cover the 2017/18 audit, the first year in which the accounts and audit deadline is to be brought forward significantly. From the 2018/19 audit, local authorities, including Durham County Council, will be required to make their own auditor appointments. The auditor for 2018/19 must be appointed by 31 December 2017. CIPFA is preparing guidance for local authorities on appointing auditors.

05 Contact details

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

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Audit Committee

29 February 2016



External Audit: Certification of Claims and Returns

Report of the External Auditor

Purpose of the Report

1. This report requests that the Committee note the external auditor's report on grant certification for 2014/2015.

Background

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

Summary of Certification Work

5. The grant certification work that has been completed includes:
 - Housing Benefit Subsidy.
 - Pooling of Housing Capital Receipts Return.
 - Teachers' Pension Return

Recommendation

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

Contact: James Collins

Tel: 03000 267452

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

None

Durham County Council

Certification of claims and returns

Annual report 2014/15



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Our reports relating to the 2014/15 financial year are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies.' Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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

1 Background

The scope of our work

As the Council's appointed auditor, we acted as an agent of the Audit Commission. The Local Audit and Accountability Act 2014 transferred the Audit Commission's responsibilities to make certification arrangements for specified claims and returns to Public Sector Audit Appointments (PSAA). For 2014/15 the only claim or return within this regime was the Housing benefit subsidy return.

In 2014/15 the prescribed tests for our Housing benefits work were set out in the HBCOUNT module and BEN01 Certification Instructions issued by the Audit Commission.

During the year we have also been engaged directly by the Council to undertake assurance work on the following claims and returns

- Pooling of Housing Capital Receipts
- Teachers' Pension Return

These engagements are outside of the Audit Commission / PSAA regime and we have reported separately to officers on the outcome of this work. We have included the results of this work in this report to give members a full understanding of our assurance and certification work for 2014/15.

Our certificate

For the Housing benefit subsidy return, on completion of the specified work we issue a certificate. The certificate states whether the claim has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter. Where we issue a qualification letter or the claim or return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

For assurance provided on claims and returns outside of the Audit Commission / PSAA regime, we issue an assurance report instead of a certificate.

2 Findings

The Council's control environment

We have not noted any weaknesses in your control environment for any claim or return.

Amendments and Qualifications

The following claims and returns were certified in 2014/15:

Audit Commission/PSAA grant claims or returns

Claim or return	Value of claim or return	Amended	Qualified
Housing benefit subsidy	192,826,666	Yes – a number of amendments to cells. This led to total subsidy increasing by £259 from £192,826,407.	Yes – qualification letter issued to the Department on 18 November 2015.

Non Audit Commission/PSAA grant claims and returns

Claim or return	Value of claim or return	Amended
Pooling of Housing Capital Receipts	£2,704,573.27	No
Teachers' Pension Return	£119,424,959.31	No

Housing benefit subsidy

As in previous years and in common with many other authorities, minor errors and minor differences in reconciliations supporting the Housing Benefits Subsidy claim were identified.

Where an error could be quantified the claim form was amended. The return was amended for one such error relating to backdated payments.

Where an error was identified in sample testing and it was not possible to quantify the error the matter was reported as an extrapolated error in a qualification letter to the Department. Our sample testing is split between initial testing and additional testing. Initial testing tests a random sample of 20 cases from each headline cell on the subsidy claim form for each of the three benefit types (non-HRA rent rebates, rent rebates and rent allowances). One error was identified in our 2014/15 initial testing. This was due to incorrect rent amounts for housing association properties being used in a rent allowance calculation. Testing of an additional 40 rent allowance cases was undertaken and no further errors were identified. The error in the initial testing resulted in an underpayment. We are not required to extrapolate on errors which result in the underpayment of benefit.

Certification Instruction BEN01 and the associated HBCOUNT approach instructs where initial testing does not match with cumulative audit knowledge and experience (CAKE) then additional testing must be

completed. As in previous years, additional testing was completed by the Authority testing a further 40 cases looking at specific issues which arose in the prior year. We then carried out our own re-performance of a sample of these cases. This additional testing identified errors in 2014/15 relating to:

- Incorrect claimant income being used in the calculation of rent rebate. This resulted in both under and overpayments in benefit. We reported in our qualification letter the extrapolated impact of the errors resulting in overpayments. We are not required to extrapolate errors which result in the underpayment of benefits.
- The charge being applied to non dependent income was incorrect in the calculation of rent rebate. The impact of these errors was an underpayment of benefit. We are not required to extrapolate errors which result in the underpayment of benefits.
- Incorrect self employed client information used in the calculation of rent allowance. Errors resulted in both under and over payment of benefit. We reported in our qualification letter the extrapolated impact of errors resulting in overpayments. We are not required to extrapolate errors which result in the underpayment of benefits.
- Errors in recording claimant's capital in rent allowance calculations. These errors resulted in underpayment of benefit. We are not required to extrapolate errors which result in the underpayment of benefits.

Where underpayments were identified the authority ensured those claims affected were amended and the entitled benefit was awarded to the claimant. A total of ten claims with a value of £2,171 were identified as being underpaid. Remedial actions have been taken by officers to prevent similar errors occurring in the future.

This year, in several areas, the additional work carried out on the prior year issues has resulted in no fails at all being identified for 2014/15.

As with previous years the number and severity of the issues identified and reported continues to decrease significantly for the Housing Benefit return. This reflects the ongoing improvements in practices and arrangements for administering this complex scheme.

Non PSAA grant claims and returns

Pooling of Housing Capital Receipts

Since 2004/05, local authorities have paid part of their receipts from the disposal of housing into a national pool run by DCLG. They are also required to pool a part of other receipts such as mortgage principal repayments.

We have carried out our work on the Council's Pooling of Housing Capital Receipts return in line with instructions issued by DCLG and concluded that the return was prepared, in all material respects, in accordance with the terms and conditions as set out in DCLG's instructions.

Teachers' Pension Return

The Teachers' Pension Scheme is a contributory pension scheme administered by Teachers' Pensions on behalf of the Department for Education. Teachers employed in local authority maintained schools and other local authority establishments may be members of the scheme.

The Council is required to submit a return (EOYCa) showing teachers' pension contributions deducted and paid to Teachers' Pensions in the year.

For 2014/15, we concluded that the EOYCa for the year ended 31 March 2015 had been prepared, in all material respects, in accordance with the regulations underpinning the Teachers' Pension scheme. Without

qualifying our opinion we did report some matters in line with the requirements of Reporting Accounting Guidance (TP05).

3 Fees

Prior to its abolition, the Audit Commission set an indicative fee for our work on the Council's Housing benefit subsidy return. We confirm that the final fee payable for this work as outlined in the table below is in line with the indicative fee.

For claims and returns that fell outside of the Audit Commission / PSAA regime, we agree a fee with Council officers prior to commencing our work.

For 2014/15 the following fees were charged for certification work:

Audit Commission/PSAA grant claims or returns

Claim or return	2014/15 indicative fee	2014/15 final fee	2013/14 final fee
Housing benefit subsidy	£32,210	£32,210	£26,995*

Non Audit Commission/PSAA grant claims and returns

Claim or return	2014/15 fee	2013/14 fee
Pooling of Housing Capital Receipts	£1,500	£246**
Teachers' Pension Return	£4,850	£5,900

*The 2013/14 and 2014/15 indicative fees were set by the Audit Commission. The 2014/15 fee reflects the level of work required to complete our benefits testing.

**This was the indicative fee set by the Audit Commission as the Pooling of Housing Capital Receipts was under the Audit Commission regime. The fee in 2013/14 did not reflect the level of work required.

Should you require any further information on this report or on any other aspect of our work, please contact:

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Audit Committee

29 February 2016

Local Code of Corporate Governance



Report of Don McLure, Corporate Director Resources

Purpose of the Report

- 1 For the Audit Committee to consider the inclusion of the updated Local Code of Corporate Governance into the revised Council Constitution.

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 Good corporate governance requires local authorities to carry out their functions in a way that demonstrates accountability, transparency, effectiveness, integrity, impartiality and inclusivity. Corporate governance is also the structure through which strategic objectives are set and performance monitored. Best practice principles in that regard flow from the three core components of the Turnbull Report* namely:
 - the assessment of corporate risk;
 - effective management systems;
 - and the enabling of the organisational culture.
- 4 In discharging this overall responsibility the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risks.

Local Code of Corporate Governance

- 5 The Council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework – 'Delivering Good Governance in Local Government'. This Code is a public statement that sets

*In 1999, the Chartered Accountants of England and Wales issued Guidance for Directors on the Combined Code (The Turnbull Report). The Report became one of the principal authorities on this subject and recognised three key components for the successful management of corporate governance.

out the way the Council will meet its commitment to demonstrating that it has the necessary Corporate Governance arrangements in place to perform effectively. It represents a key component of the Council's governance arrangements. The Code applies to all Council Members, Officers, Partners and stakeholders in their dealings with the Council. The current Code can be found in Part 5 'Codes and Protocols', of the Council's Constitution.

- 6 In line with agreed practice, the Code has been updated to reflect the findings of our annual review of the effectiveness of the Council's corporate governance arrangements.
- 7 The updated version is attached in Appendix 2. The changes, which are marked with grey highlight in the report, are summarised below and cross-referenced to the appropriate paragraph in the Code:

2.4, bullet 5.

Additional text: *"A 'whole council approach' to customer services through the Customer First Strategy, which is linked to the wider priorities of the Council and seeks to broaden accessibility to information and services in an economically efficient way."*

2.17.

Remove text: *"People and Organisational Development Strategy"*.

3.8, Corporate Governance Framework

Added to key documents list: *"Customer First Strategy"*

Amendment in key documents list: *"People and Organisational Development Strategy"*.

Recommendation

- 8 The Audit Committee is requested to approve the revised Local Code of Corporate Governance to replace the existing version in the constitution.

Contact: Kevin Roberts Tel: 03000 269657

Appendix 1: Implications

Finance – There are no financial implications associated with this report. However, financial planning and management is a key component of effective corporate governance.

Staffing – There are no impacts on staff, but ensuring the adequate capability of staff meets a core principle of the CIPFA/ SOLACE guidance.

Risk – There are no reportable risks associated with the report, but the assessment of corporate risk is a key component of the Council’s governance arrangements.

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 – There are no accommodation implications , but 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 – None.

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DURHAM COUNTY COUNCIL

LOCAL CODE OF CORPORATE GOVERNANCE

Introduction

- 1.1. Corporate governance is a term used to describe how organisations direct and control what they do. As well as systems and processes, this includes cultures and values. For local authorities this also includes how a council relates to the communities that it serves.
- 1.2. Good corporate governance requires local authorities to carry out their functions in a way that demonstrates accountability, transparency, effectiveness, integrity, impartiality and inclusivity. Corporate governance is also the structure through which strategic objectives are set and performance monitored. Best practice principles in that regard flow from the three core components of the Turnbull report, namely: the assessment of corporate risk; effective management systems and the enabling of the organisational culture.
- 1.3. Durham County Council is committed to demonstrating that it has the necessary corporate governance arrangements in place to perform effectively. This Code is a public statement that sets out the way the Council will meet that commitment. As such it represents a key component of the Council's governance arrangements, and is included in the Constitution.
- 1.4. The Code has been developed in accordance with and is consistent with the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) Delivering Good Governance in Local Government Framework and is based upon the following six core principles:
 - **Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area**
 - **Members and officers working together to achieve a common purpose with clearly defined functions and roles**
 - **Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**
 - **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**
 - **Developing the capacity and capability of members and officers to be effective**
 - **Engaging with local people and other stakeholders to ensure robust public accountability**
- 1.5. The Code details how the Council will follow these core principles and the supporting principles that underpin them. To complement this, the Code also highlights the key documents and functions which contribute to the Council's good governance arrangements.
- 1.6. The Code also aims to ensure that the corporate governance arrangements help the Council to appropriately respond to sustained pressures from a variety of sources.

- 1.7. The mechanisms for monitoring and reviewing the Council's corporate governance arrangements are set out in the Code.

2. 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

- 2.1. The key documents supporting this principle are the [Constitution](#) and:

- [Sustainable Community Strategy](#) (SCS)
- [County Durham Plan](#)
- [Regeneration Statement 2012 - 2022](#)
- [Safe Durham Partnership Plan 2014 – 2017](#)
- [Joint Health and Wellbeing Strategy 2014 – 2017](#) (JHWS)
- [Children, Young People and Families Plan 2015 - 2018](#)
- [Council Plan](#), [Service Plans](#), [Medium Term Financial Plan](#) (MTFP) and
- Various reports on subjects including Financial Management, Performance Management, Scrutiny, Risk Management and Internal Audit.

- 2.2. The Council exercises strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcome for citizens and service users. This is achieved by:

- Promoting the authority's purpose and vision through the [Sustainable Community Strategy](#) (SCS), with our partners on the County Durham Partnership (CDP), and through the strategies and plans listed in paragraph 2.1, above.
- Identifying priorities and actions to support the delivery of the vision in the [Council Plan](#), [Service Plans](#) and the [Medium Term Financial Plan](#) (MTFP).
- Reviewing the Council Plan and the MTFP annually, and the SCS every three years (it was last reviewed in September 2013).
- Setting out in the [Constitution](#) the purposes for which the Executive may enter into partnerships or joint arrangements.
- Ensuring, through the partnership governance framework, that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners, and recorded in the Council's Partnership Register.
- Publishing various reports on a timely basis to communicate the authority's activities and achievements, its financial position and performance.

- 2.3. The Council ensures that users receive a high quality of service whether directly, or in partnership, or by commissioning, by:

- Maintaining a range of performance management frameworks, internally and through the CDP performance management framework and other partnerships.
- Measuring service quality against locally-led performance indicators and independently-verified performance information.
- Ensuring that the information needed to review service quality effectively and regularly is available.

- Providing a Quarterly [Performance Management Report](#) to Cabinet, ensuring that effective arrangements are put in place to deal with failure in service delivery.
- 2.4. The Council ensures that the authority makes best use of resources and that tax payers and service users receive excellent value for money by:
- Driving value for money improvements in the provision of local services, informed by a variety of benchmarking data and networks. These are delivered through the [Council Plan](#) and the [Medium Term Financial Plan](#), which is subject to detailed and frequent monitoring undertaken by Corporate Management Team and Cabinet.
 - Publishing externally audited Annual Statements of Account.
 - Closely monitoring, through CMT and Cabinet, the delivery of the [MTFP](#) and the associated efficiency programme.
 - Monitoring the condition, suitability, sufficiency and accessibility of property through the Corporate Property Strategy and the Corporate Asset Management Plan.
 - A 'whole council approach' to customer services through the Customer First Strategy, which is linked to the wider priorities of the Council and seeks to broaden accessibility to information and services in an economically efficient way.

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

- 2.5. 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.
- 2.6. The Council ensures effective leadership throughout the authority and is clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function. This is achieved by setting out, in the [Constitution](#):
- Clear statements of the respective roles and responsibilities of the executive and of the executive's members individually and the authority's approach towards putting this into practice.
 - Clear statements of the respective roles and responsibilities of other authority members, members generally and senior officers. These statements are promptly updated following organisational restructures and the creation of major posts.
 - The arrangements and rules of procedure for the Overview and Scrutiny function.
 - Who is responsible for the various functions of the Council.
- 2.7. The Council ensures that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard. This is achieved by:
- Reviewing the [Constitution](#) through the Constitution Working Group, which consists of the lead Members from each political party, chaired by the Leader of the Council.

- Electing a Leader of the Council, nominating a Cabinet made up of members with defined executive responsibilities, and annually appointing Committees to discharge the Council's Regulatory and Scrutiny responsibilities.
- A scheme of delegation and reserve powers within the [Constitution](#), including a formal schedule of those matters specifically reserved for collective decision of the authority taking account of relevant legislation and ensuring that it is monitored and updated when required.
- Setting out in the [Constitution](#) clear guidance to members and employees of the Council on their relations with one another.
- Making the Chief Executive, as Head of Paid Service, responsible and accountable to the authority for all aspects of operational management.
- Making the Corporate Director, Resources (the section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.
- Making the Head of Legal and Democratic Services (the monitoring officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.
- Recognising in the [Constitution](#) the statutory roles of the Corporate Director, Children and Adults Services, and the Director of Public Health.
- Performing a local test of assurance annually to confirm that the merged roles of the Director of Children's Services and the Director of Adult Social Services have not weakened the focus on outcomes for children and young people.
- Holding regular meetings between senior members and officers.

2.8. The Council ensures relationships between the authority, its partners and the public are clear so that each knows what to expect of the other by:

- Ensuring effective communication between members and officers in their respective roles through the Protocol on Member/Officer Relations.
- Setting out in the [Constitution](#) the terms and conditions for remuneration of members overseen by the remuneration panel.
- A Health and Wellbeing Board overseeing the public health responsibilities transferred to the Council in April 2013.
- Ensuring, through regular reporting internally and to the County Durham Partnership, that effective mechanisms exist to monitor service delivery.
- Consulting with partners when developing the council's own three year [MTFP](#), working with key agencies to develop complementary proposals and consulting on a joint basis with the Police and NHS County Durham and Darlington.
- Consulting Area Action Partnerships, the public and other stakeholders on the development and implementation of our [MTFP](#) to identify local priorities for action, test strategic priorities at a local level and seek innovative ideas from local people on how to realise efficiencies by working more closely with our partners.
- When working in partnership ensuring, through the partnership governance framework, 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;

- representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.

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

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

2.10. The Council ensures that authority members and officers exercise leadership, and behave in ways that exemplify high standards of conduct and effective governance, by:

- Establishing and keeping under review the Council's own values on leadership as evidenced in Codes of Conduct that sets a standard for behaviour.
- Ensuring that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect.
- Having systems in place for reporting and dealing with incidences of fraud and corruption.
- Setting, out in the [Constitution](#), 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.
- Putting in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. These arrangements include a Register of Interests, Declarations of Gifts and Hospitality, and the Statutory Declaration of Acceptance of Office, which all Members are required to sign.

2.11. The Council fosters a culture of behaviour based on shared values, high ethical principles and good conduct by:

- Maintaining a Standards Committee responsible for promoting and maintaining high standards of conduct by councillors, independent members and co-opted members.
- Investigating any suspected breaches of the Council's codes of conduct.
- Promoting its Counter Fraud and Corruption Strategy externally, as well as internally, with any party who may have any dealings with the Council.

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

2.12. 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.

2.13. The Council is rigorous and transparent about how decisions are taken and listens and acts on the outcome of constructive scrutiny. This is achieved by:

- Ensuring that all decisions are made in public, recording those decisions and relevant information, and making them available publicly (except where

that information is exempt under the provisions of the Freedom of Information Act or determined as being confidential by Government or otherwise exempt by the Council).

- Publishing an [Executive Forward Plan](#) of decisions for next four months;
- Effective scrutiny functions that encourage constructive challenge and enhance performance through the Overview and Scrutiny Committee, and the Police and Crime Panel.
- Putting in place arrangements to safeguard members and employees against conflicts of interest, and appropriate processes to ensure that they continue to operate in practice.
- An effective Audit Committee that is independent of the executive and scrutiny functions, with responsibility for monitoring and reviewing the risk control and governance processes; and associated assurance processes.
- Ensuring through the Council's Complaints Procedure that effective, transparent and accessible arrangements are in place for dealing with complaints.
- A Freedom of Information publication scheme.

2.14. The Council maintains good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants or needs. This is achieved by:

- Implementing a Data Quality Policy, corporate data protection training and signing up to the Information Commissioner's Office's information promise.
- Applying the principles of decision making, as set out in the [Constitution](#), so that those making decisions, whether for the authority or the partnership, are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical and financial issues and their implications.
- Ensuring that proper professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately.

2.15. The Council maintains an effective risk management system by:

- Ensuring, through the Risk Management Strategy and Policy, that risk management is embedded into the culture of the authority, and that members and managers at all levels recognise that risk management is part of their jobs.
- Ensuring, through the Confidential Reporting Code and the School Financial Value Standard, that effective arrangements for whistleblowing are in place to which officers, staff and all those appointed by the authority have access.

2.16. The Council ensures that its legal powers are used to the full benefit of the citizens and communities in County Durham by:

- Utilising its' powers to the full benefit of communities but within the limits of lawful activity, for example, the 'ultra vires' doctrine.
- Recognising the limits of lawful action and observing both the specific requirements of legislation and the general responsibilities placed on local authorities by public law.

- Observing legislative requirements placed upon the Council, as well as the requirements of general law, and integrating the key principles of good administrative law – rationality, legality and natural justice – into its' procedures and decision-making processes.

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

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

2.18. The Council ensures that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles by:

- Ensuring, through Personal Development Plans, that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority.
- Evaluating the effectiveness of Member development planning and evaluation via the Member Development Group which is chaired by a Member.
- Managing the performance and development of employees through an annual appraisal process.

2.19. The Council develops the capability of people with governance responsibilities and evaluates their performance, as individuals and as a group, by:

- Assessing the skills required by members and officers through personal development plans, and making a commitment to develop those skills to enable roles to be carried out effectively.
- Developing skills on a continuing basis, through implementation of the Member Development Strategy, to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.

2.20. The Council encourages new talent for membership of the authority so that best use can be made of individuals' skills and resources in balancing continuity and renewal. This is achieved by:

- Ensuring, through the Recruitment and Selection Policy that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority.
- Taking a strategic approach to workforce planning.

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

2.21. The key governance documents supporting this principle are the [Constitution](#) (Parts 2 and 4) and the Consultation and Engagement Strategy

2.22. The Council exercises leadership through a robust scrutiny function, which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships. This is achieved by:

- Making clear to members, officers, staff and the community, to whom we are accountable and for what.
- Considering those institutional stakeholders to whom the authority is accountable and assessing the effectiveness of the relationships and any changes required.
- Producing an annual report on the activity of the scrutiny function.
- Encouraging and supporting the public in submitting requests for aspects of the Council's Service to be scrutinised.
- Providing an appeals mechanism to ensure that the Council has a robust procedure in place for Petitions, and that petitioners have an opportunity to challenge Council inaction regarding a particular petition issue.

2.23. The Council takes an active and planned approach to dialogue with, and accountability to, the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning. This is achieved by:

- Ensuring that clear channels of communication are in place with all sections of the community and other stakeholders, and ensuring that they operate effectively.
- Ensuring, through multi-agency Area Action Partnerships, that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements recognise that different sections of the community have different priorities and establish processes for dealing with these competing demands.
- Establishing a clear policy on the types of issue on which the authority will meaningfully consult on or engage with the public and service users. This includes a feedback mechanism for those consultees to demonstrate what has changed as a result.
- Issuing Durham County News to every household in the County.
- Ensuring that the Council is open and accessible to the community, service users and staff, and ensuring that it has made a commitment to openness and transparency in all its dealings, including partnerships. This includes holding regular Cabinet meetings and staff briefings at various locations throughout the County, and is subject only to the need for confidentiality in those circumstances where it is proper and appropriate to do so.
- Drawing upon the locality arrangements of other public service providers such as the Police, the County Durham and Darlington NHS Foundation Trust and the Tees, Esk and Wear Valley NHS Foundation Trust through its partnership arrangements.
- Maintaining the Voluntary and Community Sector Working Group to support front line Third Sector organisations in County Durham.

- Maintaining a Local Councils Working Group to build closer working relationships around new and developing areas of work.

2.24. The Council makes best use of human resources by taking an active and planned approach to meet responsibilities to staff. This is achieved by having a clear policy on how staff and their representatives are consulted and involved in decision making.

3. Monitoring and Review

3.1. The Audit Committee and the Standards Committee are responsible for monitoring and reviewing the various aspects of the Council's Corporate Governance arrangements.

3.2. The Audit Committee is responsible for the Council's arrangements relating to:

- Monitoring and reviewing the risk, control and governance processes, and associated assurance processes to ensure internal control systems are effective and that policies and practices are in compliance with statutory and other regulations and guidance;
- Approving the Council's Accounts prior to approval by the County Council;
- Reviewing a draft of this Code of Corporate Governance and recommending any amendments required before it is considered for approval by the Constitution Working Group and Full Council;
- External audit and internal audit;
- Risk Management;
- Making recommendations concerning relevant governance aspects of the Constitution;
- Reviewing the effectiveness of Internal Audit.

3.3. Each year the Council is required to publish a Governance Statement. This process is managed by the Resources Management Team and overseen by the Audit Committee who is responsible for approving it. The Annual Governance Statement provides an overall assessment of the Council's corporate governance arrangements and an appraisal of the key controls in place to manage the Council's principal governance risks, together with proposed improvements that will be made. This governance review process helps inform any amendments required to this Code of Corporate Governance.

3.4. The Annual Governance Statement will be published as part of the Council's Annual Statement of Accounts and will be reviewed by our External Auditors as part of their annual audit process.

3.5. The Standards Committee is responsible for promoting high ethical standards across the Council, overview of the Member and Officer codes and other relevant protocols.

3.6. These two Committees will ensure that the Council's governance arrangements are kept under continual review through;

- Reports prepared by officers with responsibility for aspects of this Code;
- The work of Internal Audit;
- External Audit opinion;
- Other review agencies and Inspectorates;

- Opinion from the Council's Statutory Officers.

3.7. The Council also has an Overview and Scrutiny Management Board and six Overview and Scrutiny Committees who support the work of the Executive and the Council as a whole. They allow a greater involvement in Council business by involving non-councillors from the wider public sector, and voluntary and community groups to help them in their work, and also work with Partners, including the County Durham Partnership. They may also be consulted by the Executive or the Council on forthcoming decisions or the development of policy. The terms of reference of the Overview and Scrutiny Management Board and its Committees are described in the [Constitution](#).

3.8. The Overview and Scrutiny Board and Committees will:

- Review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
- Make reports and/or recommendations to the full Council and/or the Cabinet in connection with the discharge of any functions;
- Consider any matter affecting the area or its inhabitants;
- Exercise the right to ask the Cabinet to reconsider any decisions they have made (call-in).

CORPORATE GOVERNANCE FRAMEWORK

Corporate Governance comprises the systems and processes, cultures and values, by which the Council is directed and controlled and through which we account to, engage with and where appropriate, lead the community

1. Focus on purpose of the authority, vision for local area and outcomes for the community	2. Members and officers working together to achieve a common purpose	3. Promoting values and upholding high standards of conduct and behaviour
4. Taking informed and transparent decisions, scrutinised and risk managed	5. Developing capacity of Members and Officers to be effective	6. Engaging with local people to ensure public accountability



Key Documents which support the achievement of the core principles

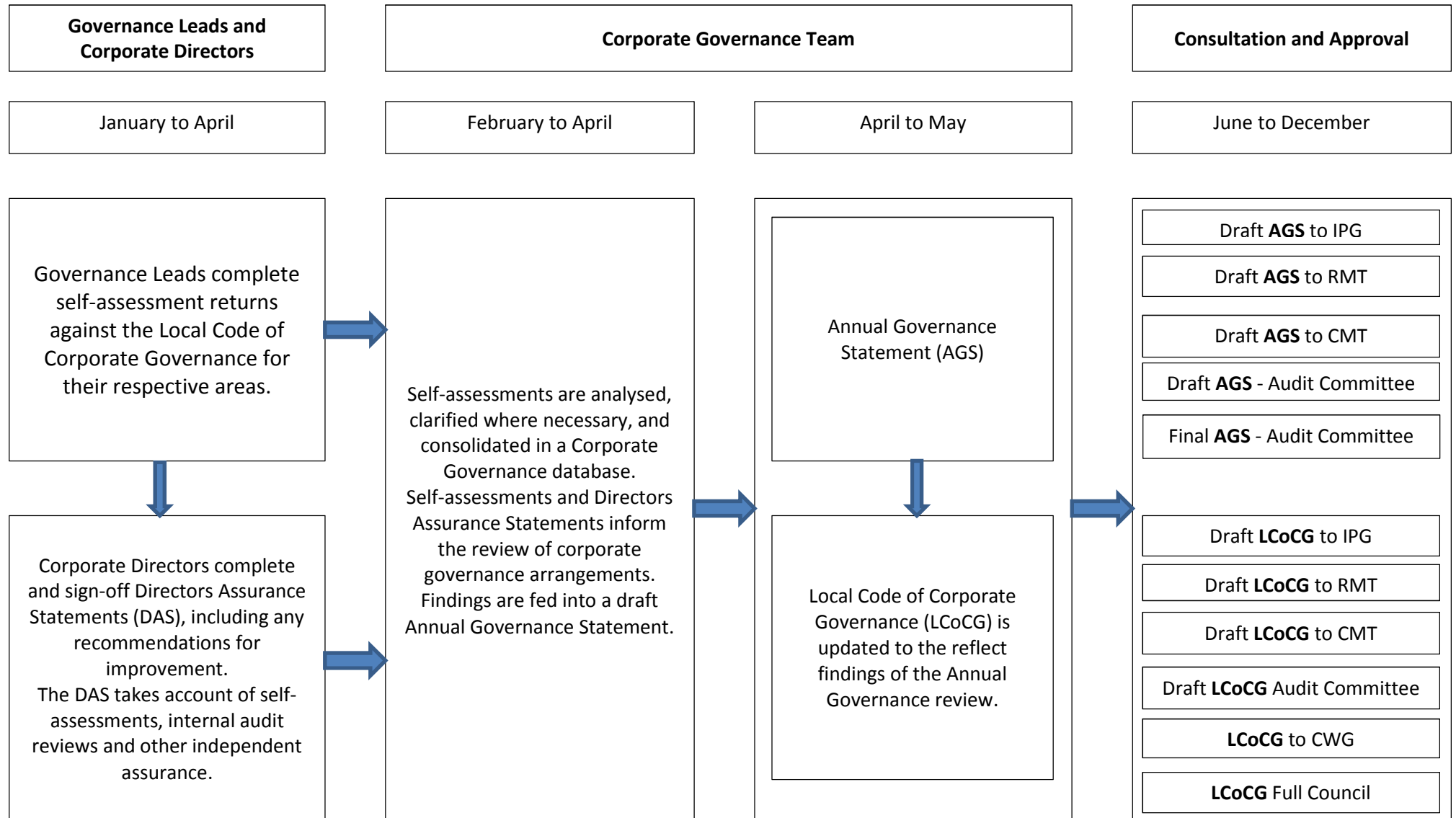
- Access to Information Procedure Rules
- Annual Governance Statement
- Annual Statement of Accounts
- Area Action Partnership Profiles
- Asset Management Plans
- Asset Register
- Benefits Fraud Sanctions Policy
- Business Continuity Plans
- Buzz Magazine (employee)
- Cabinet and Committee Reports
- Capital Strategy for Assets
- Children, Young People and Families Plan
- Codes of Conduct
- Complaints Policy and Procedures
- Confidential Reporting Code
- Constitution
- Consultation and Engagement Strategy
- Contract Procedure Rules
- Contracts Register
- Corporate Management Framework
- Corporate Property Strategy
- Council Plan
- Councillor Compact
- Counter Fraud and Corruption Strategy
- County Durham Compact
- County Durham Plan
- County Durham Trade Union Partnership Agreement
- Countywide Resident Survey
- Customer First Strategy
- Data Protection Policy
- Data Quality Policy
- Durham County News Magazine
- Emergency Plan
- Equality & Diversity Policy
- External Audit Reports
- Financial Management Standards
- Financial Procedure Rules
- Forward Plan of Decisions
- Freedom of Information Policy
- Health and Safety Policy, Procedures and Handbook
- Human Resources Policies/Procedures

- Information & Communications Technology Strategy
- Information Security Policy and Manual
- Inspection Reports
- Internal Audit Plan
- Internal Audit Reports
- Joint Health and Wellbeing Strategy
- Key Performance Indicators
- Local Code of Corporate Governance
- Local Member Consultative charter
- Media Relations Strategy/Protocol
- Medium Term Financial Plan
- Member Handbook
- Member Personal Development Plans
- Members Allowance Scheme and Procedures
- Members Learning and Development Strategy
- Minutes of meetings
- Office Accommodation Strategy
- Officer & Member Declaration of Interest Register and Policies
- Officer and Member Gifts & Hospitality Register and Procedures
- Overview and Scrutiny Annual Report
- Partnership Governance Framework
- People and Organisational Development Strategy
- Performance Management Reports
- Policy Framework Procedure Rules
- Procurement Strategy
- Records Management Policy
- Regeneration Statement
- Risk Management Strategy and Policy
- Safe Durham Partnership Plan
- Scheme of Delegation
- Service Plans
- Strategic Risk Registers
- Sustainable Community Strategy
- Town and Parish Council Charter
- Treasury Management Policy and Strategy

Contributory Processes/Regulatory Monitoring

- Audit Committee
- Budget Process Cabinet
- Business Continuity Planning
- Capital Prioritisation Process
- Constitution Working Group
- Consultation Framework
- Corporate Management Team
- Corporate Consultation Group
- Corporate Health and Safety Group
- Corporate Risk Management Group
- Democratic Engagement
- Development Improvement Group
- Equality and Diversity Steering Group
- External Audit
- External Inspection and Review Agencies
- ICT Prioritisation Process
- Improvement and Planning Group
- Information Governance Group
- Internal Audit
- Member Briefings
- Member Development Group
- Member Officer Working Group for capital
- Monitoring Officer
- Overview and Scrutiny Committee
- Partnerships
- Planning and Performance Group
- Police and Crime Panel
- Project Management Methodology
- Remuneration Panel
- Service Management Teams
- Standards Committee
- Strategic Procurement Network

Corporate Governance Review Process



Abbreviations: AGS – Annual Governance Statement; CMT – Corporate Management Team; CWG – Constitution Working Group; IPG – Improvement and Planning Group; LCoCG – Local Code of Corporate Governance; RMT – Resources Management Team.

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Audit Committee

29 February 2016



**Counter Fraud and Corruption Policy
and Fraud Response Plan**

Report of Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. To request that the Audit Committee review and approve the revised Counter Fraud and Corruption Policy and the Council's Fraud Response Plan. The updates to the policy and plan will ensure they are fit for purpose and reflect current legislation as well as being fully aligned to all other Council policies.

Background

2. The current Counter Fraud and Corruption Strategy was last reviewed in May 2014 and the Fraud Response Plan was last reviewed in January 2010. The proposed amendments take into account the latest CIPFA guidance "Managing the Risk of Fraud" and the provisions of the Bribery Act 2010 which came into effect in 2011.
3. The revised Counter Fraud and Corruption Strategy is attached as Appendix 2 and the Fraud Response Plan is attached as Appendix 3.
4. In order that all employees are aware of the policy and the response plan's content the intention is that the policy is communicated to all employees through 'Buzz Magazine' and other appropriate channels. Discussions have been held with the Internal Communications Manager with formal communications to begin at the end of March following approval of the policy.

Key Points

5. The Counter Fraud and Corruption Strategy is designed to prevent, detect and deter fraud and corruption and sets out what action will be taken against any attempted or actual fraudulent acts affecting the Council. It highlights the benefit of having effective internal controls and the role of the Internal Audit Service and joint working with other organisations and agencies in the approach to tackling fraud and corruption.

6. The Strategy also sets out the Council's responsibilities for employees, councillors and other stakeholders in the prevention, deterrence and detection of bribery which is one of the most common forms of corruption. An important part of complying with the Bribery Act is for organisations to demonstrate robust anti-bribery policies and procedures and this strategy forms an overarching part of that approach.
7. The purpose of the fraud response plan is to provide guidance to employees and managers on the procedures that must be followed to define authority levels, responsibilities for action and reporting lines in the event of suspected fraud, theft or other irregularity.
8. Both documents include methods of reporting suspicions or concerns and, subject to approval, will be published on the Council's intranet and internet.

Recommendation

9. Audit Committee approve the revised Counter Fraud and Corruption Strategy and the Fraud Response Plan attached at Appendix 2 and 3 respectively.

Contact:

Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager

Tel: 03000 269645

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

All Corporate Directors have been consulted.

Procurement

None

Disability Discrimination Act

None

Legal Implications

None

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Resources

Internal Audit, Risk and Fraud

COUNTER FRAUD AND CORRUPTION STRATEGY

Altogether better



CONTENTS

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

1. Foreword

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

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

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

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

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

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

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

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

Simon Henig
Leader of the Council

Terry Collins
Chief Executive

2. INTRODUCTION

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

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

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

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

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

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

2.4 Durham County Council has set about to ensure that it creates a zero tolerance culture in order for it to be effective in its approach to dealing with fraud, corruption and bribery. There is commitment to ensure that opportunities for fraud, corruption and bribery are reduced to the lowest possible level by:

- Raising awareness of the impact of fraud both on the organisation and the individual
- Preventing, detecting, investigating and deterring fraud
- Applying sanctions against people who commit fraud
- Seeking redress for frauds, overpayments and losses

3. CORPORATE FRAMEWORK AND CULTURE

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

- Code of Conduct for members
- Code of Conduct for employees
- Confidential Reporting Code
- Corporate Complaints Policy
- Data Protection Policy
- Disciplinary Policy
- Effective Recruitment and selection procedures
- Financial Regulations & Contract Procedural Rules
- Fraud Response Plan
- Money Laundering Policy
- Personal Information Security Policy
- Regulation of Investigatory Powers Act Corporate Guidance
- Sanction Policy
- Sound internal controls, including specific service area requirements

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

3.3 The seven Nolan principles of Standards in Public Life are:

- Selflessness – you must act solely in terms of the public interest and not in order to gain financial or other material benefits for yourself, family, or friends
- Integrity – you should not place yourself under any financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties
- Objectivity – you must make choices on merit when making decisions on appointments, contracts, or recommending rewards and benefits for individuals
- Accountability – you are accountable for your decisions and actions to the public and you must submit yourself to whatever scrutiny is appropriate
- Openness – you should be as open as possible about all decisions and actions that you take. You should give reasons for your decisions and restrict information only when the wider public interest clearly demands
- Honesty – you have a duty to declare any private interests relating to your work and you need to take steps to resolve any conflicts arising in the way that protects the public interest

- Leadership – you should promote and support these principles by leadership and example

3.4 Durham County Council also has an effective Internal Audit Service and Corporate Fraud Team that assists the corporate framework to help counter any fraudulent activity.

4. LEGAL DEFINITIONS

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

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

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

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

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

4.4 Money Laundering is the term used for a number of offences involving concealing the proceeds of crime or terrorist funds, so that they appear they have come from a legitimate source. Relevant legislation includes the Proceeds of Crime Act 2002, Money Laundering Regulations 2007, the Terrorism Acts of 2000 and 2006, and the Serious Organised Crime and Police Act 2005. Money Laundering involves one or more of three principal offences: concealing, arranging and acquisition/ use/ possession.

5. PREVENTION

Employees

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

5.2 Employees must work within:

- The Employee Code of Conduct for Durham County Council (which is made available to all employees);

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

Council Members

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

Internal Control Systems

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

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

Working with Others

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

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

- Durham Police – Serious and Organised Crime Directorate;
- National Anti-Fraud Network;
- CIPFA Better Governance Forum;
- Networks of heads of internal audit;
- External auditors;
- The National Fraud Initiative data matching exercise.

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

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

6. DETERRANCE

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

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

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

7. DETECTION AND INVESTIGATION

- 7.1 It is the responsibility of all managers to maintain good control systems and procedures, and to ensure that all employees comply with the instructions contained therein.
- 7.2 The alertness of councillors, employees and members for the public are essential in the detection of any possible fraudulent activities. They are positively encouraged to raise any concerns in connection with any of the Councils activities. Concerns can be raised by any of the following means;
- Line managers
 - Corporate Fraud Team
 - Corporate Director, Resources
 - Chief Executive / Corporate Director
 - Chief Internal Auditor and Corporate Fraud Manager
 - Council complaints procedure
 - Confidential reporting Code(Whistleblowing policy)
 - Fraud hotline
 - Fraud email
- 7.3 Alternatively, concerns can be raised independently of the council:
- 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
- 7.4 Internal control systems and Internal Audit are part of the Council's preventative systems. These should be sufficient to deter fraud but are also designed to indicate any potential fraudulent activity. Within the scope of their work Internal Audit will:
- Endeavour to reveal serious defects in the internal controls which may lead to the perpetration of fraud
 - Be alert to the possibility of malpractice
 - Take nothing for granted
 - Be aware of the possibility of collusion
- 7.5 Information received relating to potential fraud, corruption or bribery will be reviewed by the Corporate Fraud Team and investigated.

- 7.6 Depending on the nature and the extent of the information obtained the Corporate Fraud Team will work closely with:-
- Human Resources
 - Service Grouping Management
 - Legal Services
 - Other agencies – DWP, Police, other Local Authorities
- 7.7 By working closely and joined up, this will ensure that all allegations and evidence are supplied, are properly investigated and reported upon, and that where possible, losses are recovered for the County Council. Where appropriate this will include the use of Proceeds of Crime Act 2002.
- 7.8 Where a Durham County Council employee has been involved in fraudulent activity they will be subject to disciplinary action in line with the relevant policies and procedures.
- 7.9 Where financial non-compliance or wrongdoing is discovered relating to employees, members or grant aided external organisations; the matter may be referred to the police in accordance with the Fraud Response Plan.
- 7.10 Referral to the police will not prevent any action under the internal disciplinary policies and procedures.
- 7.11 All complaints against members of staff are referred from the outset to Human Resources, Service Manager and Internal Audit & Corporate Fraud Team.

8. AWARENESS

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

- 8.4 Durham County Council encourages induction training, particularly for employees involved in internal controls and front line staff, to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced. Training makes it clear that there may be a possibility of disciplinary action taken against employees who ignore such guidance. Managers also need to be aware of what is expected of them and to enforce the policies and procedures to protect the public purse. Counter Fraud has been included within the Durham Managers programme which shows this commitment.

9. CONCLUSION

- 9.1 Durham County Council has put into place a number of arrangements to protect itself from the risk of fraud, corruption and bribery. However in the current climate of change there are issues that increase the risk. Changes in structures, systems and the reduction in employees, as well as the external pressure due to the economy, all contribute to the risk of fraud.
- 9.2 The Counter Fraud and Corruption Strategy provides a framework for preventing and tackling anti-fraudulent and corruption acts against Durham County Council. The approval of the strategy by the Audit Committee, on behalf of Durham County Council, demonstrates the Council's commitment to the protection of public funds and the minimising of losses.
- 9.3 Having made this commitment it is imperative that arrangements for the circulation of this strategy and promoting fraud awareness across the Council are maintained.
- 9.4 Durham County Council has an array of measures and procedures to assist in combatting fraud and corruption. It is determined to keep pace with any future developments in preventative and detection techniques and to be able to respond and make changes to its Counter Fraud strategy. This Counter Fraud & Corruption Strategy and its effectiveness will therefore be subject to regular review.

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Resources

Internal Audit, Risk and Fraud

Fraud Response Plan

March 2016

INTRODUCTION

1. Durham County Council recognises that it has a responsibility to protect the public purse. In order to meet these responsibilities the Council has an effective Counter Fraud and Corruption Strategy and has set about to ensure that it creates a zero tolerance culture. Durham County Council will not accept any level of fraud within the organisation and we deal with all suspected frauds, theft and other irregularity.
2. The Fraud Response Plan provides a checklist of actions and a guide to follow in the event that fraud is suspected, It covers:
 - Purpose
 - Legal Definitions
 - Aims and Objectives
 - Notifying suspected fraud
 - Dos and don'ts
 - The investigation process
 - Liaison with police and external audit
 - Initiation of recovery action
 - Reporting process
 - Contact Details
3. This plan does not cover housing benefit fraud which is now subject to separate specialist investigation through the Department for Works & Pensions Single Fraud Investigation Service.

PURPOSE

4. The purpose of this fraud response plan is to provide guidance to employees and managers on the procedures that must be followed to define authority levels, responsibilities for action and reporting lines in the event of suspected fraud, theft or other irregularity.

LEGAL DEFINITIONS

5. The Fraud Act 2006 describes fraud as the intention to make gain or cause loss under three main headings:
 - Fraud by false representation
 - Fraud by failing to disclose information
 - Fraud by abuse of position

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

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

7. The Bribery Act 2010 defines bribery as giving someone a financial or other advantage, to encourage that person to perform their functions or activities improperly, to reward a person for having already done so, in order to gain personal, commercial, regulatory or contractual advantage. It is the most common form of corruption.
8. Money Laundering is the term used for a number of offences involving concealing the proceeds of crime or terrorist funds, so that they appear they have come from a legitimate source. Relevant legislation includes the Proceeds of Crime Act 2002, Money Laundering Regulations 2007, the Terrorism Acts of 2000 and 2006, and the Serious Organised Crime and Police Act 2005. Money Laundering involves one or more of three principal offences: concealing, arranging and acquisition/use/possession.

AIMS AND OBJECTIVES

9. The aims and objectives of the Fraud Response Plan are to:
 - Minimise the risk of inappropriate action or disclosure taking place which would compromise an investigation.
 - Ensure there is a clear understanding over who will lead any investigation and to ensure managers, human resources, internal audit and corporate fraud are involved as appropriate.
 - Prevent further losses of funds or other assets where fraud has occurred.
 - Establish and secure evidence necessary and ensure containment of any information for disciplinary and/or criminal action.
 - Maximise recovery of losses.
 - Ensure appropriate and timely action is taken against those who are suspected of fraud.
 - Identify the perpetrators and take appropriate action with any disciplinary and/or criminal action.
 - Minimise any adverse publicity for Durham County Council.

NOTIFYING SUSPECTED FRAUD

10. In the first instance, any suspicion of fraud, theft or other irregularity should be reported, as a matter of urgency, to your immediate manager or their superior. If this is not appropriate, your concerns should be reported to one of the following persons:
 - Head of Service
 - Corporate Director, Resources
 - Assistant Chief Executive
 - Chief Executive
 - Chief Internal Auditor and Corporate Fraud Manager
11. It is important that all members and employees are able to report their concerns without fear of reprisal or victimisation and are aware of the means to do so. The Public Interest Disclosure Act 1998, (the "Whistle Blowing Act"), provides appropriate protection for those employees who voice genuine and legitimate concerns through the proper channels. The Council's Confidential Reporting Code, (Whistle Blowing Policy), has been written to protect those reporting their concerns and encourages people to report any suspected incidents of fraud.

12. Fraud can be reported about another Council employee or an elected member by a contractor, supplier or member of the public. Fraud could be spotted during or outside work and employees are expected to report any suspicions at the earliest opportunity. You should clearly record all activities you have witnessed or information you have received or are aware of that has led to your suspicion. It is important to record as much detail as possible.
13. Care should be taken, by any officer who suspects fraud and any officer to whom the suspicion is reported, to retain any evidence and make an immediate note of the issues and concerns.
14. If the suspicion relates to an information security issue, e.g. a theft, breach or exposure of DCC Confidential or Client Confidential data, the matter must also be reported to the Information Security (IS) Manager. Further guidance on the reporting of information security issues is given in the Council's Information Security Code's Incident Management Procedure. Further guidance on data breaches is given in the Potential Breach Procedure, within the Data Protection Policy.
15. All concerns must be reported promptly to the Chief Internal Auditor and Corporate Fraud Manager at the outset, by the manager receiving the disclosure. Internal Audit collates information on all suspected fraud, theft or irregularity and its outcome, across the Council as part of its determination of the impact effectiveness of the Council's Counter Fraud and Corruption Strategy and the system of internal control, as a key part of the Council's assurance framework.
16. If an allegation is made frivolously, in bad faith or for personal gain, disciplinary action may be taken against the person making the allegation.
17. It is the responsibility of the Chief Internal Auditor and Corporate Fraud Manager to keep the Council's Head of Legal and Democratic Services, (The Monitoring Officer), and the Corporate Director of Resources, (The Section 151 Officer), informed of any suspicions of fraud or irregularity. Where appropriate, the Leader, the Chief Executive and any Lead Members will be notified that an investigation is taking place.
18. Where an allegation involves an employee, Human Resources will be consulted and also included in the initial discussion with Internal Audit and Corporate Fraud and the Service Manager and decisions of what, and by whom, action should be taken.
19. Every effort will be made to protect an informant's anonymity if requested. However, the Council will always encourage individuals to be identified and put their name to the allegation to add more value to the accusations and allow further investigations to be more effective. Concerns expressed anonymously can be more difficult to investigate. When considering an investigation into an anonymous complaint the seriousness of the issues raised, the credibility of the concern and the likelihood of confirming the allegation from attributable sources will all be taken into consideration. In certain circumstances, anonymity cannot be maintained. This will be advised to the informant prior to any release of information.

20. Employees with concerns should avoid discussing their suspicions with anyone other than the officer with whom they formally raised the issue. Under no circumstances should any employee attempt to investigate any matter on their own.

DOS AND DON'TS

21. To help ensure that the risk of fraud and corruption is minimised, Appendix A at summarises the action that should be taken and what should not be done when fraud is suspected.

THE INVESTIGATION PROCESS

22. Any suspicion of fraud will be treated seriously and will be reviewed in accordance with the Fraud Act 2006, the Human Rights Act 1998, (Article 6 - Right to fair and public hearing and Article 8 - Right to respect for private and family life), and the Public Interest Disclosure Act 1998.
23. Suspected fraud will be investigated in an independent, open-minded, and professional manner with the aim of protecting the interests of both the Council and the suspected individual(s).
24. Internal Audit is responsible for overseeing all fraud investigations to ensure that all investigations conform to the same standard and in accordance with legislation. Providing that sufficient concern or evidence exists to indicate that a potential fraud has been or may have been committed against the Council, then a formal investigation will be authorised by the Chief Internal Auditor and Corporate Fraud Manager.
25. The objective of any investigation is to prove or disprove the initial suspicion or allegation of fraud or irregularity by thoroughly evaluating all material evidence so to establish the facts of the matter. If the suspicions appear to be well founded, the investigation must:
 - Identify all those involved;
 - Support the findings of the investigation by the production of all relevant evidence;
 - Present that evidence in an appropriate form for any subsequent disciplinary or criminal proceedings.
26. The investigation process will vary according to the circumstances of each case and will be determined by the Chief Internal Auditor and Corporate Fraud Manager in consultation with those officers considered appropriate at a pre-investigation case assessment meeting. This may be:
 - The relevant service manager
 - The relevant Head of Service
 - Head Teacher and/or Chair of the Governing Body
 - Local Governance & Workforce Support Coordinator
 - Information Security Manager
 - Head of Human Resources
 - The Monitoring Officer (Head of Legal & Democratic services)
 - The Section 151 Officer (Corporate Director of Resources)

Durham County Council - Fraud Response Plan

- The relevant Corporate Director or Assistant Chief Executive
 - Chief Executive
 - Relevant officers from Internal Audit and the Corporate Fraud Team
27. Reporting lines will be agreed at the pre-investigation case assessment meeting.
28. If it is determined that a full investigation should be carried out, a “Fraud Investigation Officer” will be appointed to manage the investigation on a day to day basis. This will normally be a senior officer from Internal Audit or from the Corporate Fraud Team. However, where circumstances dictate that this is not appropriate, e.g. due to the technical nature of a case, this may be a senior officer from the Service concerned or some other person as determined at the pre-investigation case assessment meeting.
29. Where necessary, the Fraud Investigation Officer will appoint an investigating team. This will normally comprise of an employee from within Internal Audit or the Corporate Fraud Team but may be supplemented with other resources from within the Council or from outside.
30. The investigating team will agree the terms of reference, its scope of operations, roles and responsibilities of team members and an initial time allocation with specific monitoring points. The investigating team will be responsible for the proper investigation of the matter, with reference to all relevant legislation and the council policies.
31. Where initial investigations reveal that there are reasonable grounds for suspicion, it may be appropriate to suspend an employee against whom an accusation has been made. Suspension should only be considered as a last resort and every effort should be made to keep an employee at work where possible. Suspension will only be appropriate where keeping the employee at work imposes a risk to the employee, other employees or service users or their presence at work will impede the investigation. This decision will be taken by the relevant Head of Service or service manager with delegated authority to take such action, in consultation with advice from Human Resources.
32. Suspension is not a disciplinary sanction and is without prejudice on full pay. It is essential that the period of suspension is kept as brief as possible. The process of suspension will follow the procedures set out in the Council’s disciplinary policy.
33. It is important from the outset to ensure that evidence is not contaminated, lost or destroyed. The investigating team will therefore take immediate steps to secure physical assets, including computer and any records thereon, and all other potential evidential documents. With regards to computer investigations, further guidance is provided in the Council’s Information Security Policy, Codes of Practice and Forensic Readiness Procedure. The investigation team will also ensure, in consultation with the appropriate manager, that controls are introduced to prevent further loss.

34. The Fraud Investigation Officer will ensure that a detailed record of the investigation is maintained. This will include contemporaneous notes and a chronological file recording details of all telephone conversations, discussions, meetings, and interviews (with whom, who else was present and who said what, details of documents reviewed, tests and analyses undertaken, the results and their significance) and all evidence and documents obtained. Everything should be recorded and retained, irrespective of the apparent significance at the time, as it may need to be revealed at a later stage.
35. As part of the investigation process, it may be necessary to conduct surveillance. The Council has a [Corporate Guidance document](#) that addresses the requirements of the Regulation of Investigatory Powers Act 2000 and its codes of practice, in relation to the covert surveillance of individuals, the use of covert human intelligence sources, including undercover officers/agents/informants and the recording of telephone conversations. In addition, procedures for obtaining communications data fall within the Act's remit.
36. Amendments to the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010 mean that a local authority can now only grant an authorisation under RIPA where the local authority is investigating criminal offences which attract a maximum custodial sentence of at least six months or criminal offences relating to the underage sale of alcohol or tobacco.
37. As a result of the changes in legislation, it is envisaged that surveillance may be required which falls outside of RIPA. The Office of Surveillance Commissioners Procedures and Guidance 2011 states that it is prudent to maintain an auditable record of decisions and actions to use covert surveillance without the protection of RIPA and that such activity should be regularly reviewed. The Senior Responsible Officer will therefore maintain an oversight of non RIPA surveillance to ensure that such use is compliant with Human Rights legislation. Non RIPA surveillance includes employee surveillance which falls outside of RIPA. The Council's Corporate Guidance document addresses non-RIPA surveillance.
38. Anyone considering surveillance should familiarise themselves with the Corporate guidance document and the Codes of Practice and should seek advice from the RIPA Monitoring Officer.
39. Fraud investigation is a specialist area of expertise and employees tasked with carrying out an investigation should have appropriate experience and training. For the purpose of criminal proceedings, the admissibility of evidence and interviewing is governed by the Police and Criminal Evidence Act 1998 (PACE).
40. In any investigation, there will probably be a need to interview employees, witnesses, suspects, or any other person involved. Interviewing is a specialist skill that is usually best carried out or supported by appropriate trained officers. All interviews will be conducted in a fair and proper manner. Details of all interviews including dates, times, venues and who was in attendance, along with an accurate and correct record of what was discussed should be retained. The type of investigation and findings, will determine the type of interview conducted.

41. Findings of all investigations must be reported to the Chief Internal Auditor and Corporate Fraud Manager, who, in consultation with the Fraud Investigation Officer and any other appropriate officer, will advise on what further action (if any) should be taken. The Reporting process is detailed below.

LIASION WITH POLICE AND EXTERNAL AUDIT

42. Investigations will try to establish at an early stage whether it appears that a criminal offence has taken place. This will shape the manner in which the investigation is handled.
43. The police generally welcome early notification of suspected fraud, particularly that of a serious or complex nature. Some frauds will lend themselves to automatic reporting to the police (such as theft by a third party). For more complex frauds the Chief Internal Auditor and Corporate Fraud Manager, following consultation with appropriate officers, will agree if and when the matter should be referred to the police.
44. Where there is a possibility of criminal action, the police will be consulted for advice and guidance and, if necessary, assistance where interviews are to be conducted under caution in compliance with the Police and Criminal Evidence Act (PACE) which governs the admissibility of evidence in criminal proceedings.
45. The circumstances of the case may dictate that both a criminal investigation and disciplinary investigation be conducted in parallel. Criminal investigations and prosecution can often take substantially longer to undertake than disciplinary investigations and consequently any disciplinary investigation should not be delayed pending the outcome of any criminal investigation, unless the Police advise otherwise.
46. One key difference which should be borne in mind between internal disciplinary proceedings and criminal proceedings is the burden of proof. There is no requirement under an internal disciplinary investigation for a fact to be established beyond reasonable doubt. Instead, the disciplinary investigation needs only be satisfied, 'on a balance of probabilities', that the misconduct has been committed before taking any disciplinary action. This means that while the police or Crown Prosecution Service may decide that there is insufficient evidence to uphold a criminal conviction, the Council may still take disciplinary action.
47. The Chief Internal Auditor and Corporate Fraud Manager will report suspected fraud to the Council's External Auditor as and when necessary. All incidents of proven fraud over £10,000 must be reported.
48. All members and employees will co-operate fully with any police or external audit enquiries which may have to take precedence over any internal investigation or disciplinary process. However, where possible, teams will co-ordinate their enquiries to maximise the effective and efficient use of resources and information.

INITIATION OF RECOVERY ACTION

49. The Council will take appropriate steps, including legal action if necessary, to recover any losses arising from fraud, theft, irregularity or misconduct. This may include action against third parties involved in the fraud or whose negligent actions contributed to the fraud.
50. Use of the Proceeds of Crime Act 2002, where appropriate, will also be considered to maximise the penalty and level of recovery by the Council.
51. The Fraud Investigation Officer will make recommendations, in consultation with appropriate officers, on the most appropriate method of recovery of any losses.
52. The Council's Insurance Officer must be informed as soon as possible of any loss. It is the responsibility of the Service Manager in consultation with the Investigation Officer to do so. Where it is possible, details of the case should be given together with some indication of the likely loss and what recovery action is being attempted. This information has to be passed to the Council's insurers promptly to keep open the possibility of making a claim.

REPORTING PROCESS

53. Throughout any investigation, the Fraud Investigation Officer will keep the Chief Internal Auditor and Corporate Fraud Manager, and appropriate officers, informed of progress and any developments.
54. On completion of the investigation, the Fraud Investigation Officer will prepare a full written report setting out:
 - Background as to how the investigation arose
 - What action was taken in response to the allegation
 - The conduct of the investigation
 - The facts that came to light and the evidence in support
 - Conclusions including a statement of whether or not the allegations or suspicions of fraud or corruption have been substantiated
 - Recommendations on action to be taken against any party where the allegations or suspicions were substantiated
 - Recommendations to improve any identified weakness in internal controls to prevent reoccurrence; although a separate report may be necessary
 - Recommendations, in consultation with appropriate officers, on the most appropriate method of recovery of any losses
 - Estimate of the cost of the investigation in employee days.
55. The report will be issued to the relevant service managers as agreed at the pre-investigation case assessment meeting, as set out in the terms of reference. If necessary a post-investigation case meeting can be conducted to discuss the details and any subsequent recommendations or best practice found and lessons learnt.
56. All cases investigated will be reported to Corporate Management Team and the Audit Committee.

Durham County Council - Fraud Response Plan

57. Copies of investigation reports will be restricted to named employees, as set out in the terms of reference.
58. The relevant service manager is required to provide a management response to recommendations made to improve any identified weaknesses in internal controls.
59. The relevant service manager, in consultation with HR is required to make a decision on what further action is to be taken following the investigation. The Investigation Officer should be informed of the action to be taken and could be appointed as Investigation Officer under the Council's Disciplinary Policy, where appropriate.
60. Where disciplinary action is to be taken, after all appeals have been exhausted, the Fraud Investigation Officer will inform the Chief Internal Auditor and Corporate Fraud Manager of the outcome of the hearing.
61. In order to provide a deterrent to employees, a brief and anonymised summary of the circumstances may be published on the fraud awareness section of the Council's website.

CONTACT DETAILS

Internal Contacts

62. In the first instance, employees should report any allegations / suspicions of fraud, theft or other irregularity, as a matter of urgency, to their line manager.
63. Where an employee feels unable to raise their concerns with their line manager or it is not appropriate for whatever reason (e.g. the alleged irregularity involves the employee's line manager), employees should report to one of the following officers:
 - Head of Service
 - Corporate Director, Resources
 - Assistant Chief Executive
 - Chief Executive
 - Chief Internal Auditor and Corporate Fraud Manager
64. The Council has a Corporate Fraud Team within Internal Audit, which are made up of trained and qualified Fraud Investigation Officers.
65. Members of the public and external bodies can also raise concerns directly with any of the above officers, the Corporate Fraud Team or their local councillor. Contact details are included in Appendix B.
66. If the suspicion relates to an information security issue, e.g. a theft, breach or exposure of DCC Confidential or Client Confidential data, the matter must also be reported to the Information Security (IS) Manager or the relevant directorate IS Forum Representative. Further guidance on the reporting of information security issues is given in the Council's Information Security Code's Incident Management Procedure.

External Contacts


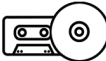

67. It is intended that the internal arrangements described above will give employees and members of the public etc, the reassurance that they need to raise concerns directly with us. However, if for any reason, an individual feels unable to report to anyone from within the Council, they can contact any of the following (Contact details are given in Appendix C).
- The Council's External Auditor
 - The Police
 - Prescribed persons
68. If you do feel unable or uncomfortable to raise your concerns through any of these routes, then you may wish to raise them through Public Concern at Work, a registered charity whose services are independent, free and strictly confidential. Contact details are also provided in Appendix C.
69. These options will be included on the Council's website with a link to enable reporting of suspicions or allegations via the internet for convenience.

SUMMARY

70. This Fraud Response Plan, in conjunction with the Counter Fraud and Corruption Strategy, provides a framework for preventing and investigating fraud, corruption and bribery against Durham County Council. It is imperative that awareness of this plan is promoted both across the Council and externally.
71. This plan will be reviewed at least annually and following any major fraud or changes in legislation.

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

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

 Braille  Audio  Large Print

DOS AND DON'T'S

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DO	DON'T
<p>Make a note of your concerns</p> <ul style="list-style-type: none"> • Write down the nature of your concerns • Make a note of all the relevant details, such as what is said over the telephone or any other conversations • Note the names and, if known, the position of those involved • Notes do not need to be overly formal, but should be timed, signed and dated • Notes should be held in a secure place • Timeliness is most important. The longer you delay writing up, the greater the chances of recollections becoming distorted and the case being weakened • Note the date and time when the suspicion was reported onwards 	<p>Be afraid of raising your concerns</p> <ul style="list-style-type: none"> • The Public Interest Disclosure Act provides protection to employees who raise reasonably held concerns through the appropriate channels. • The Council's Confidential Reporting Codes provides guidance on how to do this. • You will not suffer discrimination or victimisation as a result of following these procedures and the matter will be treated sensitively and confidentially
<p>Report your concerns promptly</p> <ul style="list-style-type: none"> • In the first instance, report your suspicions to your line manager. If this action is inappropriate further guidance on disclosure can be found in the Confidential Reporting Code. • If you are unsure who to report to, contact Internal Audit for advice • All suspected information security irregularities must be report to the Information Security (IS) Manager or Directorate IS Forum representative • All concerns must be reported to the Chief Internal Auditor and Corporate Fraud Manager. 	<p>Convey your concerns to anyone other than authorised persons</p> <ul style="list-style-type: none"> • There may be a perfectly reasonable explanation for the events that give rise to your suspicions. Spreading unnecessary concerns may harm innocent persons and the reputation of the Council. • Don't discuss your suspicions with anyone other than the officer you formally raised the issue with. • Don't report the matter to the police unless you have been authorised to do so by your line manager or internal audit.
<p>Retain any evidence you may have</p> <ul style="list-style-type: none"> • The quality of evidence is crucial and the more direct and tangible the evidence, the better the chances of an effective action. • Retain and keep all relevant records/evidence that may have been handed over or discovered as a result of the initial suspicion in a secure and confidential location. 	<p>Approach the person you suspect or try and investigate the matter yourself</p> <ul style="list-style-type: none"> • There are special rules relating to the gathering of evidence for use in criminal cases and to protect human rights. Any attempt to gather evidence by persons who are unfamiliar with these rules may prevent appropriate action being taken. • Don't interfere with or alter any documentary or computer based evidence as a result of any suspicion • Don't attempt to interview or question anyone unless authorised to do so by the Chief Internal Auditor and Corporate Fraud Manager

If you suspect fraud or irregularity, the most important thing to remember is - DON'T DO NOTHING

COUNTER FRAUD AND CORRUPTION STRATEGY - INTERNAL CONTACT DETAILS

Contact	Details
Corporate Fraud Team	<p>Telephone: 03000 266745</p> <p>E-mail: corporatefraudteam@durham.gov.uk</p> <p>Website: Search for 'Fraud' and follow the links depending on the type of fraud</p>

OTHER FRAUD	
Contact	Details
Chief Executive	<p>Telephone: 03000 268062</p> <p>E-mail: terry.collins@durham.gov.uk</p>
Corporate Director – Children and Adults Services	<p>Telephone: 03000 267353</p> <p>E-mail: rachael.shimmin@durham.gov.uk</p>
Interim Corporate Director – Neighbourhood Services	<p>Telephone: 03000 268060</p> <p>E-mail: oliver.sherratt@durham.gov.uk</p>
Corporate Director – Regeneration and Economic Development	<p>Telephone: 03000 267330</p> <p>E-mail: ian_thompson@durham.gov.uk</p>
Corporate Director – Resources	<p>Telephone: 03000 261945</p> <p>E-mail: don.mclure@durham.gov.uk</p>
Assistant Chief Executive	<p>Telephone: 03000 268060</p> <p>E-mail: lorraine.odonnell@durham.gov.uk</p>
Chief Internal Auditor and Corporate Fraud Manager	<p>Telephone: 03000 269645</p> <p>E-mail: paul.bradley@durham.gov.uk</p>
Local Councillors	Website: www.durham.gov.uk
RIPA Monitoring Officer	<p>Telephone: 03000 260548</p> <p>E-mail: clare.burrows@durham.gov.uk</p>

COUNTER FRAUD AND CORRUPTION STRATEGY - EXTERNAL CONTACT DETAILS

Contact	Details
External To Council	
External Auditors	<p>Telephone: 0191 3836300</p> <p>Address: Mazars LLP The Rivergreen Centre, Aykley Heads, Durham. DH1 5TS</p>
Police	Local Police Station – See Yellow Pages
Public Concern At Work	<p>Telephone: 020 7404 6609</p> <p>Address: Public Concern At Work Suite 306, 16 Baldwin Gardens, London. EC1N 7RJ</p> <p>Website: www.pcaw.org.uk</p> <p>E-mail: whistle@pcaw.co.uk (Advice Line) services@pcaw.co.uk (UK Services)</p>
Prescribed Persons	A full list of prescribed persons can be found here .

Audit Committee

29 February 2016



Anti Money Laundering Policy

Report of Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. To request the Audit Committee review and approve the revised Anti Money Laundering Policy. The updates to the policy ensure it is fit for purpose and reflect current legislation.

Background

2. This policy, which is supplemented by accompanying guidance notes for employees, forms part of the Council's approach to dealing with the risk of fraud and corruption as set out in its Counter Fraud & Corruption Strategy and Confidential Reporting Code (Whistle Blowing Policy).
3. The Counter Fraud & Corruption Strategy is part of the Council's Corporate Governance framework which ensures that the Council is well managed and does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable way.
4. The revised Anti Money Laundering Policy is attached as Appendix 2.
5. In order that all employees are aware of the policy and the response plan's content the intention is that the policy is communicated to all employees through 'Buzz Magazine' and other appropriate channels. Discussions have been held with the Internal Communications Manager with the formal communications to begin at the end of March following approval of the policy.

Key Points

6. This policy explains what money laundering is and the legal and regulative framework that is in place to govern it. It also specifies the processes the Council needs to put in place to ensure that it does all it can to prevent the Council and its employees being exposed to money laundering and to ensure that the Council complies with all legal and regulatory requirements.

7. The risks to the Council of contravening the legislation are relatively low and some requirements of the legal and regulatory requirements do not apply to public authorities. However, the Council cannot be immune from the risks surrounding money laundering and therefore it is appropriate that the Council embraces the underlying principles of the money laundering legislation by taking all reasonable steps to minimise the likelihood of money laundering including putting in place proper policies and procedures.
8. This policy sets out the procedures which must be followed to enable the Council to comply with its legal and implied obligations relating to money laundering.
9. The document includes methods of reporting suspicions or concerns and, subject to approval, will be published on the Council's intranet and internet.

Recommendation

10. The Audit Committee is asked to approve the revised Anti Money Laundering Policy attached at Appendix 2.

Contact:

Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager

Tel: 03000 269645

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

All Corporate Directors have been consulted.

Procurement

None

Disability Discrimination Act

None

Legal Implications

The Council is required to comply with Money Laundering Regulations

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DURHAM COUNTY COUNCIL

ANTI-MONEY LAUNDERING POLICY

Effective date:

March 2016

1. SUMMARY

- 1.1. This policy explains what money laundering is and the legal and regulative framework that is in place to govern it. It also specifies the processes the Council needs to put in place to ensure that it does all it can to prevent the Council and its employees being exposed to money laundering and to ensure that the Council complies with all legal and regulatory requirements.

2. CONTEXT

- 2.1. This policy, which is supplemented by accompanying guidance notes for employees, forms part of the Council's approach to dealing with the risk of fraud and corruption as set out in its Counter Fraud & Corruption Strategy and Confidential Reporting Code (Whistle Blowing Policy).
- 2.2. The Counter Fraud & Corruption Strategy is part of the Council's Corporate Governance framework which ensures that the Council is well managed and does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable way.

3. PURPOSE AND RATIONALE

- 3.1. The risks to the Council of contravening the legislation are relatively low and some requirements of the legal and regulatory requirements do not apply to public authorities. However, the Council cannot be immune from the risks surrounding money laundering and therefore it is appropriate that the Council embraces the underlying principles of the money laundering legislation by taking all reasonable steps to minimise the likelihood of money laundering including putting in place proper policies and procedures.
- 3.2. This policy sets out the procedures which must be followed to enable the Council to comply with its legal and implied obligations relating to money laundering.

What is Money Laundering?

- 3.3. Money laundering is the process by which the proceeds of crime or terrorism funds are changed so that they appear to come from a legitimate source.
- 3.4. The legal and regulatory framework that relates to money laundering is summarised below:
 - The Proceeds of Crime Act 2002 (POCA) (as amended by the Crime and Courts Act 2013 and the Serious Crime Act 2015)
 - The Terrorism Act 2000 (TA) (as amended by the Anti-Terrorism, Crime and Security Act 2001 and the Terrorism Act 2006)
 - The Money Laundering Regulations 2007 (the 2007 Regulations)

3.5. The POCA 2002 defines the primary money laundering offences and thus prohibited acts under the legislation as:

- concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327)
- entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328)
- acquiring, using or possessing criminal property (section 329)
- doing something that might prejudice an investigation - for example falsifying a document (section 343)
- failure to disclose (under sections 300 and 331)
- “tipping off” (under new section 333a)

3.6. Tipping off is where someone informs a person or people who are, or suspected of being involved in money laundering, in such a way as to reduce the likelihood of being investigated or prejudicing an investigation.

3.7. What are the obligations for the Council?

3.8. The Chartered Institute of Public Finance & Accountancy (CIPFA) has provided guidance on how the legal and regulatory provisions apply to public authorities.

3.9. The Council and its employees, as are any individuals, subject to the full provisions of the TA and the first four offences of POCA outlined above.

3.10. So long as the Council does not undertake activities which might be interpreted, under POCA, as falling within the regulated sector, the offences of failure to disclose and tipping off do not apply. The regulated sector refers to activities which should be regulated under the Financial Services and Markets Act 2000.

3.11. The 2007 regulations refer to ‘relevant business’ and ‘relevant persons.’ Local authorities are not listed and therefore are not subject to the requirements of the 2007 regulations.

3.12. CIPFA’s view is that, ‘it is prudent and responsible practice for public service organisations, including those outside the scope of the regulations, to put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements, designed to enable them to detect and avoid involvement in the crimes described in the legislation and regulations.’

4. SCOPE

- 4.1. The first 4 offences under POCA listed above could apply to any individual and therefore this policy applies to all employees and elected members as they could be caught by the money laundering legal and regulatory framework, if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This policy sets out how concerns should be raised.
- 4.2. Whilst the risk to the Council of contravening the legislation is low, it is important that all employees and elected members are familiar with their responsibilities: serious criminal sanctions may be imposed for breach of the legislation.
- 4.3. The key requirement on employees is to promptly report any suspected money laundering activity to the Council's Money Laundering Reporting Officer.
- 4.4. Failure by any employee to comply with the procedures set out in this Policy may lead to disciplinary action being taken against them. Any disciplinary action will be dealt with in accordance with the Council's Disciplinary Policy and Procedure.
- 4.5. Failure by any elected member to comply with the procedures may lead to action being taken by the Standards Committee.

5. DETAIL OF THE POLICY

- 5.1. The Council's policy is to do all we can to prevent, wherever possible, the Council and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases. We cannot stress too strongly, however, that it is every member of staff's responsibility to be vigilant.
- 5.2. The arrangements that the County Council have put in place are as follows:

THE MONEY LAUNDERING REPORTING OFFICER (MLRO)

- 5.3. The Council has nominated an officer to receive disclosures about money laundering activity within the Council. This is the Chief Internal Auditor & Corporate Fraud Manager, Paul Bradley. He can be contacted as follows:

Paul Bradley, Chief Internal Auditor & Corporate Fraud Manager
Durham County Council
County Hall
Durham
DH1 5UE

Telephone: 03000 269645
E-mail: paul.bradley@durham.gov.uk

- 5.4. In the absence of the MLRO, Paul Monaghan, Audit & Fraud Manager, (paul.monaghan@durham.gov.uk, or 03000 269662 at the same address), is authorised to deputise for him.

6. PROCEDURES

Cash Payments

- 6.1 No payment to the Council will be accepted in cash if it exceeds £5,000. Cash is defined as including notes, coins or travellers cheques in any currency.

Reporting to the Money Laundering Reporting Officer

- 6.2 Any employee who suspects money laundering activity must report their suspicion promptly to the MLRO, or to the MLRO's deputy if appropriate using the attached Suspicious Activity Report (SARS) Form (Appendix A). If preferred, suspicions can be discussed with the MLRO or deputy first.
- 6.3 The employee must follow any subsequent directions of the MLRO or deputy and must not themselves make any further enquiries into the matter. They must not take any further steps in any related transaction without authorisation from the MLRO.
- 6.4 The MLRO or deputy must promptly evaluate any Disclosure Report, to determine whether it should be reported to the National Crime Agency (NCA).
- 6.5 The MLRO or deputy must, if they so determine, promptly report the matter to NCA on their standard report form and in the prescribed manner or can report online. Up to date forms and the online reporting can be downloaded and found from the NCA website at www.nationalcrimeagency.gov.uk.
- 6.6 In cases where legal professional privilege may apply, the MRLO must liaise with the Head of Legal & Democratic Services in deciding whether or not the matter should be reported to NCA.
- 6.7 All employees are required to co-operate with the MLRO and the authorities during any subsequent money laundering investigation and at no time and under no circumstances should employees voice any suspicions to the person(s) suspected of money laundering, even if the NCA has given consent to a particular transaction proceeding, without the specific consent of the MLRO; otherwise they may commit a criminal offence of "tipping off".
- 6.8 Examples of the potential areas where money laundering may occur and further details of how suspicions should be recorded and reported are provided in a guidance note for employees (Appendix B).

Customer Due Diligence

- 6.9 The regulations regarding 'regulated activities' are subject to strict requirements to establish procedures for the reporting, training, client identification and record keeping.
- 6.10 POCA requires that where an organisation is carrying out certain, 'regulated activities', then extra care needs to be taken to check the identity of the customer or client. This is known as carrying out Customer Due Diligence.
- 6.11 Regulated activity is defined as the provision 'by way of business' of advice about tax affairs; accounting services; treasury management, investment or other financial services; audit services; estate functions; services involving the formation, operation or arrangement of a company or trust or, dealing in goods wherever a transaction involves a cash payment of 15,000 Euros or more.
- 6.12 It is unlikely that the Council will be undertaking 'regulated activities', but should this apply, guidance is given in Appendix B.

Guidance and Training

- 6.13 In support of this policy and procedures the Council will:
- Make all employees and members aware of the requirements and obligations placed on the Council and on themselves as individuals by the anti-money laundering legislation.
 - Provide advice and guidance through targeted training to those employees most likely to be exposed to or suspicious of money laundering situations.
 - Ensure the MLRO and deputy receives adequate training as necessary.

7 MONITORING AND REVIEW PROCESS

- 7.1 This policy will be monitored and reviewed on an annual basis by the MRLO to ensure that it remains fit for purpose.

8 EVALUATION

- 8.1 The effectiveness of this policy will be considered as part of the annual review of the effectiveness of the Corporate Governance arrangements.

9 REFERENCES

9.1 Further information can be obtained from the MLRO and the following sources:

- The Council's Counter Fraud and Corruption Strategy
- CIPFA's Proceeds of Crime (Anti-Money Laundering) – Practical Guidance for Public Service Organisations, 2005
- CIPFA's Combating Financial Crime – Further Guidance on Anti-Money Laundering for Public Services Organisations 2009
- www.nationalcrimeagency.gov.uk
- Anti-Money Laundering (Proceeds of Crime and Terrorism) – Second Interim Guidance for Accountants – CCAB(www.ccab.org.uk)
- Money Laundering Guidance at www.lawsociety.org.uk
- SI 2007 No 2157 – [Money Laundering Regulations 2007](#) and [Gov.Uk](#)

10 APPENDICES

Appendix A - Disclosure Reporting Form

Appendix B - Proceeds of Crime (Anti-Money Laundering) Guidance

CONFIDENTIAL

Report to Money Laundering Reporting Officer

RE: Suspected Money Laundering Activity

To: PAUL BRADLEY, DCC Money Laundering Reporting Officer
Chief Internal Auditor & Corporate Fraud Manager
Durham County Council
County Hall
Durham
DH1 5UE

From:
(Please insert the name of employee)

Service Grouping:
Service:
Position: Ext / Tel No:

DETAILS OF SUSPECTED OFFENCE:

Name(s) and address(es) of person(s) involved:
[if a company/public body please include details of nature of business]

Nature, value and timing of activity involved:
[Please include full details eg what, when, where, how. Continue on a separate sheet if necessary]

Nature of suspicions regarding such activity:
[Please continue on a separate sheet if necessary]

Has any investigation been undertaken (to the best of your knowledge)?

Yes

No

If yes, please include details below:

Have you discussed your suspicions with anyone else?

Yes

No

If yes, please specify below, explaining why such discussion was necessary:

Have you consulted any supervisory body guidance with regard to money laundering (e.g. the Law Society)?

Yes

No

If yes, please specify below:

Do you feel you have good reason for not disclosing the matter to the National Crime Agency (e.g. are you a solicitor and wish to claim legal professional privilege?)

Yes

No

If yes, please set out full details below:

Are you involved in a transaction that may be a prohibited act under sections 327 to 329 of Proceeds of Crime Act (POCA) and which requires appropriate consent from the National Crime Agency?

Yes

No

If yes, please enclose details in the box below:

Please set out below any other information you feel may be relevant:

Signed: Dated:

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years' imprisonment.

THE FOLLOWING PART OF THIS FORM IS FOR COMPLETION BY THE MLRO

Date Report Received

Date Receipt of Acknowledgement:

Consideration of Disclosure:

Action plan:

Outcome of Consideration of Disclosure:

Are there reasonable grounds for suspecting money laundering activity?

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to the NCA, please set out below the reason(s) for non-disclosure:

[Please set out any reasoning for non-disclosure]

Date consent given by MLRO to employee for any prohibited act transactions to proceed:

Other relevant information:

Signed:

Dated:

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

DURHAM COUNTY COUNCIL

Proceeds of Crime (Anti-Money Laundering)

Guidance for Employees

1. Purpose

- 1.1. This guidance should be read in conjunction with the Council's Anti-Money Laundering Policy and aims to help employees understand the legal and regulatory requirements relating to money laundering, as they affect both the County Council and you personally.
- 1.2. It aims to raise the awareness of the potential for money laundering activity involving the Council and what you should do if you become suspicious.

2. What is Money Laundering and what laws exist to control it?

- 2.1. Money laundering is the process by which the proceeds of crime or terrorism funds are changed so that they appear to come from a legitimate source.
- 2.2. In recent years new laws and regulations have been passed which shift significantly the burden for identifying acts of money laundering away from government agencies and more towards organisations and their employees. They prescribe potentially very heavy penalties, including imprisonment for those convicted of breaking the law.
- 2.3. The legal and regulatory framework that relates to money laundering is summarised below:
 - The Proceeds of Crime Act 2002 (POCA) (as amended by the Crime and Courts Act 2013 and the Serious Crime Act 2015)
 - The Terrorism Act 2000 (TA) (as amended by the Anti-Terrorism, Crime and Security Act 2001 and the Terrorism Act 2006)
 - The Money Laundering Regulations 2007 (the 2007 Regulations)
- 2.4. The POCA 2002 defines the primary money laundering offences and thus prohibited acts under the legislation as:
 - concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327)
 - entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328) **Page 149**

- acquiring, using or possessing criminal property (section 329)
 - doing something that might prejudice an investigation - for example falsifying a document (section 343)
 - failure to disclose (under sections 300 and 331)
 - “tipping off” (under new section 333a)
- 2.5. Concealing is where someone knows or suspects a case of money laundering, but conceals or disguises its existence. Arranging is where someone involves himself in an arrangement to assist in money laundering. Acquisition (etc) is where someone seeks to benefit from money laundering by acquiring, using or possessing the property concerned.
- 2.6. Tipping off is where someone informs a person or people who are, or are suspected of being, involved in money laundering in such a way as to reduce the likelihood of being investigated or prejudicing an investigation.
- 2.7. Although the term ‘money laundering’ is generally used when describing the activities of organised crime for which the legislation and regulations were first and foremost introduced, to most people who are likely to come across it or be affected by it, it involves a suspicion that someone they know, or know of, is benefiting financially from dishonest activities.
- 2.8. Criminal property is defined very widely in the law relating to money laundering. It includes not only the proceeds of crime committed by someone else but also possession of the proceeds of an individual’s own crime, for example, the retentions of money from the non-payment of income tax. It does not matter how small the amount of money involved is. It also includes the proceeds of crimes that take place abroad.
- 2.9. All the money laundering offences may be committed by an organisation or by individuals working for it.

3. What are the obligations for the Council?

- 3.1. The Council and its employees are subject to the first four offences of POCA outlined above in paragraph 2.4 above.
- 3.2. So long as the Council does not undertake activities which might be interpreted, under POCA, as falling within the regulated sector, the offences of failure to disclose and tipping off do not apply. The regulated sector refers to activities which should be regulated under the Financial Services and Markets Act 2000.
- 3.3. If the Council does carry out any ‘regulated activities’ then extra care needs to be taken to check the identity of the customer or client. This is known as carrying out Customer Due Diligence. Customer due diligence records must be kept for 5 years after the end of the business relationship.

- 3.4. The 2007 regulations refer to 'relevant business' and 'relevant persons.' Public authorities are not listed and therefore are not subject to the requirements of the 2007 regulations.
- 3.5. The consequences for staff committing an offence are potentially very serious. Whilst it is considered most unlikely that a member of staff would commit one of the main offences, in certain circumstances the failure to disclose a suspicion of a case of money laundering is a serious offence in itself and there are only very limited grounds in law for not reporting a suspicion.

4. What is the Council's Policy on Money Laundering?

- 4.1. The Council's policy is to do all we can to prevent, wherever possible, the Council and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases. We cannot stress too strongly, however, that it is every member of staff's responsibility to be vigilant.
- 4.2. The Council has accepted the responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are fully trained.
- 4.3. The Council has implemented procedures for the reporting of suspicious transactions and if necessary making an appropriate report to the National Crime Agency (NCA).
- 4.4. The Council has nominated an officer to receive and manage the concerns of staff, to make internal enquiries, to advise staff who they feel should make a report and to co-ordinate suspicious activity reports (SARS) to NCA. This is the Chief Internal Auditor & Corporate Fraud Manager, Paul Bradley. His contact details are given below.

Paul Bradley,
Chief Internal Auditor & Corporate Fraud Manager
Durham County Council
County Hall
Durham
DH1 5UE

Telephone: 03000 269645
E-mail: paul.bradley@durham.gov.uk

5. How do I recognise suspicious activity that may be linked to Money Laundering?

5.1. It is impossible to give a definite list of ways to spot money laundering but the following suggested risk areas which taken alone or with other factors, may suggest the possibility of money laundering:

- A new client
- A secretive client e.g. refuses to provide requested information without a reasonable explanation
- Concerns about the honesty, integrity, alleged association with criminality, or location of a client
- Illogical third party transactions: unnecessary routing or receipting of funds from third parties or through third party accounts:
- Involvement of an unconnected third party without logical reason or explanation
- Payment of substantial sums in cash or a large cash deposit (The Council policy is not to except a payment of over £5,000)
- Absence of obvious legitimate source of funds
- Payment of monies then cancellation of transactions and request for return of funds
- Over payment with requests for refunds
- Movement of funds overseas, particularly to a higher risk country or tax haven
- Where, without reasonable explanation, the size, nature, and frequency of transaction or instructions (or the size, location of type of client) is out of line with normal expectations
- Cancellation or reversal of an earlier transaction
- Requests for release of client account details other than on the normal course of business.
- Companies and trusts: extensive use of corporate structures and trusts in circumstances where the client's needs are inconsistent with the use of such structures
- Over complicated financial systems
- Poor business records or internal accounting controls
- A previous transaction for the same client which has been or should have been reported to the MLRO
- Unusual property investment transactions if there is no linked substantive property transaction involved (surrogate banking)
- Property related transactions where funds are received for deposits or prior completion from an unexpected source or where instructions are given for the settlement of funds to be paid to an unexpected destination
- More than one solicitor used in a sale or purchase or there is an unexplained or unusual geographical use of the solicitor in relation to property transactions

5.2. Facts which tend to suggest that something odd is happening may be sufficient for a reasonable suspicion of money laundering to arise.

6. What should I do if I suspect a money laundering activity?

- 6.1. Money laundering offences apply to your own actions and to matters in which you become involved. If you become aware that your involvement in a matter may amount to money laundering then you must discuss it with the MLRO and not take any further action yourself.
- 6.2. There is no clear definition of what constitutes suspicions. Common sense will be needed. If you are considered likely to be exposed to suspicious situations, you will be made aware of these by your line manager and where appropriate training will be provided. If in any doubt seek advice from the MLRO.
- 6.3. You should report your suspicions immediately to the Council's MLRO who will issue you with a Suspicious Activity Report (SAR) form.
- 6.4. The report must include as much detail as possible, for example:
 - Full details of the people involved (including yourself, if relevant), eg name, date of birth, address, company names, directorships, phone numbers, etc;
 - Full details of the nature of their/your involvement;

If you are concerned that your involvement in the transaction would amount to a prohibited act under sections 327 – 329 of the 2002 Act, then your report must include all relevant details, as you will need consent from the National Crime Agency (NCA), via the MLRO, to take any further part in the transaction.

You should therefore make it clear in the report if such consent is required and clarify whether there are any deadlines for giving such consent e.g. a completion date or court deadline;

- The types of money laundering activity involved:

(If possible, cite the section number(s) under which the report is being made e.g. a principal money laundering offence under the 2002 Act (or 2000 Act), or general reporting requirement under section 330 of the 2002 Act (or section 21A of the 2000 Act), or both)

- The dates of such activities, including: whether the transactions have happened, are ongoing or are imminent;
- Where they took place;
- How they were undertaken;
- The (likely) amount of money/assets involved;

- Why, exactly, you are suspicious – the NCA will require full reasons;

(Along with any other available information to enable the MLRO to make a sound judgment as to whether there are reasonable grounds for knowledge or suspicion of money laundering and to enable him to prepare his report to the NCA, where appropriate. You should also enclose copies of any relevant supporting documentation)

- 6.5. Once you have reported the matter to the MLRO you must follow any directions he may give you. **You must NOT make any further enquiries into the matter yourself:** any necessary investigation will be undertaken by the NCA. Simply report your suspicions to the MLRO who will refer the matter on to the NCA if appropriate. All members of staff are required to co-operate with the MLRO and the authorities during any subsequent money laundering investigation.
- 6.6. Similarly, **at no time and under no circumstances should you voice any suspicions** to the person(s) whom you suspect of money laundering, even if the NCA has given consent to a particular transaction proceeding, without the specific consent of the MLRO; otherwise you may commit a criminal offence of “tipping off”.
- 6.7. Do not, therefore, make any reference on a client file to a report having been made to the MLRO – should the client exercise their right to see the file, then such a note will obviously tip them off to the report having been made and may render you liable to prosecution. The MLRO will keep the appropriate records in a confidential manner.

7. How do I know if I should carry out Customer Due Diligence?

- 7.1. The regulations regarding customer due diligence are detailed and complex, but there are some simple rules that will help you decide if it is necessary.

- Is the service a regulated activity?

(Regulated activity is defined as the provision ‘by way of business’ of advice about tax affairs; accounting services; treasury management, investment or other financial services; audit services; estate functions; services involving the formation, operation or arrangement of a company or trust or, dealing in goods wherever a transaction involves a cash payment of, 15,000 Euros or more.)

- Is the Council charging for the service i.e. is it ‘by way of business’?
- Is the Service being provided to a customer other than a UK public authority?

If the answer to **any** of these questions is **no** then you do not need to carry out customer due diligence.




If the answer to **all** these questions is **yes** then you must carry out customer due diligence **before** any business is undertaken for that client. If you are unsure whether you need to carry out customer due diligence then you should contact the MLRO.

- 7.2. Where you need to carry out customer due diligence then you must seek evidence of identity, for example:
- Checking with the customer's website to confirm their business address.
 - Conducting an on-line search via Companies House to confirm the nature and business of the customer and confirm the identification of any directors.
 - Seeking evidence from the key contact of their personal identity, for example, their passport, and position within the organisation.
- 7.3. The requirement for customer due diligence applies immediately for new customers and should be applied on a risk sensitive basis for existing customers. Ongoing customer due diligence must also be carried out during the life of a business relationship but should be proportionate to the risk of money laundering and terrorist funding, based on the officer's knowledge of the customer and a regular scrutiny of the transactions involved.
- 7.4. If at any time, you suspect that a client or customer for whom you are currently, or are planning to carry out a regulated activity, is carrying out money laundering or terrorist financing, or had lied about their identity then you must report this to the MLRO.
- 7.5. In certain circumstances enhanced customer due diligence must be carried out. For example, where:
- The customer has not been physically present for identification
 - The customer is a politically exposed person
- (A politically exposed person is an individual who at any time in the preceding year has held a prominent public function outside of the UK, and EU or international institution/body, their immediate family members or close associates)*
- There is a beneficial owner who is not the customer – a beneficial owner is any individual who holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.
- 7.6. Enhanced customer due diligence could include any additional documentation data or information that will confirm the customer's identity and/or the source of the funds to be used in the business relationship / transaction. If you believe that enhanced customer due diligence is required then you must consult the MLRO prior to carrying it out.

- 7.7. Customer due diligence records and details of the relevant transactions(s) for that client must be retained for at least 5 years after the end of the business relationship.
- 7.8. An electronic copy of every customer due diligence record must be sent to the MLRO to meet the requirements of the regulations and in case of inspection by the relevant supervising body.

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

العربية (Arabic)	(中文 (繁體字)) (Cantonese)	اردو (Urdu)
polski (Polish)	ਪੰਜਾਬੀ (Punjabi)	Español (Spanish)
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Audit Committee

29 February 2016

Strategic Risk Management Progress Report for the Quarter period October to December 2015



Report of Don McLure, Corporate Director Resources

Purpose of the Report

- 1 The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period October to December 2015.

Background

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

Current status of the risks to the Council

- 4 As at 31 December 2015, there were 24 strategic risks, two less than as at 30 September 2015.
- 5 In summary, the key risks to the Council remain as being:
 - (a) If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses;
 - (b) Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services;
 - (c) If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria for our computer applications, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data.

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

- 6 Appendix 4 of this report lists all of the Council's strategic risks as at 31 December 2015.
- 7 Appendix 5 demonstrates the performance of the Council in effectively managing strategic risk and therefore supporting the achievement of its corporate objectives.
- 8 Management has identified and assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.

Recommendations and Reasons

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

Contact: Kevin Roberts Tel: 03000 269657

Appendix 1: Implications

Finance – There are no direct financial implications but effective risk management helps to avoid or minimise financial loss.

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

Risk – This report supports the delivery of the objectives of the Council’s Risk Management Strategy.

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 – There are no direct implications but effective risk management helps to ensure compliance with legal and regulatory obligations.

Appendix 2: How the Council manages the Risk Management Framework

The Cabinet and the Corporate Management Team have designated the Cabinet Portfolio Holder for Corporate Services and the Corporate Director, Resources as Member and Officer Risk Champions respectively. Together they jointly take responsibility for embedding risk management throughout the Council, and are supported by the Chief Internal Auditor and Corporate Fraud Manager, the lead officer responsible for risk management, as well as the Risk and Governance Manager.

Each Service Grouping also has a designated Service Risk Manager to lead on risk management at a Service Grouping level, and act as a first point of contact for staff who require any advice or guidance on risk management. Collectively, the Risk Champions, Service Risk Managers and the Risk and Governance Manager meet together as a Corporate Risk Management Group. This group monitors the progress of risk management across the Council, advises on strategic risk issues, identifies and monitors corporate cross-cutting risks, and agrees arrangements for reporting and awareness training.

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

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

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

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

The Council is also jointly responsible for responding to civil emergencies (such as severe weather events, network power losses and flu epidemics) through the County Durham and Darlington Local Resilience Forum. An explanation of the arrangements for managing the risk of such events and a copy of the latest Community Risk Register can be found on the web page of the County Durham and Darlington [Local Resilience Forum](#).

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

Risks are assessed at two levels:

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

As at 31 December 2015, there were 24 strategic risks, two less than as at 30 September 2015.

The following matrix categorises the strategic risks according to their net risk evaluation as at 31 December 2015. To highlight changes in each category during the last quarter, the number of risks as at 30 September 2015 is shown in brackets.

Overall number of Strategic Risks as at 31 December 2015

Impact					
Critical	1 (1)	0 (1)	2 (2)		1 (1)
Major		3 (4)	6 (4)	0 (1)	
Moderate			7 (8)	4 (4)	
Minor					
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

In the above matrix, the risk assessed as Critical/Highly Probable is, “Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services.” This risk is reported in more detail in section 9 below.

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

New Risks

- 1 No new risks have been added to the strategic risk register this quarter.

Increased Risks

- 2 No significant risks have increased during the quarter.

Removed Risks

- 3 The risk that *'The Council could suffer significant adverse service delivery and financial impact if the new banking contract is not properly implemented'* has been removed as the contract was implemented on 18 December 2015.
- 4 The risk of *'Adverse financial and operational impacts from the transfer of health visitor commissioning responsibilities for 0-5 year olds from NHS England to Durham County Council by 1st October 2015'* has been removed as this project is now complete and was formally closed on 11 November 2015.

Reduced Risks

- 5 The Council will be withdrawing the current County Durham Plan, following the Government's decision that the planning inspector's interim report be set aside and an amended, refreshed version will be submitted. These issues change substantially the nature of the strategic risk, *'The future strategic direction of the Council and the County will be adversely impacted if the County Durham Plan is not adopted.'* Consequently, the likelihood of the risk has been downgraded from Probable to Unlikely. This change was reported to Audit Committee on 30 November 2015.

Emerging Risks

- 6 The Council has recently provisionally signed up to the Government's 'Devolution Deal' in its capacity as a member of the North East Combined Authority (NECA). The Deal potentially includes significant additional decision making powers, funding and responsibilities to the region. The agreement remains subject to the legislative process and the formal agreement of the seven local councils which make up the combined authority.
- 7 Either outcome will present risks to the Council. If the agreement is declined by NECA, County Durham could potentially miss out on opportunities to improve economic development and transport through devolved powers and greater co-ordination across the North East Local Enterprise Partnership area. If the agreement is approved, there is a potential risk that re-designed economic development and transport strategies and services could be less favourable for County Durham than the status quo position.
- 8 To further inform the decision-making process, the Council carried out a postal consultative poll of County Durham electors which closed on 8 February and the results will be reported to Cabinet in March 2016.

Key Risks

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

Key Risks Matrix

Net Impact					
Critical			Risk 1 MTFP Slippage Risk 3 PSN Code of Connection		Risk 2 Ongoing Government funding cuts
Major					
Moderate					
Minor					
Insignificant					
Net Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

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

Key Risks Schedule

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

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	RES Risk Owner: Don McLure	Altogether Better Council	If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.	Critical	Possible	The Delivery plan implementation will be monitored by CMT and Cabinet.		This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage.
2	RES Risk Owner: Don McLure	Altogether Better Council	Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services.	Critical	Highly Probable	Sound financial forecasting is in place based on thorough examination of the Government's "red book" plans.		This will be a significant risk for at least the next 4 years.
3	RES Risk Owner: Phil Jackman	Altogether Better Council	If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria for our computer applications, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data	Critical	Possible	An ongoing project is in place to ensure compliance. Servers that cannot be made compliant or effectively relocated will be switched off.		The Government set criteria for the PSN CoCo compliance has changed again, one of the requirements being the need to submit a risk register. Work is ongoing between the Risk Officer and ICT compiling a register to comply with PSN CoCo form for submission in June 2016.

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

Based on the **Net** risk assessment as at 31 December 2015, the following tables highlight the risks for each Corporate Theme.

Corporate Theme – Altogether Better Council

Ref	Service	Risk
1	RES	If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.
2	RES	Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services.
3	RES	If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data
4	RED	The continuation of weak economic conditions, financial austerity and reduced household incomes may see increased pressure on areas of lower housing demand with consequent negative impacts on communities, neighbourhoods and local environments.
5	NS	If Local Authority Schools and other LA services choose not to take Council Services, together with the loss of community buildings DCH homes both Technical and Building Services could see a loss of business.
6	NS	The Council will not be able to maintain its non-educational and non-housing buildings to current repairs standards.
7	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
8	ACE	Risk that the Council does not respond to the Government's changes to Welfare Reform
9	ACE	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation
10	RES	Major Interruption to IT Service Delivery
11	ACE	Failure to prepare for, respond to and recover from a disruptive event, leading to a major business interruption in the provision of essential services
12	RES	Serious breach of Health and Safety Legislation
13	ACE	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation
14	RES	Due to the current economic climate and amount of change occurring across the Council, there is potential for increases in fraud and error.

Altogether Better for Children and Young People

No significant strategic risks have been identified under this theme.

Altogether Greener

No significant strategic risks have been identified under this theme.

Altogether Healthier

	Service	Risk
15	CAS	Additional operational and financial burden as a result of recent supreme court judgement relating to the threshold applied in determining whether an individual is deprived of their liberty.
16	CAS	The stability and capacity within markets for the delivery of Children's, Adults and Public Health services are threatened, which could lead to essential services not being delivered.

Altogether Safer

	Service	Risk
17	CAS	Failure to protect child from death or serious harm (where service failure is a factor or issue)
18	ACE	Breach of duty under Civil Contingencies Act by failing to prepare for, respond to and recover from a major incident
19	CAS	A service failure of Adult Safeguarding leads to death or serious harm to a service user.
20	NS	Damage to Highways assets as a result of a severe weather event.
21	RED	Serious injury or loss of life due to Safeguarding failure (Transport Service)

Altogether Wealthier

	Service	Risk
22	RED	Diminishing Capital Resources, continuing depressed land values and slow growth in the private sector will impact on the ability to deliver major projects and Town initiatives within proposed timescales.
23	RED	There is a potential lack of available match funding within the public sector as a whole in County Durham and the NE LEP area, which could impact upon the ability to fully utilise external funding and in particular the European Structural Funds programme for 2014-2020.
24	RED	The future strategic direction of the Council and the County will be adversely impacted if the County Durham Plan is not adopted.

Appendix 5: Performance of Risk Management

Performance Indicators - Tangible Measures

Objective: To demonstrate that risks are being effectively managed				
KPI	Measure of Assessment	Target & (Frequency of Measurement)	2015/16 Q2 Actual	2015/16 Q3 Actual
All risks are reviewed on a continual cycle	Service Risk Review completed each quarter	100% (Quarterly)	100%	100%
Risk mitigation is being implemented as planned	Risk actions on high-scoring risks implemented within target date	Target N/A (Quarterly)	No outstanding actions	No outstanding actions
Risks are being effectively managed	Number of current risks where Net risk scores have reduced over the quarter	Target N/A (Quarterly)	None	One (County Durham Plan risk)
To provide informed decision making	Key decisions reports with a risk assessment	100% (Quarterly)	100%	100%
The delivery of Council services via Significant partnerships is effectively risk managed	Significant partnerships with joint risk management arrangements in place within 6 months of being established	90% (Quarterly)	N/A	N/A
Contributing to effective corporate governance	Meeting CIPFA governance principles and objectives on risk management	Confirmed in the annual review of the effectiveness of corporate governance (Annual)	The 2014/15 review is complete. The Annual Governance Statement was approved by Audit Committee on 30 September 2015.	The Local Code of Corporate Governance has been revised and will be proceed to Audit Committee for approval on 29 February 2016.
Objective: To ensure that Officers and Members are appropriately skilled in risk management				
KPI	Measure of Assessment	Target & (Frequency of Measurement)	2015/16 Q2 Actual	2015/16 Q3 Actual
Appropriate staff are adequately skilled in risk management	Tier 4 managers attending risk management training course	Target N/A (Quarterly)	No training provided in this quarter.	28 officers attended a 2-hour course, 'Managing Business Risks', delivered by a Strategic Risk Consultant from Zurich Municipal, the Council's insurer.

KPI	Measure of Assessment	Target & (Frequency of Measurement)	2015/16 Q2 Actual	2015/16 Q3 Actual
Appropriate staff are adequately skilled in risk management	Tier 5 managers attending risk management training course	Target N/A (Quarterly)	No training provided in this quarter.	See above item.
Members are adequately skilled in risk management	New Members attending risk management training course within 6 months of being elected (for co-opted members, within 6 months of being appointed)	75% (Quarterly)	No training provided in this quarter.	No training provided in this quarter, but a one-hour training course has been developed and approved by the Officer and Member Risk Champions.

Intangible Measures

Objective: To demonstrate that risks are being effectively managed and adding value			
KPI	Measure of Assessment	Frequency of Measurement	2015/16 Q3 Evidence
Good governance maintained	Gather information on risk management successes, and beneficial outcomes the Council achieve in managing risks	Reported quarterly	Through effective risk management of the County Durham Plan re-submission, the Council has reduced the likelihood of adverse impacts on the future strategic direction of the Council and the County. Through effective risk management of the transfer of health visitor commissioning responsibilities for 0-5 year olds from NHS England to Durham County Council, the Council has secured ongoing delivery of statutory services, mitigated the impact of funding reductions and maintained performance levels for key children's services.
Successfully delivered projects	As above	As above	The new banking contract was implemented on 18 December 2015. The project to transfer of health visitor commissioning responsibilities for 0-5 year olds from NHS England to Durham County Council was completed and formally closed on 11 November 2015.
Reputation protected	As above	As above	Through effective risk management of the implementation of the new banking contract, the Council has avoided potential reputational damage and adverse impacts on cash flows.
Innovative decisions that were risk managed	As above	As above	
Financial return for the Council	As above	As above	

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Audit Committee**29 February 2016****Emergent Internal Audit Plan 2016/2017**

Report of Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. This report provides the Committee with details of the emergent Internal Audit Plan for 2016/2017 (attached as Appendix A).
2. The purpose of this report is to update and engage Members of the Audit Committee in the development of the 2016/2017 Internal Audit Plan.

Background

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

Basis for the Plan

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

A. Annual Internal Audit Opinion (PSIAS 2010)

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

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

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

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

C. Informed by Expectations (PSIAS 2010.A2)

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

Annual Planning

6. The approach to audit planning in the Council for 2016/2017 has been based largely, but not exclusively, on the following:
 - Review of the Strategic Risk Register
 - Review of all Service Groupings Service Plans and savings proposals
 - Review of the Community Strategy and other key strategy documents
 - Cumulative audit knowledge and experience.
 - Findings and outcomes from audit and investigation work in 2015/2016 and earlier years.
 - Engagement with Heads of Service and their management teams.
 - Engagement with audit colleagues across the North East and County Chief Auditor Network.
 - Engagement with the Risk, Insurance and Governance teams within the Audit and Risk Management Division.
7. On this basis, an emergent plan of areas for audit coverage has been developed. Areas have been considered on a risk basis and a plan for consultation has been produced. This has initially been presented to Corporate Directorate management teams for comment, to ensure that the risks identified are consistent with their understanding and assessment.

Key Characteristics of the Annual Plan

Scale and Pace of Change

8. The Council continues to go through a period of continuous change as a result of the financial settlement. There has been a significant reduction in the workforce and this will continue for the foreseeable future. Changes are taking place in the design, commissioning and delivery of services, with ongoing activity to deliver savings across all areas of the Council. The implementation of changes and public service reform, with a reduced workforce whilst delivering business as usual and achieving key priorities remains a key challenge for the Council during 2016/2017 and must be reflected in the Internal Audit Plan.
9. The Internal Audit Plan must continue to be sufficiently flexible to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified. This is particularly relevant for 2016/2017 as changes are agreed with more detailed work ongoing to confirm how these will be delivered. As such there are areas where Internal Audit work cannot be fully defined at this stage but where allocation of resource are required to help support good governance, risk management and control. Whilst Internal Audit adds value and provides assurance in these areas the detailed areas for focus are the subject of ongoing discussions with the business. Rather than define specific audits and then change them, the plan includes allocations of work which will be applied to specific aspects of audit activity throughout the year. There will be similar allocations in other areas with details of specific audit activities reported to Corporate Directors, Heads of Service and Audit Committee throughout the year.

10. Periods of change inevitably increase the potential for risks, both positive a (opportunities) and negative (hazards). The reduction in workforce for example provides opportunity for breakdown in control as well as an opportunity to consider new, more efficient ways of organising people, systems and processes without impacting adversely on internal control. To reflect this risk the audit plan will continue to allocate time for advice and consultancy and developing systems support to officers to support and challenge them in the establishment and development of their systems of governance, risk management and internal control. We will also deliver work on the core financial systems and a number of pro-active counter fraud, irregularity and probity audits to provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error.
11. The continued pace of change across the Council requires assurance that is prioritised and timely. The Internal Audit Plan must provide for this assurance, to enable remedial actions or controls to be implemented on a timely basis. Based on experience and feedback from Service Grouping Management Teams there is a continued need for shorter, more focused and practical audits in areas of emerging risk.
12. The characteristics of the plan: flexible, supportive, challenging, prioritised and timely are not new however, it remains critical that these principals are maintained if Internal Audit is to help the Council to continue to respond effectively to the scale of change during 2016/2017 and beyond.
13. Based on the above the Chief Internal Auditor and Corporate Fraud Manager considers that assurance is best obtained through a combination of different audits and other sources of assurance. This is not an uncommon approach but it has been tailored to reflect the specific needs of the Council. It is consistent with the approach taken in the development and delivery of the 2015/2016 Internal Audit Plan.

Plan Structure

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

Plan Content

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

17. There is time allocated to developing systems and supporting service groupings with new initiatives and any changes in service delivery.
18. The need for continued investment of time in anti-fraud, irregularity and probity work continues.
19. The emergent plan has been compiled to reflect the Corporate Management Team and Service Grouping structure in the Council as follows:
 - Assistant Chief Executive (ACE)
 - Children and Adult Services (CAS)
 - Neighbourhood Services (NS)
 - Regeneration and Economic Development (RED)
 - Resources (RES)
20. The emergent plan is based on the current service plans for the Council for 2016/17 which we acknowledge will be subject to ongoing change throughout the year. To help ensure that the plan is flexible and the service is able to respond to key risks in the year, the emergent plan includes a block of contingency time from which specific audits can be delivered in the year. Further details will be provided to the Audit Committee in the finalised plan in May and throughout the year.

Scale of the Plan

21. The annual internal audit plan needs to be deliverable within available resources. The Internal Audit Team has an approved establishment of 20 employees equivalent to 18.42 FTE. The Corporate Fraud Team which consists of 6 employees (5.5 FTE) will deliver a range of proactive and reactive counter fraud work across the year.
22. As a result of this planning, the latest forecast of available resources to be allocated to the management and delivery of the audit plan is 4,748 days. 319 days of this relate to work for external clients. The detail of this allocation is shown on the table over the page.

Estimated Gross Days Available (23.92) FTE	6,218
Non – Productive Time (Annual Leave, Sickness, Office Duties etc.)	1,470
Productive Time – not allocable to services, e.g. Audit Planning, Supporting Audit Committee, Quality Assurance, Fraud Investigation and Contingency	2,387
Audit days required to complete and close audit reports relating to 2015/2016	260
Productive Days 2016 / 2017	
Assistant Chief Executive (ACE)	70
Children and Adult Services (CAS)	302
Neighbourhood Services (NS)	291
Regeneration and Economic Development (RED)	141
Resources	648
Durham Police and Crime Commissioner / Durham Constabulary	159
Durham and Darlington Fire & Rescue Authority	71
Pension Fund	45
Durham City Charter	6
Durham Joint Crematorium	19
Mountsett Joint Crematorium	19
Schools (Service Level Agreements and Private School Funds)	330
TOTAL GROSS DAYS REQUIRED	6,218

Emergent Plan Content

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

Recommendations

25. Members are requested to comment on the proposed direction and process for the development of the emergent Internal Audit Plan attached at Appendix A which will be brought back for approval on 17 May 2016.

APPENDIX A: DURHAM COUNTY COUNCIL - EMERGENT INTERNAL AUDIT PLAN 2016/2017

Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
Business Continuity	Assistant Chief Executive	Policy and Communications	Key System	10	Altogether Better Council
Data Quality	Assistant Chief Executive	Planning and Performance	Assurance	10	Altogether Better Council
Equality Impact Assessment process for MTFP	Assistant Chief Executive	Planning and Performance	Assurance	10	Altogether Better Council
Data Protection (include DP Healthchecks for NS)	Assistant Chief Executive	Planning and Performance	Assurance	20	Altogether Better Council
County Records Office	Assistant Chief Executive	Planning and Performance	Assurance	7	Altogether Better Council
Information Governance Group	Assistant Chief Executive	Planning and Performance	Advice & Consultancy	3	Altogether Better Council
Community Grants	Assistant Chief Executive	Partnerships and Community Engagement	Assurance	10	Altogether Better Council
Shared Lives - Review of effectiveness of Service	Children and Adult Services	Adult Care	Assurance	20	
Reablement Services - Review of effectiveness of Service	Children and Adult Services	Adult Care	Assurance	20	
Continuing Health Care (Deferred 2015/16)	Children and Adult Services	Adult Care	Assurance	20	
Pathways - Establishment Audit	Children and Adult Services	Adult Care	Assurance	10	
Pathways - Establishment Audit (Closure)	Children and Adult Services	Adult Care	Assurance	15	
Implementation of the Care Act	Children and Adult Services	Adult Care	Advice & Consultancy	10	
Adaptations	Children and Adult Services	Adult Care	Assurance	5	
Children's Homes - Establishment Audit	Children and Adult Services	Children's Services	Assurance	10	
One Point Hubs - Establishment Audit	Children and Adult Services	Children's Services	Assurance	20	
Supervised Spend - Leaving Care Service Follow Up	Children and Adult Services	Children's Services	Assurance	15	
Aycliffe Locality Office, Residential and Secure Services Follow Up	Children and Adult Services	Children's Services	Assurance	15	
Think Family Programme	Children and Adult Services	Children's Services	Grant Claims	3	
Direct Payment Cards	Children and Adult Services	Commissioning	Advice & Consultancy	5	
Procurement - Arrangements for contract management and monitoring	Children and Adult Services	Commissioning	Advice & Consultancy	10	
Transport - Input into groups established to consider outcomes of People 2 review.	Children and Adult Services	Commissioning	Advice & Consultancy	15	
Schools - Safe Recruitment and Selection	Children and Adult Services	Education Services	Assurance	15	
Schools Financial Value Standard (SFVS)	Children and Adult Services	Education Services	Advice & Consultancy	10	
Education and Business Learning Organisation	Children and Adult Services	Education Services	Assurance	10	
Youth Employment Initiative - Support in developing control framework.	Children and Adult Services	Education Services	Advice & Consultancy	20	
Careers Service (Deferred 2015/16)	Children and Adult Services	Education Services	Assurance	10	
The Woodlands (Pupil Referral Unit) - Review of Finance and Governance arrangements.	Children and Adult Services	Education Services	Assurance	3	
Information Security - Caldicott Compliance	Children and Adult Services	PSS	Assurance	10	
Petty Cash Arrangements: Locality Offices	Children and Adult Services	PSS	Advice & Consultancy	10	
Stop Smoking Service (Nicotine Replacement Vouchers)	Children and Adult Services	Public Health	Advice & Consultancy	2	
Supervised Consumption (Pharmoutcomes)	Children and Adult Services	Public Health	Advice & Consultancy	2	
Alcohol Brief Interventions Service (Pharmoutcomes)	Children and Adult Services	Public Health	Advice & Consultancy	2	
Stop Smoking Service (Nicotine Replacement Vouchers)	Children and Adult Services	Public Health	Assurance	10	
DCRS - Quality of information held to inform key service performance indicators	Children and Adult Services	Public Health	Assurance	5	
School Programme (SLA)	Schools	Education Services	Assurance	300	
School Voluntary or Private School Funds (SLA)	Schools	Education Services	Assurance	25	
Schools - Grant work	Schools	Education Services	Grant Claims	5	
Bulky Goods Collections Service	Neighbourhood Services	Direct Services	Advice & Consultancy	8	
Bereavement Services - Paupers Funeral Arrangements	Neighbourhood Services	Direct Services	Advice & Consultancy	5	
Allotment Management - Follow Up	Neighbourhood Services	Direct Services	Assurance	10	
Fuel Stocks & Stores	Neighbourhood Services	Direct Services	Assurance	20	
Building Services, Repairs & Maintenance works billing processes	Neighbourhood Services	Direct Services	Assurance	25	
QMS (Quarterly Visit)	Neighbourhood Services	Direct Services	Advice & Consultancy	5	
Facilities Management	Neighbourhood Services	Direct Services	Assurance	15	
Electrical Components - Procurement Card Expenditure (Follow Up to Part 1)	Neighbourhood Services	Direct Services	Assurance	10	
Play Areas - Inspection Mechanisms and Charges to Parish & Town Councils	Neighbourhood Services	Direct Services	Assurance	8	
Control of Infectious Diseases (Third Party Assurance)	Neighbourhood Services	EHCP	Assurance	5	
Pollution Control - Planning Consultation Arrangements	Neighbourhood Services	EHCP	Assurance	5	
Contaminated Land	Neighbourhood Services	EHCP	Assurance	5	
Trading Standards Grant	Neighbourhood Services	EHCP	Grant Claim	4	
Garden Waste Collection	Neighbourhood Services	Projects and Business Services	Assurance	5	
Environmental Compliance	Neighbourhood Services	Projects and Business Services	Advice & Consultancy	10	
CRM System Implementation	Neighbourhood Services	Projects and Business Services	Advice & Consultancy	10	
Customer Services Complaints	Neighbourhood Services	Projects and Business Services	Assurance	10	

APPENDIX A: DURHAM COUNTY COUNCIL - EMERGENT INTERNAL AUDIT PLAN 2016/2017

Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
Leisure Centre - Core Financial Systems (Shildon & Teesdale)	Neighbourhood Services	Sport and Leisure Services	Assurance	10	
Leisure Works management arrangements (Consett Leisure Centre)	Neighbourhood Services	Sport and Leisure Services	Assurance	10	
Leisure Works management arrangements (Peterlee and Seaham Leisure Centres)	Neighbourhood Services	Sport and Leisure Services	Assurance	10	
CLUK Income Share Agreement	Neighbourhood Services	Sport and Leisure Services	Assurance	6	
County Durham Sport	Neighbourhood Services	Sport and Leisure Services	Grant Claim	3	
County Durham Sport	Neighbourhood Services	Sport and Leisure Services	Advice & Consultancy	2	
Stanley Bowls	Neighbourhood Services	Sport and Leisure Services	Audit of Accounts	5	
Integrated Leisure Management System	Neighbourhood Services	Sport and Leisure Services	Assurance	15	
DLI Museum	Neighbourhood Services	Sport and Leisure Services	Assurance	10	
Gala Stage School	Neighbourhood Services	Sport and Leisure Services	Assurance	10	
Gala ticketing system arrangements	Neighbourhood Services	Sport and Leisure Services	Advice & Consultancy	5	
Locomotion - Follow Up	Neighbourhood Services	Sport and Leisure Services	Assurance	10	
Civil Engineering Framework Sub £50K - Follow Up	Neighbourhood Services	Technical Services	Assurance	5	
Stores (Buildings & Highways)	Neighbourhood Services	Technical Services	Assurance	30	
Durham Crematorium	Crematoria	Direct Services	Assurance (Joint Ctte)	19	
Mounsett Crematorium	Crematoria	Direct Services	Assurance (Joint Ctte)	19	
Carbon Reduction Commitment	Regeneration and Economic Development	Planning and Assets	Assurance	5	Altogether Green
Utility Bills	Regeneration and Economic Development	Planning and Assets	Assurance	10	Altogether Green
Section 106 arrangements	Regeneration and Economic Development	Planning and Assets	Assurance	10	Altogether Better Council
Community Infrastructure Levy	Regeneration and Economic Development	Planning and Assets	Advice & Consultancy	2	Altogether Better Council
Building Control - Systems Review	Regeneration and Economic Development	Planning and Assets	Assurance	15	Altogether Better Council
Asset Management	Regeneration and Economic Development	Planning and Assets	Assurance	20	Altogether Better Council
Low Carbo	Regeneration and Economic Development	Planning and Assets	Grant	4	Altogether Better Council
Rebus	Regeneration and Economic Development	Planning and Assets	Grant	4	Altogether Better Council
EU Structural Funds Programme	Regeneration and Economic Development	Strategy, Programmes and Performance	Assurance	10	Altogether Better Council
Public Right of Way	Regeneration and Economic Development	Transport and Contract Services	Assurance	10	Altogether Safer Council
On Street and Off Street Parking	Regeneration and Economic Development	Transport and Contract Services	Assurance	15	Altogether Safer Council
Concessionary Fares	Regeneration and Economic Development	Transport and Contract Services	Assurance	10	Altogether Better Council
Local Transport Capital Block Funding	Regeneration and Economic Development	Transport and Contract Services	Grant	3	Altogether Better Council
Local Pinch Point Fund	Regeneration and Economic Development	Transport and Contract Services	Grant	3	Altogether Better Council
Bus Subsidy Ring Fenced Grant	Regeneration and Economic Development	Transport and Contract Services	Grant	3	Altogether Better Council
Seaham Marina Grant (Capital)	Regeneration and Economic Development	Economic Development and Housing	Advice & Consultancy	5	Altogether Wealthier
Accommodation Project	Regeneration and Economic Development	Economic Development and Housing	Advice & Consultancy	10	Altogether Better Council
Disabled Facilities Grant	Regeneration and Economic Development	Economic Development and Housing	Grant	2	Altogether Better Council
RIPA Officers Group	Resources	Legal and Democratic Services	Advice & Consultancy	2	Altogether Better Council
Medium Term Financial Plan	Resources	Corporate Finance and HR	Key System	10	Altogether Better Council
Capital Accounting	Resources	Corporate Finance and HR	Key System	10	Altogether Better Council
General Ledger	Resources	Corporate Finance and HR	Key System	5	Altogether Better Council
Bank Reconciliation	Resources	Corporate Finance and HR	Key System	8	Altogether Better Council
Short Term Investments	Resources	Corporate Finance and HR	Key System	10	Altogether Better Council
Banking Arrangements	Resources	Corporate Finance and HR	Assurance	10	Altogether Better Council
Tendering/Quotation arrangements	Resources	Corporate Finance and HR	Assurance	20	Altogether Better Council
Contract Management	Resources	Corporate Finance and HR	Assurance	15	Altogether Better Council
Procurement (any other areas)	Resources	Corporate Finance and HR	Assurance	20	Altogether Better Council
Oracle Programme Board	Resources	Corporate Finance and HR	Advice & Consultancy	4	Altogether Better Council
Oracle Project - Transactional Purchasing Improvement Group	Resources	Corporate Finance and HR	Advice & Consultancy	8	Altogether Better Council
Oracle Project - Petty Cash and Payment Cards	Resources	Corporate Finance and HR	Advice & Consultancy	8	Altogether Better Council
Service Reviews	Resources	Corporate Finance and HR	Advice & Consultancy	18	Altogether Better Council
Attendance Management Framework	Resources	Corporate Finance and HR	Assurance	15	Altogether Better Council
Flexible Working Pilot arrangements	Resources	Corporate Finance and HR	Advice & Consultancy	5	Altogether Better Council
Learning & Development	Resources	Corporate Finance and HR	Advice & Consultancy	10	Altogether Better Council
Health & Safety training requirements	Resources	Corporate Finance and HR	Assurance	10	Altogether Better Council
Agency	Resources	Financial and HR Services	Assurance	10	Altogether Better Council
Learning Disability Shared Lives Service - Financial Inspections	Resources	Financial and HR Services	Assurance	10	Altogether Better Council

APPENDIX A: DURHAM COUNTY COUNCIL - EMERGENT INTERNAL AUDIT PLAN 2016/2017

Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
Creditors	Resources	Financial and HR Services	Key System	50	Altogether Better Council
IPIG	Resources	Financial and HR Services	Advice & Consultancy	5	Altogether Better Council
Payroll	Resources	Financial and HR Services	Key System	50	Altogether Better Council
Business Rates	Resources	Financial and HR Services	Key System	40	Altogether Better Council
HB, CTR, DHP and Welfare Assistance	Resources	Financial and HR Services	Key System	40	Altogether Better Council
HB Sundry Debtor Overpayments	Resources	Financial and HR Services	Key System	5	Altogether Better Council
Enforcement, including bailiff arrangements	Resources	Financial and HR Services	Assurance	10	Altogether Better Council
Council Tax	Resources	Financial and HR Services	Key System	40	Altogether Better Council
Cash Collection	Resources	Financial and HR Services	Key System	50	Altogether Better Council
Debtors	Resources	Financial and HR Services	Key System	50	Altogether Better Council
Debtors Working Group	Resources	Financial and HR Services	Advice & Consultancy	5	Altogether Better Council
Chapter Homes arrangements	Resources	Financial and HR Services	Advice & Consultancy	5	Altogether Better Council
Caspar system	Resources	Financial and HR Services	Advice & Consultancy	5	Altogether Better Council
ResourceLink Migration Group	Resources	Financial and HR Services	Advice & Consultancy	15	Altogether Better Council
Section 256 agreements / Better Care Fund	Resources	Financial and HR Services	Grant certification	10	Altogether Better Council
Information Security Policies	Resources	Information and Communication Technology	Assurance	20	Altogether Better Council
Mobile Computing	Resources	Information and Communication Technology	Assurance	10	Altogether Better Council
SQL Server	Resources	Information and Communication Technology	Assurance	10	Altogether Better Council
ICT Purchasing	Resources	Information and Communication Technology	Assurance	10	Altogether Better Council
ICT Strategy	Resources	Information and Communication Technology	Assurance	10	Altogether Better Council

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Audit Committee

29 February 2016

**Internal Audit Progress Report
Period Ended 31 December 2015**



Report of the Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. To inform Members of the work that has been carried out by Internal Audit during the period 1 April 2015 to 31 December 2015 as part of the 2015/2016 Internal Audit Plan.
2. The report aims to:
 - Provide a high level of assurance, or otherwise, on internal controls operating across the Council that have been subject to an Internal Audit of systems and processes.
 - Advise of issues where controls need to be improved in order to effectively manage risks.
 - Advise of other types of audit work carried out such as grant certification or consultancy reviews where an assurance opinion on the control environment may not be applicable.
 - Advise of amendments to the Internal Audit Plan.
 - Track the progress of responses to Internal Audit reports and the implementation of agreed audit recommendations.
 - Advise of any changes to the audit process.
 - Provide an update on the performance indicators comparing actual performance against planned.
3. The appendices attached to this report are summarised below. Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3).

Appendix 2	Progress against the Internal Audit Plan
Appendix 3	Final Reports issued in the quarter ending 31 December 2015
Appendix 4	The number of high and medium priority actions raised and implemented
Appendix 5	Internal Audit Performance Indicators
Appendix 6*	Overdue Actions
Appendix 7*	Limited Assurance Audit Opinions

Background

4. As an independent consultancy service, the Council's Internal Audit Team strives to continue to add value and improve the organisation's operations as well as providing objective assurance to service managers and the Council.
5. The Internal Audit Strategy and Annual Internal Audit Plan, covering the period 1 April 2015 to 31 March 2016, was approved by the Audit Committee on 29 June 2015.

Progress against the Internal Audit Plan

6. A summary of the approved Internal Audit Plan for each Service Grouping, updated to include work in progress and any audits brought forward from last year's plan, is attached at Appendix 2. The appendix illustrates the current status of each audit as at 31 December 2015 and, where applicable, also gives the resultant assurance opinion.
7. A summary of the status of audits in 2015/16 is illustrated in the table below:

Service Grouping	Not Started	Planning and Preparation	In Progress	Draft Report	Final Report
Assistant Chief Executive (ACE)	1	5	1	2	6
Children and Adult Services (CAS) excluding Schools	2	16	15	1	20
Children and Adult Services (CAS) - Schools	13	7	4	1	38
Neighbourhood Services (NS)	0	19	11	2	20
Regeneration and Economic Development (RED)	1	8	2	2	12
Resources (RES)	10	17	23	3	27
TOTAL	27	72	56	11	123

8. A summary of the final audit reports issued in this quarter is presented in Appendix 3.

9. The total number of productive Internal Audit days required to deliver the plan is 4,888. As at 31 December, the service has delivered 3,491 productive days, representing 71% of the total plan. The target at the end of the quarter was for 67.5% to be delivered, therefore performance is in line to achieve the target.

Audit Activity in the Quarter

Amendments to the Approved 2015/2016 Internal Audit Plan

10. The following 14 reviews are to be removed from the approved Internal Audit Plan this quarter, following agreement between Corporate Directors and the Chief Internal Auditor and Corporate Fraud Manager:

Service Grouping	Audit	Audit Type	Reason
Assistant Chief Executive (ACE)	Community Engagement (Consultation Strategy)	Advice & Consultancy	Service request to remove this advice and consultancy review.
Children and Adult Services (CAS)	Continuing Health Care	Assurance	Agreed with key contact to defer review whilst activity is undergoing period of significant change.
Children and Adult Services (CAS)	Personal Budgets	Assurance	The focus of review in looking to detect / prevent fraud is to be undertaken by the Corporate Fraud Team which is better positioned to deliver it.
Children and Adult Services (CAS)	Brokering of external providers of school improvement services	Assurance	Activity cancelled with agreement of key contact following an increase in perceived assurance that external delivery is being provided through a smaller, well known group of providers.
Children and Adult Services (CAS)	Careers Service	Assurance	Activity deferred with agreement of key contact following prioritisation of total work deliverable by IA by 31 March 2016.
Children and Adult Services (CAS)	Education and Business Link	Assurance	Activity deferred with agreement of key contact following prioritisation of total work deliverable by IA by 31 March 2016.
Children and Adult Services (CAS)	DCRS - Quality of information held to inform key service PIs	Assurance	Activity deferred with agreement of key contact following prioritisation of total work deliverable by IA by 31 March 2016.
Children and Adult Services (CAS)	Petty Cash and Imprest Accounts at Locality Offices	Assurance	Agreed with key contact to defer review whilst service reorganisation is undertaken.

Service Grouping	Audit	Audit Type	Reason
Children and Adult Services (CAS)	Integration of Financial Services Team within Revenues and Benefits	Advice & Consultancy	Cancelled, with agreement of key contact, following service restructure and transfer of staff.
Resources (RES)	Confidential Reporting Code	Assurance	This assurance review is to be cancelled, as the planned scope of the work is included within the key system review of the Counter Fraud arrangements.
Resources (RES)	Agency System	Assurance	Deferred to 2016/17 to allow for an investigation to be carried out into unworked hours being paid through the agency system.
Resources (RES)	Attendance Management Framework (AMF)	Assurance	Deferred to 2016/17 as the revised AMF has only recently been introduced and it would be useful to allow it some time to 'bed in' before carrying out the audit.
Resources (RES)	Document Retention	Advice & Consultancy	Cancelled as the planned scope of the review is included within the work stream covering petty cash and payment cards.
Resources (RES)	Health Visitors / Family Practitioners transfer	Advice & Consultancy	Cancelled as the transfer process (a single contract with a single supplier) was a lot less complex than originally thought.

11. There have been 21 unplanned reviews added to the Internal Audit Plan in this quarter. Of these, 11 are potential fraud or irregularity investigations.

12. The 10 other reviews, which are to be sourced from the service contingency provision within the Internal Audit Plan, are detailed below:

Service Grouping	Audit	Audit Type	Reason
Children and Adult Services (CAS)	Provision of 0-19 Services	Advice & Consultancy	Service request following award of contract to new provider from 01 April 2016.
Children and Adult Services (CAS)	Reablement Car Mileages	Advice & Consultancy	Service request following identification of mileage overpayments.
Children and Adult Services (CAS)	PharmOutcomes - Alcohol Brief Interventions Service	Advice & Consultancy	Service request in the development of suitable internal controls associated with introducing PharmOutcomes as the system for receiving Alcohol Brief Interventions (ABI) Service claims from Pharmacies with effect from 01 January 2016.

Service Grouping	Audit	Audit Type	Reason
Children and Adult Services (CAS)	Pathway establishment closures	Assurance	Service request to undertake establishment review at Ebony Woodwork prior to closure.
Children and Adult Services (CAS)	Extra Care pre-paid cards	Advice & Consultancy	Service request in relation to the roll out of pre-paid cards following the Council's change of bank provider.
Neighbourhood Services (NS)	Review of application for additional funding	Advice & Consultancy	Service request to add this review.
Regeneration and Economic Development (RED)	FAP Policy Loans Process	Assurance	Request to add this review to the plan, as the process for managing loans has recently been brought back in house.
Resources (RES)	Workstream on Petty Cash and Payment Cards	Advice & Consultancy	Working group established to deliver improvements in the processes for petty cash and payment cards.
Resources (RES)	Transactional Purchasing Improvement Group	Advice & Consultancy	Working group established to deliver improvements in the processes for raising and processing requisitions.
Resources (RES)	ResourceLink Migration Group	Advice & Consultancy	Working groups established to develop specification for the potential migration of payroll/HR processes from ResourceLink to Oracle.

Outstanding Management Responses to Draft Internal Audit Reports

13. There are currently no draft audit reports overdue at the time of writing.

Survey Response Rate

14. The table below sets out the response rate and average score, by Service Grouping, for the customer satisfaction surveys issued during the period up to the end of December 2015.

Service Grouping	Surveys issued	Surveys returned	% returned	Av. score
Assistant Chief Executive (ACE)	3	2	67	4.4
Children and Adult Services (CAS) excluding Schools	10	7	70	4.5
Children and Adult Services (CAS) - Schools	35	21	60	4.9
Neighbourhood Services (NS)	16	14	88	4.5
Regeneration and Economic Development (RED)	11	9	82	4.4
Resources (RES)	29	23	79	4.1
TOTAL	104	76	73	4.5

Responses to Audit Findings and Recommendations

15. Details of the numbers of High and Medium priority ranked recommendations that have been raised and those that are overdue, by Service Grouping, are presented in Appendix 4.
16. A summary of progress on the actions due, implemented and overdue, as at 31 December 2015, is given in the table below:

Service Grouping	Number of Actions Due to be Implemented	Number of Actions Actually Implemented	Actions Overdue by Agreed Original Target Date	Actions with an Agreed Revised Target Date	Actions Overdue by Revised Target Date
Assistant Chief Executive (ACE)	13	10	3	3	0
Children and Adult Services (CAS)	142	142	0	0	0
Neighbourhood Services (NS)	206	189*	17	17	0
Regeneration and Economic Development (RED)	91	82	9	9	0
Resources (RES)	465	449	16	16	0
TOTAL	917	872	45	45	0

* Note: This figure includes 5 high priority actions for which evidence of implementation is to be reviewed as part of follow up audit.

17. It is encouraging to note that, of the 917 actions due to be implemented, 872 (95%) have been implemented. The Chartered Institute of Public Finance and Accountancy (CIPFA), benchmarking exercise indicates that average performance in this area to be between 70% to 80%. At present the Council is delivering in excess of this target.
18. Details of the actions that are overdue, following their agreed original target dates, are included at Appendix 6.

Limited Assurance Audit Opinions

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

Service Grouping	Service Area	Audit
Neighbourhood Services (NS)	Technical Services	Civil Engineering Framework Sub £20k
Neighbourhood Services (NS)	Direct Services	Electrical Components Procurement Card Expenditure

20. Further details of the findings from these audits are included within Appendix 7.

Performance Indicators

21. A summary of our actual performance, at the end of December 2015, compared with our agreed targets is illustrated in Appendix 5.

Recommendations

22. Members are asked to note:

- The amendments made to the 2015/2016 Annual Audit Plan.
- Work undertaken by Internal Audit during the period ending 31 December 2015 and the assurance on the control environment provided.
- The performance of the Internal Audit Service during the period.
- Progress made by service managers in responding to the work of Internal Audit.

Contact: Paul Monaghan

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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.

Procurement

None

Disability Issues

None

Legal Implications

None

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2015

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
2014 / 2015 Internal Audit Plan - Audits Brought Forward / Deferred					
Assistant Chief Executive (ACE)	Policy and Communications	Business Continuity Planning	Key System	Final Report	Substantial
Assistant Chief Executive (ACE)	Planning and Performance	Data Protection - Access to Records: Legal Services	Assurance	Final Report	Moderate
Assistant Chief Executive (ACE)	Planning and Performance	Data Protection - Access to Records: Environmental Health	Assurance	Final Report	Moderate
Assistant Chief Executive (ACE)	Planning and Performance	Data Quality (2013/14 follow up)	Key System	Final Report	Moderate
Assistant Chief Executive (ACE)	Planning and Performance	Data Quality	Key System	Final Report	Moderate
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Area Action Partnerships (AAPs) - Performance Management Framework	Assurance	Preparation	
Children and Adult Services (CAS)	Adult Care	Hawthorn House Follow Up	Assurance	Final Report	Moderate
Children and Adult Services (CAS)	Children's Services	Foster Carer Payments	Assurance	Preparation	
Children and Adult Services (CAS)	Children's Services	Children Safeguarding Governance Arrangements	Assurance	Preparation	
Children and Adult Services (CAS)	Children's Services	Leaving Care Service	Assurance	In Progress	
Children and Adult Services (CAS)	Children's Services	Disability Commissioning Arrangements (Short Breaks)	Assurance	Final Report	Substantial
Children and Adult Services (CAS)	Children's Services	Out of County Placements	Assurance	Final Report	Substantial
Children and Adult Services (CAS)	Children's Services	First Contact Service	Assurance	Final Report	Substantial
Children and Adult Services (CAS)	Children's Services	Voluntary Organisations (DCC Employee Arrangements)	Assurance	Not yet started	
Children and Adult Services (CAS)	Commissioning	Management of Client Finances	Assurance	Final Report	Substantial
Children and Adult Services (CAS)	Commissioning	Direct Payments - Introduction of Pre-Paid Cards	Advice & Consultancy	In Progress	
Children and Adult Services (CAS)	Commissioning	Social Care Financial Assessments and Reassessments	Assurance	In Progress	
Children and Adult Services (CAS)	Education Services	Schools Financial Value Standard (SFVS)	Advice & Consultancy	Complete	N/A
Children and Adult Services (CAS)	PSS	Caldicott Compliance	Assurance	Final Report	Moderate
Children and Adult Services (CAS)	Public Health	Support to the Director of Public Health on providing assurance on Health Protection Arrangements	Advice & Consultancy	Final Report	N/A
Children and Adult Services (CAS)	Public Health	Health Visitor Transition	Advice & Consultancy	Final Report	N/A
Children and Adult Services (CAS)	Public Health	Pharmoutcomes NRT	Advice & Consultancy	In Progress	
Children and Adult Services (CAS)	Public Health	Pharmoutcomes Supervised Consumption	Advice & Consultancy	In Progress	
Children and Adult Services (CAS)	Public Health	Commissioning of Clinical Public Health Services	Assurance	Final Report	Moderate
Neighbourhood Services (NS)	Culture & Sport	Integrated Leisure Management System	Advice & Consultancy	Complete	N/A
Neighbourhood Services (NS)	Direct Services	Allotments Management	Assurance	Final Report	Limited
Neighbourhood Services (NS)	Direct Services	Quality Management System (QMS)	Advice & Consultancy	Final Report	N/A
Neighbourhood Services (NS)	Direct Services	Computerised Repairs and Maintenance System	Advice & Consultancy	Final Report	N/A
Neighbourhood Services (NS)	Direct Services	Catering Service	Advice & Consultancy	Final Report	N/A
Neighbourhood Services (NS)	Direct Services	Contract Audit - Direct Services	Assurance	In Progress	
Neighbourhood Services (NS)	Technical Service	Capital Project Review	Assurance	In Progress	
Neighbourhood Services (NS)	Technical Service	Contract Audit - Construction PPM	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Technical Service	Contract Audit - Highways	Assurance	Final Report	Moderate
Neighbourhood Services (NS)	Technical Service	Flooding Mitigation (Service led Self Assessment)	Assurance	In Progress	
Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	ERDF	Advice & Consultancy	Final Report	N/A
Regeneration and Economic Development (RED)	Planning and Assets	Planning System	Assurance	Final Report	Moderate
Regeneration and Economic Development (RED)	Transport and Contract Services	Transport - Contractual Arrangements	Assurance	In Progress	
Regeneration and Economic Development (RED)	Transport and Contract Services	Transport - Safeguarding Arrangements	Assurance	In Progress	
Regeneration and Economic Development (RED)	Economic Development and Housing	Housing Stock Transfer	Advice & Consultancy	Complete	N/A
Regeneration and Economic Development (RED)	Economic Development and Housing	Housing Solutions	Assurance	Final Report	Substantial
Regeneration and Economic Development (RED)	Economic Development and Housing	Choice Based Lettings	Assurance	Final Report	Substantial
Regeneration and Economic Development (RED)	Planning and Assets	Warm Up North	Advice & Consultancy	Preparation	
Resources	HR&OD	Payroll	Key System	Draft Report	
Resources	HR&OD	Violent Persons Register	Assurance	Final Report	Moderate
Resources	HR&OD	Health and Safety	Key System	Final Report	Substantial
Resources	HR&OD	Attendance Management Framework - Phased returns	Assurance	Final Report	Moderate
Resources	HR&OD	Members Allowances & Expenses	Assurance	Final Report	Substantial
Resources	HR&OD	Standards	Assurance	Preparation	
Resources	Legal and Democratic Services	Land Charges Fees and Income	Assurance	In Progress	
Resources	Legal and Democratic Services	Registrars	Assurance	Final Report	Moderate
Resources	Corporate Finance	VAT Arrangements	Assurance	Final Report	Substantial
Resources	Corporate Finance	Collection Fund	Key System	Final Report	Substantial
Resources	Financial Services	Council Tax	Key System	Final Report	Moderate
Resources	Financial Services	Business Rates	Key System	Final Report	Moderate
Resources	Financial Services	Welfare Rights Reporting System	Assurance	In Progress	
Resources	Financial Services	Bailiffs	Advice & Consultancy	Complete	N/A
Resources	Financial Services	Creditors	Key System	Final Report	Moderate
Resources	Financial Services	Debtors	Key System	Final Report	Moderate
Resources	Financial Services	Debtors: Follow Up to 2013-14 Review	Key System	Final Report	Moderate

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2015

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	ICT	Cash Collection	Key System	Final Report	Moderate
Resources	ICT	Mobile Phones	Advice & Consultancy	Final Report	N/A
Resources	ICT	Password Management	Assurance	Final Report	Moderate
Resources	ICT	Physical Security	Assurance	Final Report	Moderate
Resources	ICT	ISMS Risk Assessment	Assurance	Final Report	Moderate
Resources	Internal Audit, Risk and Fraud	Insurance	Assurance	Final Report	Moderate
Resources	Financial Services	Agency	Assurance	Defer to 2016/17	
Resources	Internal Audit, Risk and Fraud	Counter Fraud Arrangements	Key System	Not yet started	
Resources	ICT	ICT Business Continuity Plan	Assurance	In Progress	
Resources	ICT	Design and Print Service	Assurance	In Progress	
2015 / 2016 Internal Audit Plan					
Assistant Chief Executive (ACE)	Policy and Communications	Business Continuity Planning	Key System	Not yet started	
Assistant Chief Executive (ACE)	Policy and Communications	Strategy for Social Media	Advice & Consultancy	Cancelled	
Assistant Chief Executive (ACE)	Policy and Communications	Durham Ask Governance	Advice & Consultancy	Cancelled	
Assistant Chief Executive (ACE)	Planning and Performance	Data Quality Framework	Assurance	Preparation	
Assistant Chief Executive (ACE)	Planning and Performance	Data Protection - Information Asset Registers	Assurance	Preparation	
Assistant Chief Executive (ACE)	Planning and Performance	Data Protection - Security Breach arrangements in CAS	Assurance	Preparation	
Assistant Chief Executive (ACE)	Planning and Performance	Freedom of Information	Assurance	Draft Report	
Assistant Chief Executive (ACE)	Planning and Performance	Information Governance Group	Advice & Consultancy	In Progress	
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Community Engagement (Consultation Strategy)	Advice & Consultancy	Cancelled	
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Partnership Governance Framework	Key System	Preparation	
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Community Buildings Funding (Part 3)	Advice & Consultancy	Final Report	N/A
Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Community Grants (Governance & Payments)	Assurance	Draft Report	
Children and Adult Services (CAS)	Adult Care	Continuing Health Care	Assurance	Defer to 2016/17	
Children and Adult Services (CAS)	Adult Care	Continuing Health Care / S117 Payments	Advice & Consultancy	In Progress	
Children and Adult Services (CAS)	Adult Care	Adaptations Service Follow Up	Assurance	Preparation	
Children and Adult Services (CAS)	Adult Care	Implementation of the Care Act	Advice & Consultancy	In Progress	
Children and Adult Services (CAS)	Adult Care	Extra Care	Assurance	Final Report	Moderate
Children and Adult Services (CAS)	Children's Services	Stronger Families Programme	Advice & Consultancy	Complete	N/A
Children and Adult Services (CAS)	Children's Services	Stronger Families Programme - Q1	Grant Certification	Complete	N/A
Children and Adult Services (CAS)	Children's Services	Stronger Families Programme - Q2	Grant Certification	Complete	N/A
Children and Adult Services (CAS)	Children's Services	Stronger Families Programme - Q3	Grant Certification	Preparation	
Children and Adult Services (CAS)	Children's Services	Adoption Service	Assurance	Cancelled	
Children and Adult Services (CAS)	Children's Services	Children's Homes - Cash handling arrangements - High Etherley / Framwellgate Moor	Assurance	Preparation	
Children and Adult Services (CAS)	Children's Services / PSS	Aycliffe Site - Collection and banking of income; imprest accounts and procurement cards	Key System	Draft Report	
Children and Adult Services (CAS)	Commissioning	Transport – Input into group established to consider outcomes of People 2 review.	Advice & Consultancy	In Progress	
Children and Adult Services (CAS)	Commissioning	Management of Client Finances - Use of pre-paid cards Phase 1	Advice & Consultancy	Final Report	N/A
Children and Adult Services (CAS)	Commissioning	Management of Client Finances - Use of pre-paid cards Phase 2	Advice & Consultancy	Preparation	
Children and Adult Services (CAS)	Commissioning	Integration of Financial Services Team within Revenues and Benefits	Advice & Consultancy	Cancelled	
Children and Adult Services (CAS)	Commissioning	Arrangements for management and monitoring of contract information across service	Assurance	Defer to 2016/17	
Children and Adult Services (CAS)	Commissioning	Personal Budgets	Assurance	Cancelled	
Children and Adult Services (CAS)	Commissioning	Integrated Drug & Alcohol Service for Adults and Young People: Contract Management Arrangements	Assurance	Not yet started	
Children and Adult Services (CAS)	Commissioning	Post Contract Arrangements	Advice & Consultancy	In Progress	
Children and Adult Services (CAS)	Education Services	Adult Learning and Skills Service	Assurance	Final Report	Moderate
Children and Adult Services (CAS)	Education Services	Youth Employment Initiative	Advice & Consultancy	In Progress	
Children and Adult Services (CAS)	Education Services	Arrangements for brokering of external providers of school improvement services	Assurance	Cancelled	
Children and Adult Services (CAS)	Education Services	Schools Financial Value Standard (SFVS)	Advice & Consultancy	Preparation	
Children and Adult Services (CAS)	Education Services	Governor Training	Advice & Consultancy	Preparation	
Children and Adult Services (CAS)	Education Services	SBM Training	Advice & Consultancy	Preparation	
Children and Adult Services (CAS)	Education Services	Headteacher Group	Advice & Consultancy	Preparation	
Children and Adult Services (CAS)	Education Services	Careers Service	Assurance	Defer to 2016/17	
Children and Adult Services (CAS)	Education Services	Education and Business Link	Assurance	Defer to 2016/17	
Children and Adult Services (CAS)	Education Services	School Programme provided through SLA	Assurance	Various	28S, 10M
Children and Adult Services (CAS)	PSS	Petty Cash and Imprest Accounts at Locality Offices	Advice & Consultancy	Final Report	N/A
Children and Adult Services (CAS)	PSS	Petty Cash and Imprest Accounts at Locality Offices	Assurance	Defer to 2016/17	
Children and Adult Services (CAS)	PSS	E Market Place	Advice & Consultancy	In Progress	
Children and Adult Services (CAS)	PSS	Caldicott Compliance - SSID System	Assurance	Preparation	
Children and Adult Services (CAS)	PSS	Caldicott Compliance - POPPIE System	Assurance	Preparation	
Children and Adult Services (CAS)	PSS	Caldicott Group	Advice & Consultancy	In Progress	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2015

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Children and Adult Services (CAS)	PSS	Caldicott Compliance - DCRS	Assurance	Preparation	
Children and Adult Services (CAS)	PSS / Public Health	DCRS - Quality of information held to inform key service performance indicators	Assurance	Defer to 2016/17	
Children and Adult Services (CAS)	Public Health	Public Health - Data Quality (Performance Indicators) Mapping Exercise	Advice & Consultancy	In Progress	
Children and Adult Services (CAS)	Public Health	Integrated Drug & Alcohol Service for Adults and Young People: Data Quality	Advice & Consultancy	Preparation	
Children and Adult Services (CAS)	Education Services	School Programme for voluntary of private school funds provided through SLA	Assurance	Planned In Progress Complete	3 2 20
Children and Adult Services (CAS)	Education Services	Schools User Provider Group	Advice & Consultancy	Complete	
Children and Adult Services (CAS)	Education Services	Head Teacher Induction	Advice & Consultancy	Complete	
Children and Adult Services (CAS)	Children and Adults	North of England Public Sector Internal Audit Forum	Advice & Consultancy	Complete	
Children and Adult Services (CAS)	Public Health	PharmOutcomes - Alcohol Brief Interventions Service	Advice & Consultancy	In Progress	
Children and Adult Services (CAS)	Adult Care	Overpayment of car mileage to two Reablement employees.	Advice & Consultancy	In Progress	
Children and Adult Services (CAS)	Public Health	Provision of 0-19 Services	Advice & Consultancy	Preparation	
Children and Adult Services (CAS)	Adult Care	Pathway establishment closures - Ebony Woodwork	Assurance	Preparation	
Neighbourhood Services (NS)	Culture & Sport	Stanley Bowls	Audit of Accounts	Preparation	
Neighbourhood Services (NS)	Culture & Sport	County Durham Sport	Grant Certification	Complete	N/A
Neighbourhood Services (NS)	Culture & Sport	Spennymoor Leisure Centre - Review of Core Financial Systems	Assurance	Final Report	Moderate
Neighbourhood Services (NS)	Culture & Sport	Newton Aycliffe Leisure Centre - Review of Core Financial Systems	Assurance	Final Report	Moderate
Neighbourhood Services (NS)	Culture & Sport	Fixed Play (Sn 106)	Assurance	Defer to 2016/17	N/A
Neighbourhood Services (NS)	Culture & Sport	Leisureworks Management	Assurance	Preparation	
Neighbourhood Services (NS)	Culture & Sport	SevenHills - Review of resource distribution arrangements, Debtors, Expenditure and Stocks and Stores	Assurance	In Progress	
Neighbourhood Services (NS)	Culture & Sport	Locomotion Museum - Review of governance arrangements / Core Financial Systems	Assurance	In Progress	
Neighbourhood Services (NS)	Culture & Sport	Gala Theatre – Cinema Operator Procurement and links to Box Office	Assurance	In Progress	
Neighbourhood Services (NS)	Culture & Sport	CLUK Income Share Agreement	Assurance	Complete	Substantial
Neighbourhood Services (NS)	Culture & Sport	Killhope Museum- Review of Core Financial Systems	Assurance	Draft Report	
Neighbourhood Services (NS)	Direct Services	School Billing Process	Assurance	Preparation	
Neighbourhood Services (NS)	Direct Services	Linvin Housing Association Contract Follow Up	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Direct Services	Quality Management System (QMS)	Advice & Consultancy	Final Report	N/A
Neighbourhood Services (NS)	Direct Services	Quality Management System (QMS)	Advice & Consultancy	Preparation	
Neighbourhood Services (NS)	Direct Services	Clean and Green Complaints Handling	Assurance	Cancelled	N/A
Neighbourhood Services (NS)	Direct Services	Safer Communities / Anti-Social Behaviour Teams - MAIS and Child Sexual Exploitation	Assurance	Preparation	
Neighbourhood Services (NS)	Direct Services	Bereavement Services - Durham Crematorium	Assurance	Preparation	
Neighbourhood Services (NS)	Direct Services	Bereavement Services - Mountsett Crematorium	Assurance	Preparation	
Neighbourhood Services (NS)	Direct Services	Fleet Management - Follow Up	Assurance	In Progress	
Neighbourhood Services (NS)	Direct Services	Use of Fuel Cards	Assurance	Preparation	
Neighbourhood Services (NS)	Direct Services	Property Help Desk - Schools and Public Building Maintenance	Advice & Consultancy	In Progress	
Neighbourhood Services (NS)	EHCP	Trading Standards Grant	Grant Certification	Complete	N/A
Neighbourhood Services (NS)	EHCP	Food Safety	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	EHCP	Licensing Review of Miscellaneous Registrations - Fee setting and cost recovery	Assurance	Preparation	
Neighbourhood Services (NS)	EHCP	Licensing Enforcement	Assurance	Preparation	
Neighbourhood Services (NS)	EHCP	Pest Control and Accumulations	Assurance	Preparation	
Neighbourhood Services (NS)	EHCP	Works in Default	Assurance	In Progress	
Neighbourhood Services (NS)	EHCP	Markets - Review of income collection and contract monitoring arrangements	Assurance	Final Report	Moderate
Neighbourhood Services (NS)	EHCP	Weights and Measures Approved Body Status	Assurance	Preparation	
Neighbourhood Services (NS)	Projects & Business Services	Customer Complaints - Compensation Payments	Advice & Consultancy	Preparation	
Neighbourhood Services (NS)	Projects & Business Services	Environmental Compliance	Advice & Consultancy	Draft Report	
Neighbourhood Services (NS)	Projects & Business Services	Fly Tipping	Assurance	Preparation	
Neighbourhood Services (NS)	Projects & Business Services	TEEP	Advice & Consultancy	Preparation	
Neighbourhood Services (NS)	Projects & Business Services	Sickness Management - Revised absence recording mechanisms (Corporate Activity)	Assurance	Preparation	
Neighbourhood Services (NS)	Technical Services	CDM Compliance	Assurance	Preparation	
Neighbourhood Services (NS)	Technical Services / Direct Services	Stores Management - On site processes for disposal of surplus materials	Assurance	Preparation	
Neighbourhood Services (NS)	Technical Services	Civil Engineering Framework Sub £50K	Assurance	Final Report	Limited
Neighbourhood Services (NS)	Direct Services	Allotments Management Follow UP	Assurance	Preparation	
Neighbourhood Services (NS)	Direct Services	Woodland Burial Trust	Assurance	Final Report	Moderate
Neighbourhood Services (NS)	EHCP	Animal Health Follow UP	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Technical Services	Local Highways Maintenance Funding - Incentive Element	Advice & Consultancy	Final Report	N/A
Neighbourhood Services (NS)	Technical Services	Local Highways Maintenance Funding - Incentive Element - Final Questionnaire	Advice & Consultancy	In progress	
Neighbourhood Services (NS)	Direct Services	Fleet Management - Development of Fleet Management System	Advice & Consultancy	In progress	
Regeneration and Economic Development (RED)	Planning and Assets	Carbon Reduction Commitment	Assurance	Final Report	Moderate
Regeneration and Economic Development (RED)	Planning and Assets	Community Infrastructure Levy	Advice & Consultancy	Not yet started	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2015

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	EU Structural Funds Programme	Assurance	Defer to 2016/17	
Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	Project Management Arrangements	Advice & Consultancy	Preparation	
Regeneration and Economic Development (RED)	Transport and Contract Services	Park and Ride	Assurance	Final Report	Moderate
Regeneration and Economic Development (RED)	Transport and Contract Services	Telecare Services & Care Connect	Assurance	Preparation	
Regeneration and Economic Development (RED)	Transport and Contract Services	CCTV	Assurance	Preparation	
Regeneration and Economic Development (RED)	Economic Development and Housing	Mentoring Project	Assurance	Final Report	Moderate
Regeneration and Economic Development (RED)	Economic Development and Housing	Durham Employment and Skills	Assurance	Preparation	
Regeneration and Economic Development (RED)	Economic Development and Housing	International Relations	Assurance	Draft Report	
Regeneration and Economic Development (RED)	Economic Development and Housing	West Rainton and Leamside CA	Advice & Consultancy	Final Report	N/A
Regeneration and Economic Development (RED)	Economic Development and Housing	Business Durham	Assurance	Preparation	
Regeneration and Economic Development (RED)	Economic Development and Housing	Private Sector Housing (Selective Licensing)	Assurance	Final Report	Moderate
Regeneration and Economic Development (RED)	Economic Development and Housing	Gypsy, Roma, Traveller Sites	Assurance	Preparation	
Regeneration and Economic Development (RED)	Economic Development and Housing	Durham Villages Regeneration Company	Advice & Consultancy	Draft Report	
Regeneration and Economic Development (RED)	Planning and Assets	Building Control - Online Payments	Assurance	Final Report	Substantial
Regeneration and Economic Development (RED)	Economic Development and Housing	Disabled Facilities Grant	Assurance	Final Report	Moderate
Regeneration and Economic Development (RED)	Economic Development and Housing	FAP Policy Loans Process	Assurance	Preparation	
Resources	HR&OD	Flexible Working Policy	Assurance	Draft Report	
Resources	HR&OD	Recruitment & Selection Policy	Assurance	Preparation	
Resources	HR&OD	Flexible Working - Variations to Contracts	Assurance	Preparation	
Resources	HR&OD	Appraisals	Assurance	Preparation	
Resources	HR&OD	Attendance Management Framework	Assurance	Defer to 2016/17	
Resources	HR&OD	Violent Persons Register	Assurance	Preparation	
Resources	HR&OD	Occupational Health	Assurance	Cancelled	
Resources	Legal and Democratic Services	Committee Services (incl. Modern.gov)	Assurance	Final Report	Substantial
Resources	Legal and Democratic Services	Member Declarations of Interest	Assurance	Preparation	
Resources	Legal and Democratic Services	Officer Scheme of Delegation	Assurance	Final Report	Substantial
Resources	Legal and Democratic Services	Newco	Assurance	In Progress	
Resources	Legal and Democratic Services	RIPA	Advice & Consultancy	In Progress	
Resources	Corporate Finance	General Ledger	Key System	Preparation	
Resources	Corporate Finance	MTFP	Key System	Not yet started	
Resources	Corporate Finance	Capital Accounting	Key System	Preparation	
Resources	Corporate Finance	Journal Transfers	Key System	In Progress	
Resources	Corporate Finance	Bank Reconciliation	Key System	Preparation	
Resources	Corporate Finance	Direct Debit Payments	Assurance	In Progress	
Resources	Corporate Finance	Treasury Management	Key System	In Progress	
Resources	Corporate Finance	Teachers Pension Fund (2015/16 = Follow Up)	Assurance	Final Report	Substantial
Resources	Corporate Finance	Bank Contract	Advice & Consultancy	In Progress	
Resources	Corporate Finance	Leases	Assurance	Final Report	Substantial
Resources	Corporate Finance	Procurement - Procurement Cards	Assurance	Draft Report	
Resources	Corporate Finance	Procurement - Document Retention	Advice & Consultancy	Cancelled	
Resources	Corporate Finance	Procurement - Contract Management	Assurance	Final Report	Moderate
Resources	Corporate Finance	Procurement - Off Contract Spend	Assurance	In Progress	
Resources	Corporate Finance	Procurement - Contract Procedure Rules	Assurance	In Progress	
Resources	Corporate Finance	Oracle Project Group	Advice & Consultancy	In Progress	
Resources	Financial Services	Subsistence Claims	Counter Fraud	In Progress	
Resources	Financial Services	Business Rates - Charities	Counter Fraud	Final Report	N/A
Resources	Financial Services	Payroll	Key System	Preparation	
Resources	Financial Services	Taxation - PAYE	Assurance	In Progress	
Resources	Financial Services	Budgetary Control (lighter touch)	Key System	Preparation	
Resources	Financial Services	Revs and Bens Reconciliations	Key System	Final Report	Substantial
Resources	Financial Services	Creditor Payments	Key System	In Progress	
Resources	Financial Services	Creditors Working Group	Advice & Consultancy	In Progress	
Resources	Financial Services	Business Rates	Key System	Not yet started	
Resources	Financial Services	HB, CTR and Welfare Assistance Scheme	Key System	Not yet started	
Resources	Financial Services	HB Sundry Debtor Overpayments	Key System	Not yet started	
Resources	Financial Services	Council Tax	Key System	Not yet started	
Resources	Financial Services	Cash Collection	Key System	Preparation	
Resources	Financial Services	Debtors	Key System	Preparation	
Resources	Financial Services	Debtors Working Group	Advice & Consultancy	In Progress	
Resources	Financial Services	Financial arrangements re Health Visitors / Family Practitioners Transfer	Advice & Consultancy	Cancelled	
Resources	Financial Services	Better Care Fund: Sn 256	Advice & Consultancy	Not yet started	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2015

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Internal Audit, Risk and Fraud	Confidential Reporting Code	Assurance	Cancelled	
Resources	Internal Audit, Risk and Fraud	Insurance	Counter Fraud	In Progress	
Resources	ICT	Data Management	Advice & Consultancy	Cancelled	
Resources	ICT	Information Security - Security Incident Management	Assurance	In Progress	
Resources	ICT	Information Security - PSN readiness	Assurance	Preparation	
Resources	ICT	Information Security - Systems Development & Maintenance	Assurance	Preparation	
Resources	ICT	Unix	Advice & Consultancy	Preparation	
Resources	ICT	Windows	Assurance	Preparation	
Resources	ICT	Active Directory	Advice & Consultancy	In Progress	
Resources	ICT	Internet	Assurance	In Progress	
Resources	ICT	Income/expenditure arrangements	Assurance	Not yet started	
Resources	Financial Services	Agency	Advice & Consultancy	Final Report	N/A
Resources	Corporate Finance	Workstream on Petty Cash and Payment Cards	Advice & Consultancy	In Progress	
Resources	Corporate Finance	Transactional Purchasing Improvement Group	Advice & Consultancy	Not yet started	
Resources	Corporate Finance	ResourceLink Migration Group	Advice & Consultancy	Not yet started	

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FINAL REPORTS ISSUED IN PERIOD ENDING 31 DECEMBER 2015

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
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CHILDREN AND ADULT SERVICES (CAS)		
Stronger Families Programme	Advice / Support provided through collaboration during the claim submission window.	N/A
Health Visitor Transition	Due diligence work undertaken in relation to the transfer of commissioning responsibilities to DCC from NHS England regarding health visiting and family nurse partnership services.	N/A
Durham Pathways - Theft of Service Users Money From Safe	An Advice and Consultancy review that considered cash holding/recording arrangements following a reported theft of Service Users money from safe	N/A
Extra Care	<p>An assurance review that focused on compliance with DCC policies and procedures in relation to:</p> <ul style="list-style-type: none"> • The completion of Financial Transaction records; • The operation of the Cheque Encashment arrangements; • The operation of one Amenity Fund; • The ordering, goods receipting and invoicing arrangements; • The operation of petty cash; • The completion of Rotas, Worker Programmes and Timesheets; • The Budgetary Control arrangements; • The completion of DBS checks. 	Moderate

NEIGHBOURHOOD SERVICES (NS)		
Civil Engineering Framework Sub £20k	An assurance review undertaken at the request of the Corporate Director of Resources regarding the use of the Framework and whether value for money was being achieved and that the procurement process is transparent, fair and complies with legislation.	Limited
Electrical Components Procurement Card Expenditure	Review undertaken in response to concerns raised that Contract Procedure Rules, Procurement Card Policy & Manual and Code of Conduct had not been fully complied with in respect of orders from a framework agreement for electrical components.	Limited

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
Contract Audit - Construction Programme and Project Management (PPM)	Assurance review that considered the management of the following risks: <ul style="list-style-type: none"> • Build does not meet specification and cost increases through unauthorised or poorly managed variations to contract • Delays and cost increases through unauthorised or poorly managed extensions of time • Over payments are made due to interim and final accounts not being verified before payment • Appropriate insurance cover is not in place to mitigate losses that the Council may face. 	Substantial
Contract Audit-Highways	Assurance review that considered the management of the following risks: <ul style="list-style-type: none"> • Build does not meet specification and cost increases through unauthorised or poorly managed variations to contract • Delays and cost increases through unauthorised or poorly managed extensions of time • Over payments are made due to interim and final accounts not being verified before payment • Appropriate insurance cover is not in place to mitigate losses that the Council may face. 	Moderate
County Durham Sport	A grant review that verified compliance with the terms and conditions of the grant for the submission covering the period 01/04/2014 to 31/03/2015	N/A
Integrated Leisure Management System	Support provide to the working group as part of the ILMS implementation.	N/A
Markets – Review of income collection and contract monitoring arrangements	An assurance review that considered the management of the following risks: <ul style="list-style-type: none"> • Rent charges and fixed fees are not in line with corporate/service goals. • Rent monies are lost or stolen. • Rent/Fixed fees are uncollected • Incorrect rents are charged • Downturn in markets use • Markets are inadequately insured • Stolen, prohibited, counterfeit, dangerous goods, and unsafe food for sale. • Stallholders not acting in compliance with market rules. 	Moderate
Leases – Vehicles and Plant	An assurance review that considered the management of the risks of inaccurate recording of financial transactions and accounting information, and that value for money is not achieved in the acquisition or management of assets.	Substantial
Animal Health – Follow Up	An assurance review which considered the action taken by the Service in addressing recommendations raised in the previous audit review that had resulted in a Limited Assurance opinion.	Substantial

REGENERATION AND ECONOMIC DEVELOPMENT (RED)		
Park and Ride Scheme	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Income is not accounted for or is misappropriated • Breach of the Data Protection Act • Inaccurate reporting of performance 	Moderate
Private Sector Housing – Selective Licensing	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Areas are not designated as selective licensing areas in accordance with the Housing Act 2004 • Properties within selective licensing areas are not known of and regulated correctly • Licenses are not issued in accordance with the Housing Act 2004 • Income is not accounted for or is misappropriated • Non-compliance with license conditions • Selective licensing requirements are not known or not applied correctly • Data is lost or stolen. Data is handled, processed, stored, accessed or disclosed inappropriately 	Moderate
Planning System	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • There are inconsistencies in the processes used to administer and manage the determination of planning applications • The system used to process planning applications is inefficient • The system does not provide value for money • System access is not appropriate or secure • The authority does not comply with relevant planning legislation or regulations • Up to date and reliable management information is not available • Performance indicators are inaccurate 	Moderate
Building Control	<p>An investigation, subsequent to a Local Government Ombudsman report, following a complaint which alleged that a Building Control Officer had 'gazumped' a member of the public whilst working in his official capacity, and that the officer continued to act on behalf of the Council following the purchase.</p>	N/A
Flexible Enterprise Development Fund	Grant Certification	N/A

RESOURCES		
Revenues & Benefits reconciliations	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Material errors / fraudulent activities within feeder systems or the General Ledger are not identified and corrected • Performance is not properly managed 	Substantial
Officer Scheme of Delegation	<p>Assurance review of the arrangements in place to mitigate against the risk of decisions being made which are not lawful or do not comply with the Council's Constitution, Financial and Contract Procedures Rules.</p>	Substantial
Leases	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Inaccurate recording of financial transactions and accounting information • Value for money is not achieved in the acquisition or management of assets 	Substantial
Contract Management	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Contract management arrangements are not in place for the end of a contract and the transition to a new provider with a new contract • The contractor does not fulfil the contract to the required standard or level of performance • Risk management arrangements are not in place • The Council pays for goods, services or works that are not provided or completed • The contract manager is not sufficiently objective in their relationship with the supplier • No arrangements to provide for continuing services needs after the termination or expiry of the contract are put in place • The written contract does not cover all pertinent areas and issues leaving the council unduly exposed to risks associated with the activity 	Moderate
Password Management	<p>Assurance review of the arrangements in place to mitigate against the risk of unauthorised access being gained to systems, information or data.</p>	Moderate

Progress on the Implementation of Audit Recommendations

	Number of Actions Raised	Actions Due	Actions Implemented			Overdue Actions by original target date	Number of Actions where the original target has been revised	Overdue Actions following a revised target date	Total Revised Actions Due	Revised Total Recommendations Overdue
			Due	Not Yet Due	Total					
ASSISTANT CHIEF EXECUTIVE (ACE)										
2014/15										
High	1	1	1	0	1	0	0	0	1	0
Medium	8	8	6	0	6	2	2	0	6	0
Total	9	9	7	0	7	2	2	0	7	0
2015/16										
High	0	0	0	0	0	0	0	0	0	0
Medium	4	4	3	0	3	1	1	0	3	0
Total	4	4	3	0	3	1	1	0	3	0
Overall Total	13	13	10	0	10	3	3	0	10	0
CHILDREN AND ADULT SERVICES (CAS)										
2014 / 2015										
High	2	2	2	0	2	0	0	0	2	0
Medium	40	38	38	0	38	0	0	0	38	0
Total	42	40	40	0	40	0	0	0	40	0
2015 / 2016										
High	1	1	1	0	1	0	0	0	1	0
Medium	105	101	101	0	101	0	0	0	101	0
Total	106	102	102	0	102	0	0	0	102	0
Overall Total	148	142	142	0	142	0	0	0	142	0
NEIGHBOURHOOD SERVICES (NS)										
2012 / 2013										
High	8	8	7	0	7	1	1	0	7	0
Medium	55	55	55	0	55	0	0	0	55	0
Total	63	63	62	0	62	1	1	0	62	0
2013 / 2014										
High	1	1	1	0	1	0	0	0	1	0
Medium	38	38	37	0	37	1	1	0	37	0
Total	39	39	38	0	38	1	1	0	38	0
2014 / 2015										
High	3	3	3	0	3	0	0	0	3	0
Medium	59	59	56	0	56	3	3	0	56	0
Total	62	62	59	0	59	3	3	0	59	0
2015 / 2016										
High	6	6	3	0	3	3	3	0	3	0
Medium	47	36	27	0	27	9	9	0	27	0
Total	53	42	30	0	30	12	12	0	30	0
Overall Total	217	206	189	0	189	17	17	0	189	0
REGENERATION AND ECONOMIC DEVELOPMENT (RED)										
2013/2014										
High	6	6	6	0	6	0	0	0	6	0
Medium	43	43	39	0	39	4	4	0	39	0
Total	49	49	45	0	45	4	4	0	45	0
2014 / 2015										
High	1	1	0	0	0	1	1	0	0	0
Medium	25	25	22	0	22	3	3	0	22	0
Total	26	26	22	0	22	4	4	0	22	0
2015/2016										
High	0	0	0	0	0	0	0	0	0	0
Medium	37	16	15	0	15	1	1	0	15	0
Total	37	16	15	0	15	1	1	0	15	0
Overall Total	112	91	82	0	82	9	9	0	82	0
RESOURCES										
2012 / 2013										
High	31	31	31	0	31	0	0	0	31	0
Medium	121	121	120	0	120	1	1	0	120	0
Total	152	152	151	0	151	1	1	0	151	0
2013 / 2014										
High	19	19	19	0	19	0	0	0	19	0
Medium	108	108	105	0	105	3	3	0	105	0
Total	127	127	124	0	124	3	3	0	124	0
2014 / 2015										
High	7	7	7	0	7	0	0	0	7	0
Medium	134	127	122	0	122	5	5	0	122	0
Total	141	134	129	0	129	5	5	0	129	0
2015 / 2016										
High	2	1	1	0	1	0	0	0	1	0
Medium	75	51	44	0	44	7	7	0	44	0
Total	77	52	45	0	45	7	7	0	45	0
Overall Total	497	465	449	0	449	16	16	0	449	0
TOTAL COUNCIL										
2012 / 2013										
High	39	39	38	0	38	1	1	0	38	0
Medium	176	176	175	0	175	1	1	0	175	0
Total	215	215	213	0	213	2	2	0	213	0
2013 / 2014										
High	26	26	26	0	26	0	0	0	26	0
Medium	189	189	181	0	181	8	8	0	181	0
Total	215	215	207	0	207	8	8	0	207	0
2014 / 2015										
High	14	14	13	0	13	1	1	0	13	0
Medium	266	257	244	0	244	13	13	0	244	0
Total	280	271	257	0	257	14	14	0	257	0
2015 / 2016										
High	9	8	5	0	5	3	3	0	5	0
Medium	268	208	190	0	190	18	18	0	190	0
Total	277	216	195	0	195	21	21	0	195	0
OVERALL TOTAL	987	917	872	0	872	45	45	0	872	0

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Performance Indicators as at 31 December 2015

Efficiency			
Objective: To provide maximum assurance to inform the annual audit opinion			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Actual
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% Annually	71% as at 31 December 2015 (on target)
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview	90% (Quarterly)	99% (113 out of 114)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response	95% (Quarterly)	99% (114 out of 115)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100%
Quality			
Objective: To ensure that the service is effective and adding value			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Annually)	100%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service satisfactory or above (3 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	100% - Av score 4.5
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	73%
Cost			
Objective: To ensure that the service is cost effective			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	Yes (2015/16 exercise) £226 cost per chargeable audit day

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