



Audit Committee

Date **Tuesday 17 May 2016**
Time **10.00 am**
Venue **Committee Room 1A, County Hall, Durham**

Business

Part A

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

1. Apologies for absence
2. Minutes of the meeting held on 29 February 2016 (Pages 1 - 10)
3. Declarations of interest, if any
4. External Audit - Durham County Council Audit Strategy Memorandum Year Ended 31 March 2016 - Report of the External Auditor (Pages 11 - 30)
5. External Audit - Durham County Council Pension Fund Audit Strategy Memorandum Year Ended 31 March 2016 - Report of the External Auditor (Pages 31 - 48)
6. External Audit - Progress Update May 2016 - Report of the External Auditor (Pages 49 - 64)
7. Strategic Risk Management Progress Report for the Quarter period January to March 2016 - Report of the Corporate Director, Resources (Pages 65 - 76)
8. Internal Audit, Plan, Strategy and Charter 2016/2017 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 77 - 116)
9. Internal Audit Progress Report Quarter Ended 31 March 2016 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 117 - 140)
10. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
11. 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)

12. Internal Audit Progress Report Quarter Ended 31 March 2016 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 141 - 154)
13. 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
9 May 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:

Mr D Beavis and Mr C Robinson

Contact: Jackie Graham

Tel: 03000269704

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1B, County Hall, Durham on **Monday 29 February 2016 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

The Chairman welcomed Felix Dudgeon to the meeting, who was currently in his third year at university and was interested in the work of the Audit Committee to help with completing his dissertation.

The Chairman advised that this was the last meeting for the two co-opted members of the Committee, Ms Kathryn Larkin-Bramley and Mr Tom Hoban. Unfortunately, Kathryn had submitted her apologies for the meeting. The Chairman placed on record his thanks and appreciation for the amount of work carried out by Tom and Kathryn as the detail and commitment shown by them had been remarkable.

He introduced the Chairman of the County Council, Councillor J Blakey, who presented gifts of appreciation.

Mr Hoban said that he had enjoyed the last 9 years that he had served on the Committee and thanked officers and Members for the professionalism throughout. He was pleased to see the County was in good hands.

1 Apologies for absence

Apologies for absence were received from Councillors J Robinson, W Stelling and Ms K Larkin-Bramley

2 Minutes

The minutes of the meeting held on 30 November 2015 were agreed and signed by the Chairman as a correct record.

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 Co-opted Members to the Audit Committee

The Committee considered a report of the Corporate Director of Resources that advised that it would be the last meeting for the two co-opted members on the Committee following 9 years of service, and advised of the process of appointment of two new co-opted members (for copy see file of Minutes).

Resolved:

- (i) That the Council 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 be noted.
- (ii) That the Committee 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.

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

The Committee considered an update from the Corporate Director of Resources on the County Council's accounting policies to be applied in the preparation of the 2015/16 Statement of Accounts and to seek confirmation that appropriate policies are being applied (for copy see file of Minutes).

The Assistant Finance Manager, Corporate Finance highlighted the changes to be applied in preparing the 2015/16 Statement of Accounts. He advised that two new accounting policies were being considered about the recognition of rates and the changes in code with a fair value measurement.

Resolved:-

That the recommendations contained within the report be agreed.

6 Final Accounts Timetable for the Year Ended 31 March 2016

The Committee considered a report of the Corporate Director of Resources that provided Members with the Final Accounts Timetable for 2015/16 detailing the deadlines for key actions to complete the Statement of Accounts in line with statutory deadlines (for copy see file of Minutes).

The Assistant Finance Manager, Corporate Finance highlighted key dates in the working document and advised that the authority would be carrying out a dry run of the earlier completion date for 2016/17.

Members were advised that the changes to the dates were being introduced by Audit and Accounting regulations.

Resolved:-

That the report be noted.

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

The Committee considered a report of the Corporate Director of Resources that provided a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code), applied to the 2015/16 accounts (for copy see file of Minutes).

The Corporate Director of Resources assured Members that measures were in place to address the change in accounting policies. However, he added that this challenge would become increasingly difficult for the authority to manage, due to the continuation of austerity cuts and the savings yet to be made.

Mr Hoban said that it had been a struggle for the authority to hit dates whilst going through re-organisation and asked what had driven this change. He was informed that the driver had been through accounting bodies to make the year end accounts more timelier with other public sector organisations, such as the Health Service.

Members were assured that arrangements were in place although it was noted that this would be challenging.

Resolved:-

That the report be noted.

8 External Audit Progress Report - February 2016

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

Councillor Temple enquired as to whether the e-learning course for whistleblowing was available for the Committee Members. The Chief Internal Auditor and Corporate Fraud Manager said that he would look into this and report back. The External Auditor added that there may be a cost associated to this training.

Mr Hoban asked if there were challenges made to the opinions of the Internal Valuer and was advised that the opinions were accepted but that there was close working with the External Auditor, who also gives an opinion. The Chairman asked for assurance that the knowledge of the Internal Valuer was kept up to date and that there was a continuation of work with the External Auditor. The Assistant Finance Manager assured Members that there was evidence to show the judgements taken by the Internal Valuer and that the work with the External Auditor was vitally important.

Resolved:-

That the report be noted.

9 External Audit Certification of Claims and Returns

The Committee received a report from the External Auditor regarding grant certification for 2014/15 (for copy see file of Minutes).

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

- Housing Benefit Subsidy
- Pooling of Housing Capital Receipts Return
- Teachers' Pension Return

Referring to Housing Benefit Subsidy, Councillor Temple asked for information about underpayments as this was not evident. The Chairman asked that this information be reported back. The Corporate Director, Resources advised that £200m had been paid in housing subsidy and said that this was an entitlement that the Council were processing on behalf of the government. He could understand the concern about underpayments but assured Members that the authority were doing everything possible to ensure that people were getting what they were entitled to. He added that the service had performed well in this area and worked well with the external auditors.

The Chairman said that it was pleasing to see the progress that had been made in this area. Councillor L Armstrong said that Members of Corporate Issues Overview and Scrutiny Committee received regular updates about this area of work.

Resolved:-

That the report be noted.

10 Local Code of Corporate Governance

The Committee considered a report of the Corporate Director of Resources that gave an update of the Local Code of Corporate Governance for the revised Council Constitution (for copy see file of Minutes).

Resolved:-

That the revised Local Code of Corporate Governance be agreed.

11 Counter Fraud and Corruption Policy and Fraud Response Plan

The Committee considered a Report of Chief Internal Auditor and Corporate Fraud Manager that sought to review and approve the revised Counter Fraud and Corruption Policy and the Council's Fraud Response (for copy see file of Minutes).

Resolved:

That the revised Counter Fraud and Corruption Policy and the Fraud Response Plan be approved.

12 Anti Money Laundering Policy

The Committee considered a Report of Chief Internal Auditor and Corporate Fraud Manager that sought to review and approve the revised Anti Money Laundering Policy (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager assured the Committee that employees know where to access the policy and advised that all new employees were given a copy as part of their induction pack.

Resolved:

That the revised Anti Money Laundering Policy be approved.

13 Strategic Risk Management - Progress Report for the quarter ended 31 December 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 October to December 2015 (for copy see file of Minutes).

The Strategic Insurance & Risk Officer informed the Committee that there were 24 strategic risks with the removal of two since the last report. The risk regarding the banking contract had been reduced as had completed successfully on 11 May 2015.

The Chairman asked that assurance could be given in terms of how risks were managed, and was advised that training and guidance was given and that procedures and policies are adhered to. The Corporate Director of Resources informed Members that he Chairs the Corporate Risk Management Group and issues were reported regularly to Corporate Management Team. He advised that this group was attended by senior managers and that the Cabinet Portfolio Holder for Corporate Services.

Resolved:

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

14 Emergent Internal Audit Plan 2016/2017

The Committee considered a Report of Chief Internal Auditor and Corporate Fraud Manager that provided details of the emergent Internal Audit Plan for 2016/2017 and gave an update on the development of the 2016/2017 Internal Audit Plan (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager advised that the authority had taken the lead in this area of work with colleagues from other local authorities following suit.

The Chairman said that this was an excellent way of keeping the Committee informed and commended the team for providing a clear understanding of the Plan.

Resolved:-

That comments on the proposed direction and process for the development of the emergent Internal Audit Plan be noted and that the plan would be reported to the meeting on 17 May 2016 for approval.

15 Internal Audit Progress Report for the quarter ended 31 December 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 October to December 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 Committee were advised that there were no draft audit reports outstanding and that 95% of actions had been implemented. 73% of the Service groupings had responded to the survey, with an average score of 4.5 out of 5. There had been 2 audits finalised in the quarter that had been given a limited assurance opinion.

Councillor Davinson noted that the survey response rate from CAS had improved and congratulated the team for making the necessary changes.

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 December 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.

16 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.

17 Internal Audit Progress Report for the quarter ended 31 December 2015

The Committee considered Appendices 6 and 7 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.

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Certification of claims and returns: Update

At the February Audit Committee we presented our certification of claims and returns report. The report included details of our Housing Benefit subsidy work. Certification Instruction BEN01 and the associated HBCOUNT approach requires auditors to extrapolate and report to the Department any overpayments that have been identified. We are not required to extrapolate errors which result in the underpayment of benefits.

Members requested we extrapolate the underpayments identified during our testing. This extrapolation is detailed in the table below:

Cell No.	Benefit Type	Error Type	Extrapolated error
55	Rent Rebates	Incorrect calculation/documentation of income	£70,931.63
55	Rent Rebates	Non-dependents income	£26,562.84
94	Rent Allowance	Calculation and evidencing of self-employed income	£13,969.60
94	Rent Allowance	Incorrect capital information used	£33,693.38
Total potential underpayment			£145, 157.45

Total value of claim	£192,826,666
Total Potential overpayment as percentage of total value of claim	0.08%

Due to the nature of the administration of benefits, the high volume of manual input into the benefits system and the complexity of the rules and regulations governing various allowances and rebates, it is common for errors, both overpayments and underpayments, to be identified in our certification work.

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

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AUDIT COMMITTEE



17 May 2016

External Audit: Audit Strategy Memorandum Durham County Council - Year Ended 31 March 2016

Report of the External Auditor

Purpose of the Report

1. This report details the external auditors (Mazars) Audit Plan which notifies the Council of the work that they are proposing to undertake in respect of the audit of the financial statements and the value for money conclusion for the financial year 2015/2016 in relation to Durham County Council.

Background

2. The Memorandum (attached at Appendix 2) advises on the scope and nature of this work together with the scale of fee for the 2015/2016 audit and the assumptions that help to inform this charge to the Council.

Audit Plan 2015/16

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

Recommendation

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

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

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

Procurement

None

Disability Discrimination Act

None

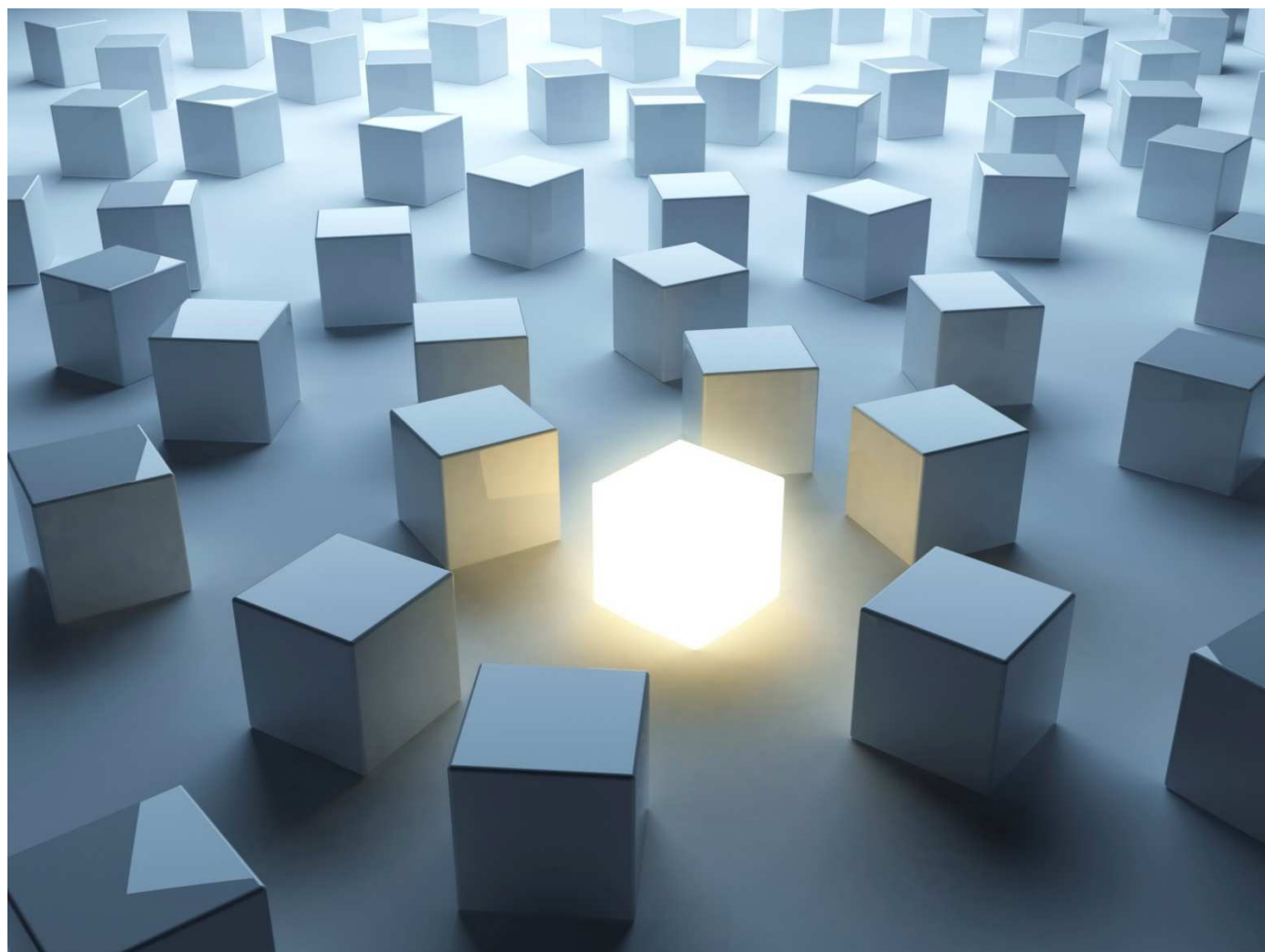
Legal Implications

None

Audit Strategy Memorandum

Durham County Council – year ended 31 March 2016

May 2016



Mazars LLP
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DH1 5TS

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

17 May 2016

Dear Members

Audit Strategy Memorandum for the year ending 31 March 2016

We are delighted to present our Audit Strategy Memorandum for Durham County Council for the year ending 31 March 2016.

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

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

This document will be presented at the Audit Committee meeting on 17 May 2016. If you would like to discuss any matters in more detail please do not hesitate to contact me on 0191 383 6343.

Yours faithfully

Cameron Waddell
Partner, for and on behalf of Mazars LLP

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

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01 Purpose and background

Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of Durham County Council for the year ending 31 March 2016, and forms the basis for discussion at the Audit Committee meeting on 17 May 2016.

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

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

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

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

Scope of engagement

We are appointed to perform the external audit of your accounts for the year to 31 March 2016. The scope of our engagement is laid out in the National Audit Office's Code of Audit Practice.

Responsibilities

• Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management nor the Audit Committee, as those charged with governance, of their responsibilities. We are also required to reach a conclusion on the arrangements that the Council has put in place to secure economy, efficiency and effectiveness in its use of resources (our Value for Money conclusion).

• Whole of Government Accounts

We report to the National Audit Office in respect of the consistency of the Council's Whole of Government Accounts submission with the financial statements.

• Fraud

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

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

We are also required to give an elector, or any representative of the elector, an opportunity to question us about the accounting records of the Council and consider any objection made to the accounts by an elector.

02 Audit scope, approach and timeline

Audit scope

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

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

Audit approach

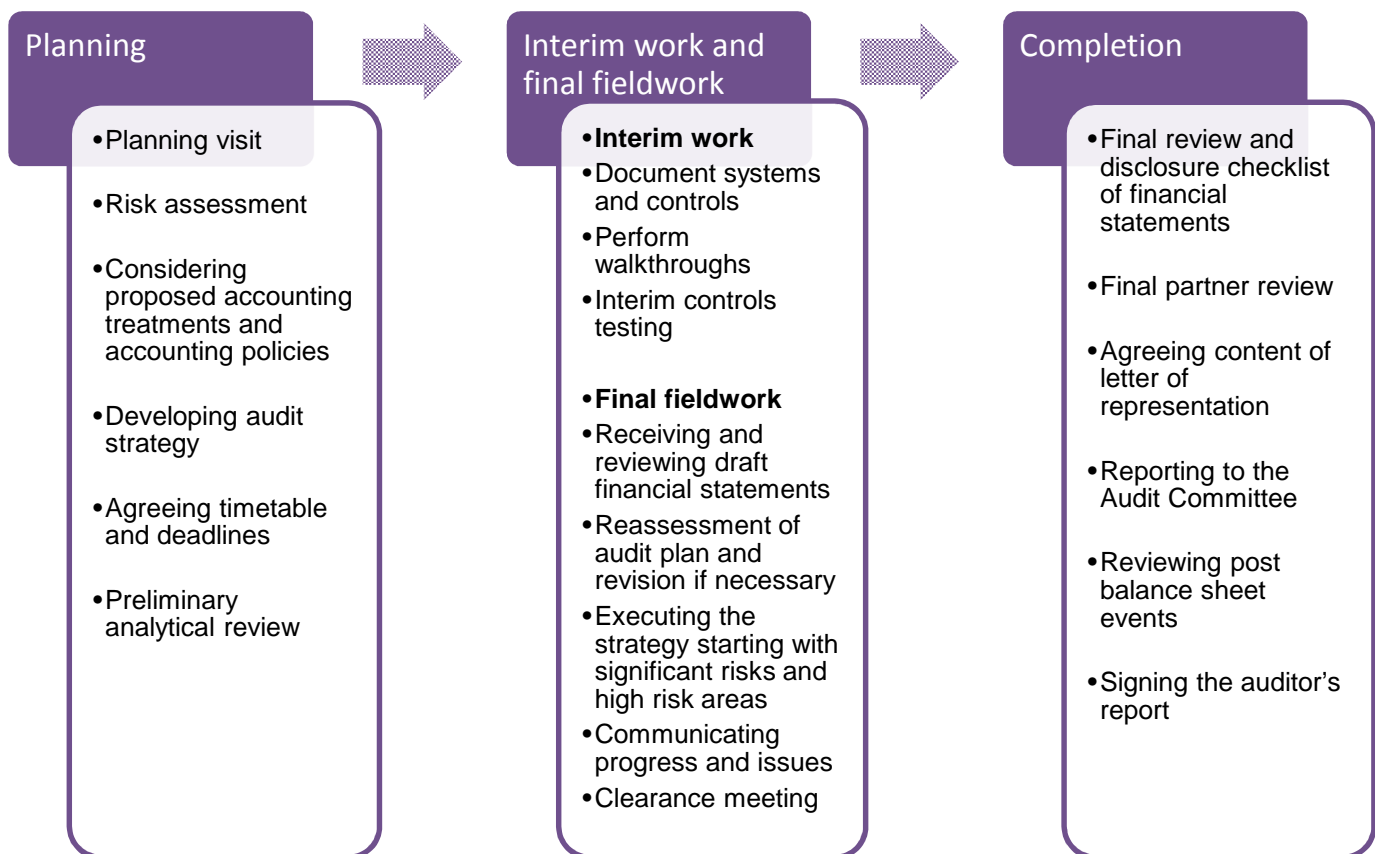
We apply a risk-based audit approach primarily driven by the matters we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment we develop our audit strategy and design audit procedures in response to this assessment. The work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

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

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

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

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



Group accounts

Councils are required to consider interests in other entities and whether those interests might necessitate the production of group accounts. The Council has determined that group accounts are not required. We will review your assessment if there are any changes to take into consideration.

Reliance on internal audit

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

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

Reliance on other auditors

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

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

Service organisations

There are no material entries in your financial statements where the Council is dependent on an external organisation.

The work of experts

The following experts are relevant to our work for the year ended 31 March 2016.

Item(s) of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures.	Actuary (Aon Hewitt).	National Audit Office's consulting actuary (PWC).
Property, plant and equipment valuations.	The Council uses an in-house valuer.	National Audit Office's consulting valuer (Gerald Eve).
Financial instruments: fair value disclosures.	Capita - provides estimates of the fair value of some financial instruments.	We do not usually engage an expert to assess the reasonableness of your expert's financial instrument valuation estimates. Where this is required we will engage our own internal expert.

Timeline

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



03 Significant risks and key judgement areas

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

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

Significant risks

Management override of controls

Description of the risk

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

How we will address this risk

We will address this risk through performing audit work over:

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

Revenue recognition

Description of the risk

There is a risk of fraud in financial reporting relating to income recognition due to the potential to inappropriately record revenue in the wrong period. ISA 240 allows the presumption of fraud relating to revenue recognition to be rebutted in exceptional circumstances, but given the Council's range of revenue sources we have concluded that there are insufficient grounds for rebuttal in 2015/16.

How we will address this risk

We will evaluate the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:

- testing revenue items recorded in the General Ledger in March, April and May 2016 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- for major grant income, agree amounts to third party documentation.

Pension liability

Description of the risk

The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

How we will address this risk

We will:

- evaluate the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and
- consider the reasonableness of the Actuary's assumptions that underpin the relevant entries made by the Council in its financial statements, through the use of an expert commissioned by the National Audit Office.

Accounting for LSVT

Description of the risk

In April 2015 the Council transferred its housing stock to County Durham Housing Group. The accounting treatment for the transfer of the housing stock is material and potentially complex. In particular the accounting treatment for the disposal of the assets and write off of HRA debt.

How we will address this risk

We will:

- evaluate the design of the entity's related controls and determine whether they have been implemented;
- review the accounting entries for the disposal of the assets and write off of HRA debt.

Key areas of management judgement

Valuation of property, plant and equipment (PPE)

Description of the judgement

The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE.

The value of the Council's PPE is material to the accounts and involve management judgements over the valuations and useful lives of assets.

How we will address this judgement

We will consider the Council's arrangements for ensuring that PPE values are reasonable and will engage our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer.

We will also assess the competence, skills and experience of the valuer.

Where necessary we will also perform further audit procedures on individual assets to ensure that the basis and level of valuation is appropriate.

04 Value for Money Conclusion

Scope of work

For 2015/16, we are required to conclude whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We perform our work in this area in accordance with guidance set out by the NAO in Auditor Guidance Note 3. This requires us to consider one overall criterion which is made up of three sub-criteria.

Overall criterion

The overall criterion set out by the NAO is as follows:

'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.'

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.

As part of our work, we will also:

- review your annual governance statement;
- consider the work of other relevant regulatory bodies or inspectorates, such as Ofsted and the Care Quality Commission, to the extent the results of the work have an impact on our responsibilities; and
- carry out any risk-based work we determine appropriate.

We have considered the risks that are relevant to our value for money conclusion and have not identified any significant risks that need to be addressed specifically through additional work. While we have not identified any significant risks in relation to our value for money conclusion to-date, there are some areas where we believe

additional work is necessary to fully understand the Council's arrangements. This additional work will focus on the following areas:

Sub-criteria	Additional work
Sustainable resource deployment	The Medium Term Financial Plan (MTFP), including review of: <ul style="list-style-type: none"> • how the Council has developed its MTFP and updated for LG Spending review ; • the delivery of 2015/16 savings against plans; • the arrangements for 2016/17 savings, including review of robustness of identified plans; and • the arrangements for identifying savings in 2017/18 to 2019/20
Working with partners and other third parties	Better Care Fund (BCF), including review of: <ul style="list-style-type: none"> • BCF performance; • BCF partnership arrangements; and • 2016/17 BCF plan.

We will update members where this additional work, or other work we undertake, identifies a significant risk relevant to the VfM conclusion.

05 Your audit team

Below are your audit team and their contact details.

Engagement Lead

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Engagement Manager

- James Collins
- james.collins@mazars.co.uk
- 07881 283527

Team Leader

- Sharon Liddle
- sharon.liddle@mazars.co.uk
- 07881 283343

In addition, an Engagement Quality Control Reviewer has been appointed for this audit.

06 Fees for audit and other services

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments Ltd (PSAA) for the Code audit work and Housing Benefit Subsidy certification work.

Area of work	2015/16 Scale fee	2015/16 Proposed fee	2014/15 Final fee
Code audit work	£250,688	£250,688	£334,250
Housing Benefit Subsidy certification	£20,062	£20,062	£32,210
Total fees	£270,750	£270,750	£366,460

Fees for non PSAA audit work

In addition to the fees outlined above in relation to our PSAA appointment, we have been separately engaged by the Council to carry out additional work as outlined in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in Appendix A.

Area of work	2015/16 Proposed fee	2014/15 Final fee
Teachers' Pensions return	Note 1	£4,850
Pooling of Housing Capital Receipts	Note 1	£1,500
Assurance work on SFA funding arrangements	£2,000	N/A
Total fees	£2,000	£6,350

Note 1: We have not yet been engaged by the Council to provide assurance on its Teachers' Pension or Pooling of Housing Receipts returns for 2015/16. If we are engaged to carry out this work it is likely that the fees will be similar to the 2014/15 fees which we will confirm to the Audit Committee at a later date. If we are to be engaged (and at the same fee level as in 2014/15) the total value of additional work we provide to the Council will be £8,350.

Appendix A – Independence

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

Based on the information provided by you, and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement, there are no relationships between us, and any of our related or subsidiary entities, and you, and your related entities, creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

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

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

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

Prior to the provision of any non-audit services, Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. No threats to our independence have been identified and the following table outlines our considerations.

Non-PSAA contract work	Independence considerations
<p>Assurance work on the Teachers’ Pension return (if engaged)</p> <p>Assurance work on Pooling of Housing Receipts return (if engaged)</p> <p>Assurance work on SFA funding arrangements</p>	<p>We have considered the potential threats to our independence for each piece of additional work and concluded as follows.</p> <p>Self-review threat: The individual pieces of work do not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars.</p> <p>Self-interest threat: The fees for individual pieces of work, as well as the total fees, are not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis.</p> <p>Management threat: None of the pieces of work involves Mazars making any decisions on behalf of management.</p> <p>Advocacy threat: None of the pieces of work involve Mazars promoting the Council’s position or opinions to third parties.</p> <p>Familiarity threat: The individual pieces of work do not give rise to a familiarity threat. The majority of work used to fall under the Audit Commission’s certification regime and is governed by pre-determined instructions to reporting accountants as determined by the grant-paying body.</p> <p>Intimidation threat: No threats to our independence arising from intimidation from management exist.</p>

Appendix B - Materiality

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

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

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

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

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

We consider materiality whilst planning and performing our audit.

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

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

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

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

Appendix C – Key communication points

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

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

Form, timing and content of our communications

We will present to the Audit Committee the following reports:

- Our Audit Strategy Memorandum.
- Our Audit Completion Report.
- Management letter.

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

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

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

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

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

Appendix D – Forthcoming accounting and other issues

The 2015/16 CIPFA Code of Practice on Local Authority Accounting (the Code) has made several changes to financial reporting requirements relevant to the Council, of which you should be aware. We provide workshops explaining these changes to which we invite officers from the Council responsible for preparing the financial statements. The workshops provide full details of the changes in the 2015/16 Code as well as a forward look to potential future accounting changes that may be of relevance to the Council.

As well as the accounting issues outlined below, we would like to draw the Audit Committee's attention to changes in the Accounts and Audit (England) Regulations 2015 that require the Council to notify us of the date on which the period for the exercise of public rights commences. If you require detailed information on any of these changes or any other emerging issues, please contact any member of the engagement team.

Forthcoming accounting issues

Highways Network Assets	How this may affect the Council
The measurement basis for the Council's Highways Network Assets will change from depreciated historic cost to depreciated replacement cost in 2016/17, but with no prior period restatement required.	It is likely that the impact of this change will be significant and that the value of relevant assets on the Council's balance sheet will increase.
Early deadlines	How this may affect the Council
The Accounts and Audit Regulations 2015 outline earlier deadlines for local authorities to produce their statements of account from the 2017/18 financial year.	The impacts of this change on local authorities and their auditors are significant and we have begun to discuss how we will meet the challenges the new dates place on us all with Council officers.
Fair Value accounting	How this may affect the Council
The Code adopts the principles of IFRS 13 in respect of measuring fair value for the first time in 2015/16.	Some assets and liabilities held by the Council may need to be revalued on the basis of their fair value for the first time in 2015/16.

Accounts and Audit (England) Regulations 2015

As well as the accounting issues outlined above, we would like to draw the Audit Committee's attention to changes in the Accounts and Audit (England) Regulations 2015 that affect, amongst other things:

- the roles and responsibilities associated with informing electors of their rights; and
- the publication of draft and audited statements of account and information that accompanies those statements.

It is now the Responsible Financial Officer's responsibility to publish a statement that includes details of the period for the exercise of public rights. It is also now the Responsible Financial Officer's responsibility to inform the auditor of the date on which that period commences; previously the auditor was responsible for 'calling the audit' and appointing a specific date on which electors could ask questions relating to the audit.

The period for the exercise of public rights must be a single period of 30 working days. Electors can only exercise their rights of inspection and objection, as set out in the Local Audit and Accountability Act 2014, during this period.

The period must include the first 10 working days of July for this year's audit and, as a result, the earliest date that the audit of a local authority can be completed for 2015/16 is 15th July 2016.

AUDIT COMMITTEE



17 May 2016

External Audit: Audit Strategy Memorandum Durham County Council Pension Fund - Year Ended 31 March 2016

Report of the External Auditor

Purpose of the Report

1. This report details the external auditors (Mazars) Audit Plan which notifies the Council of the work that they are proposing to undertake in respect of the audit of the financial statements and the value for money conclusion for the financial year 2015/2016 in relation to Durham County Council Pension Fund.

Background

2. The Memorandum (attached at Appendix 2) advises on the scope and nature of this work together with the scale of fee for the 2015/2016 audit and the assumptions that help to inform this charge to the Fund.

Audit Plan 2014/15

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

Recommendation

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

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

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

Procurement

None

Disability Discrimination Act

None

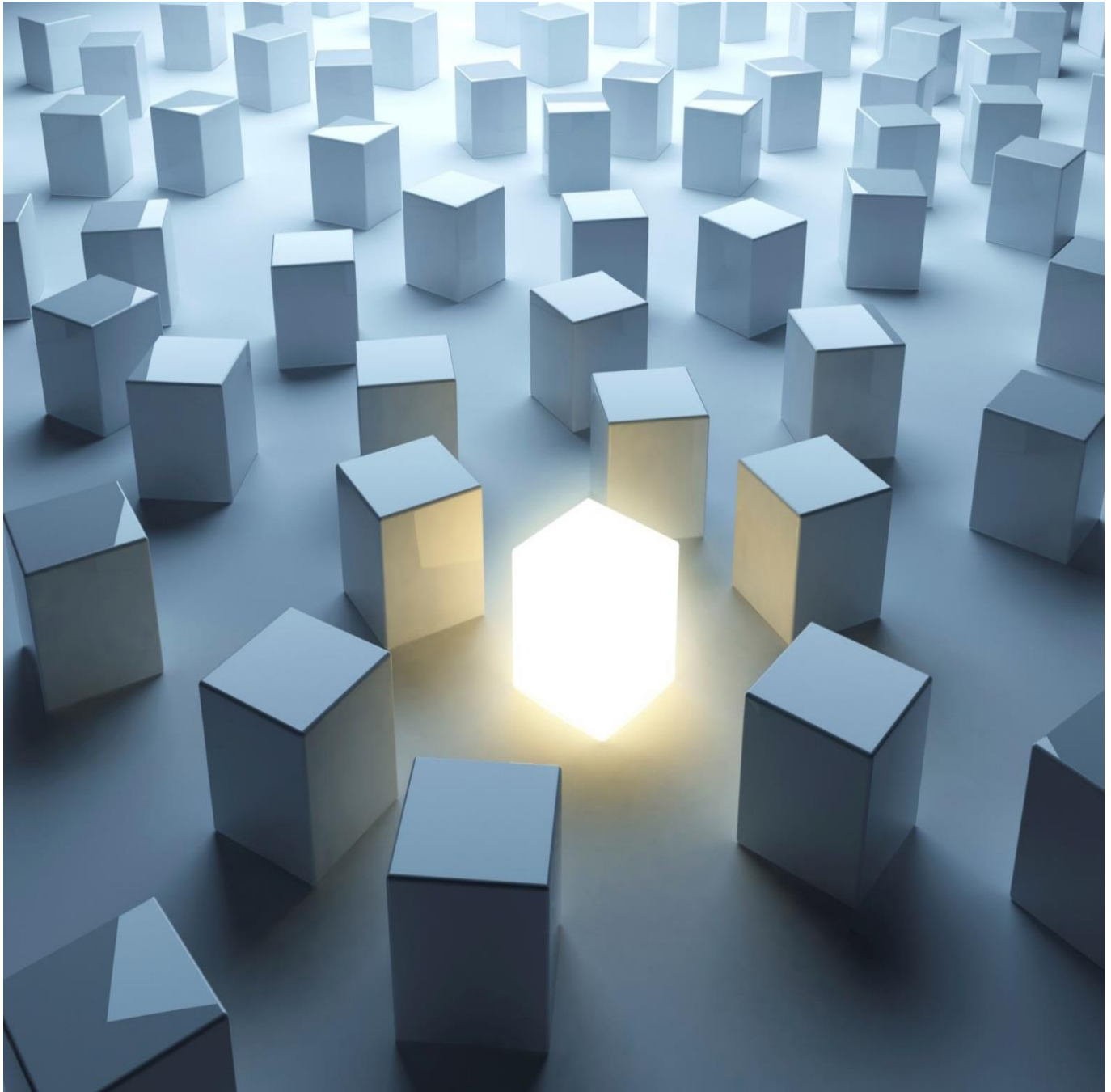
Legal Implications

None

Audit Strategy Memorandum

Year ended 31 March 2016

May 2016



Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

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

May 2016

Dear Members

Audit Strategy Memorandum for the year ending 31 March 2016

We are delighted to present our Audit Strategy Memorandum for Durham County Council Pension Fund for the year ending 31 March 2016.

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

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

This document will be presented at the Audit Committee meeting on 17 May 2016. If you would like to discuss any matters in more detail please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Cameron Waddell
Partner

For and on behalf of Mazars LLP

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01 Purpose and background	2
02 Audit scope, approach and timeline	3
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Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ and ‘Terms of Appointment’ issued by Public Sector Appointments Limited. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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

01 Purpose and background

Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of Durham County Council Pension Fund (the Fund) for the year ending 31 March 2016, and forms the basis for discussion at the Audit Committee meeting on 17 May 2016.

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

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

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

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

Scope of engagement

We are appointed to perform the external audit of your accounts for the year to 31 March 2016. The scope of our engagement is laid out in the National Audit Office's Code of Audit Practice.

Responsibilities

- **Audit opinion**
We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management nor the Audit Committee, as those charged with governance, of their responsibilities.
- **Fraud**
The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK and Ireland) we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.
As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

We are also required to give an elector, or any representative of the elector, an opportunity to question us about the accounting records of the Fund and consider any objection made to the accounts by an elector.

02 Audit scope, approach and timeline

Audit scope

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

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

Audit approach

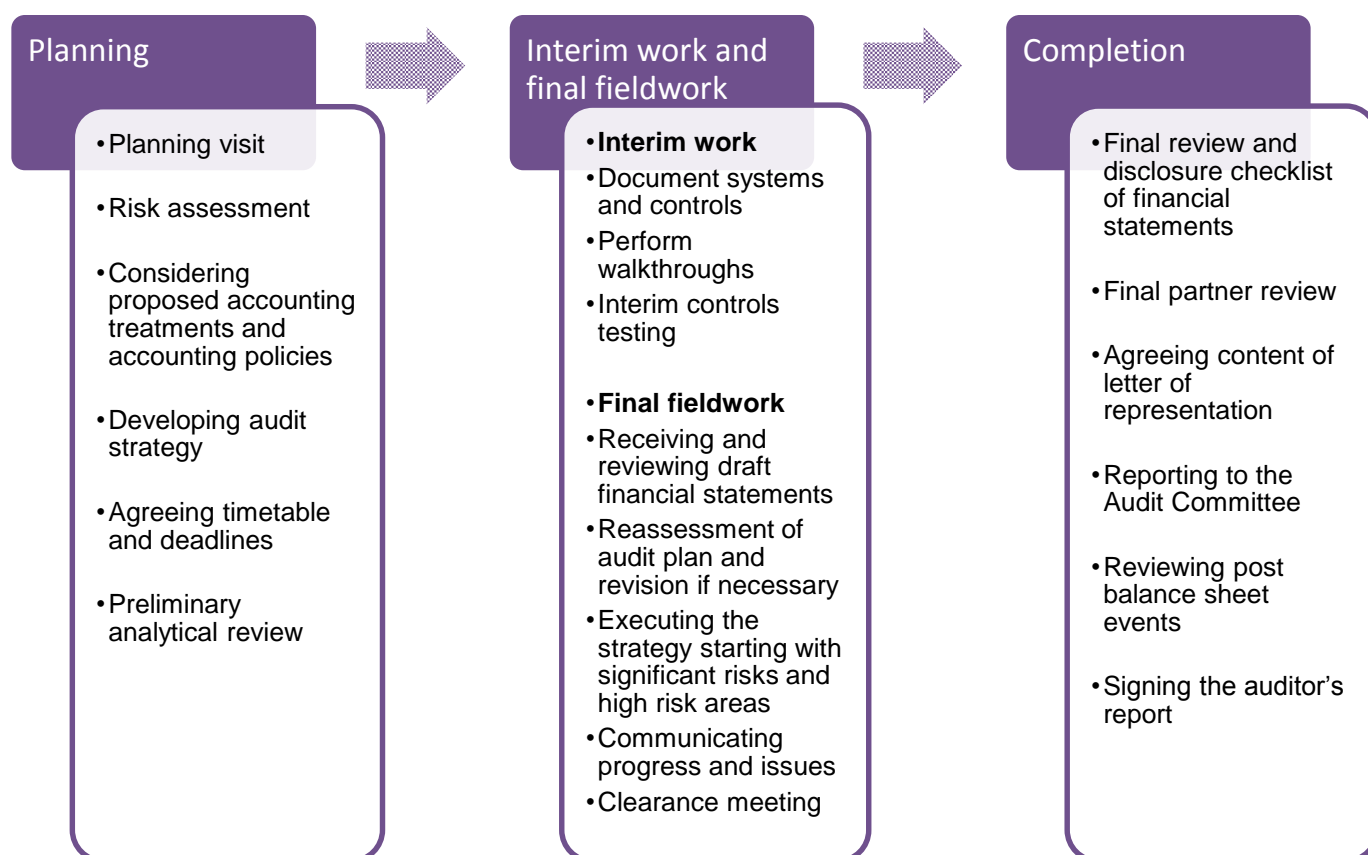
We apply a risk-based audit approach primarily driven by the matters we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment we develop our audit strategy and design audit procedures in response to this assessment. The work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

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

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

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

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



Reliance on internal audit

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

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

Reliance on other auditors

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

Item(s) of account	Other auditor	Nature of assurance to obtain from the auditor
Contributions receivable	Ernst & Young LLP	Assurance on the accuracy of LGPS contributions calculated by Darlington Borough Council.

Service organisations

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

Nature of services provided and items of account	Name of service organisation	Audit approach to be adopted
Investment managers	AllianceBernstein Barings Asset Management BlackRock CBRE Royal London Asset Management Mondrian Investment Partners Aberdeen Asset Management BNY Mellon Water Scott	We will substantively test transactions undertaken by the service organisations during the year and the valuations applied to investments at the year end.
Custodian	JP Morgan	

The work of experts

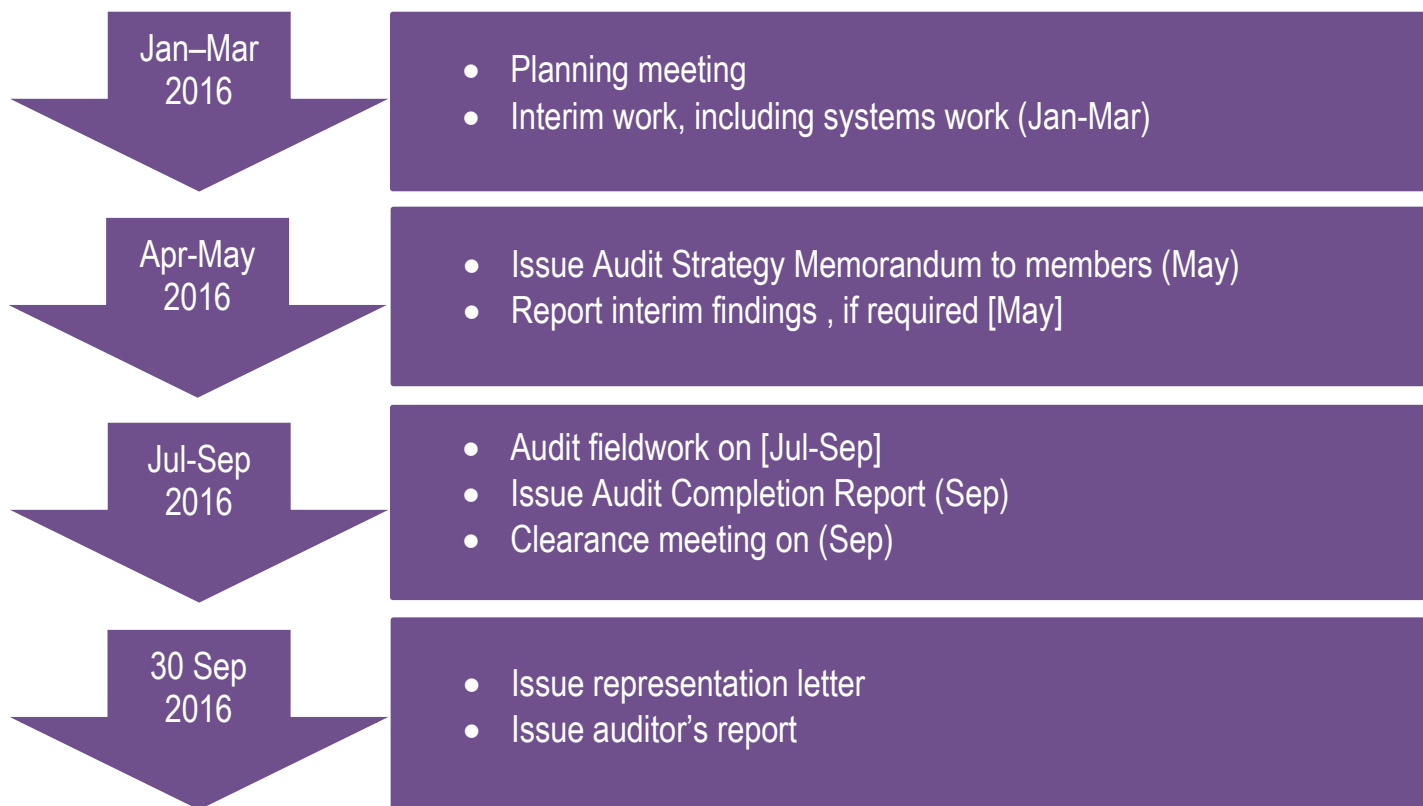
The following experts are relevant to our work for the year ended 31 March 2016.

Item(s) of account	Management's expert	Our expert
Disclosure notes on the funding arrangements and actuarial present value of promised retirement benefits.	Actuary Aon Hewitt	NAO's consulting actuary (PWC)

Item(s) of account	Management's expert	Our expert
Disclosure notes on the nature and extent of risk arising from financial instruments	Mercer Limited	None
Purchases and sales of investments	AllianceBernstein BlackRock CBRE Royal London Asset Management Mondrian Investment Partners Aberdeen Asset Management BNY Mellon Water Scott	None

Timeline

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



03 Significant risks and key judgement areas

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

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

Significant risks

Management override of controls

Description of the risk

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

How we will address this risk

We will address this risk through performing audit work over:

- accounting estimates affecting amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

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

Description of the risk

As at 31 March 2015 the fair value of investments which were not quoted on an active market was £701 million, which accounted for 32 per cent of net investment assets. The values used in the accounts are those provided by fund managers which are mostly based on Net Asset Value statements, although in some cases are based on forward looking estimates and judgements involving many factors. This results in an increased risk of material misstatement.

How we will address this risk:

In addition to our standard program of work we will:

- evaluate management controls over the valuation process;
- agree holdings from fund manager reports to the global custodian's report;
- agree the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation;
- agree the investment manager valuation to audited accounts. Where these are not available, agree the investment manager valuation to other independent supporting documentation;
- where audited accounts are available, check that they are supported by a clear opinion; and
- agree the price to independent evidence, for those valuations not supported by valuation statements.

Disclosure of Funding Arrangements

Description of the risk

The funding arrangements disclosure note sets out the key elements of the funding policy and key information regarding the most recent triennial valuation as at 31 March 2013, including contributions to be paid by participating bodies to allow the fund to achieve 100 per cent solvency over 18 years.

While there are no accounting entries associated with this disclosure, the triennial valuation determines future employer contribution rates and the disclosure itself is material. The calculation of these figures can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. There is a risk of material misstatement due to high estimation uncertainty.

How we will address this risk:

In addition to our standard program of work we will:

- review the management controls you have in place over the source data;
- consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the Audit Commission; and
- review source data on a sample basis.

04 Your audit team

Below are your audit team and their contact details.

Engagement Lead

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

Engagement Manager

- Sharon Liddle
- sharon.liddle@mazars.co.uk
- 0191 383 6311

Team Leader

- Chris Kneale
- chris.kneale@mazars.co.uk
- 0191 383 6337

In addition to the above, an Engagement Quality Control Reviewer has been appointed for this engagement.

05 Fees for audit and other services

Audit

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments Ltd for the Code audit work.

Area of work	2015/16 Scale fee	2015/16 Proposed fee	2014/15 Final fee
Code audit work	£25,918	£25,918	£25,918

Non-audit services

We do not currently plan to carry out any non-audit services.

Appendix A – Independence

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

Based on the information provided by you, and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement, there are no relationships between us, and any of our related or subsidiary entities, and you, and your related entities, creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

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

- all partners and staff are required to complete an annual independence declaration;
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- rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

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

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

No threats to our independence have been identified.

Appendix B - Materiality

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

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

- have a reasonable knowledge of business, economic activities and accounts;
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We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

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

Appendix C – Key communication points

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

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

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

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

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

Appendix D – Forthcoming accounting and other issues

The 2015/16 CIPFA Code of Practice on Local Authority Accounting (the Code) has made several changes to financial reporting requirements relevant to the Fund, of which you should be aware. We provide workshops explaining these changes to which we invite officers from the Fund responsible for preparing the financial statements. The workshops provide full details of the changes in the 2015/16 Code as well as a forward look to potential future accounting changes that may be of relevance to the Fund.

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Forthcoming accounting issues

Early deadlines	How this may affect the Fund
<p>The Accounts and Audit Regulations 2015 outline earlier deadlines for local authorities to produce their statements of account from the 2017/18 financial year.</p>	<p>The impacts of this change on local authorities and their auditors are significant and we have begun to discuss how we will meet the challenges the new dates place on us all with Fund officers.</p>
Early deadlines	How this may affect the Fund
<p>On 25 November 2015 the Government published the Investment Reform Criteria and Guidance, setting out how LGPS investment pooling would work. It was anticipated that LGPS assets would be pooled into six British Wealth Funds in order to save costs and increase investments in infrastructure.</p> <p>The initial proposals submitted by funds in February 2016 showed that seven pooled funds are likely to be created.</p> <p>The government expects the transition of assets to commence from April 2018.</p>	<p>The change will have a significant impact on the local government pension funds, and will present a number of challenges and risks including:</p> <ul style="list-style-type: none"> • the transition of assets; • ensuring that adequate governance arrangements are put in place in the pooled fund; and • ensuring that funds continue to act in the best interests of members. <p>We will have regular discussions with Pension Fund officers to understand how these challenges are being met.</p>

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Audit Committee

17 May 2016



External Audit - Progress Report - May 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
 - National Publications and other updates
3. The external auditor's report is attached at Appendix 2.

Summary of Audit Progress

4. Planning for the 2015/16 audit is now complete and the Audit Strategy is on the Committee's agenda.
5. In January workshops have been provided for finance staff on accounting and audit issues relating to the closure and preparation of the 2015/16 accounts.
6. There have been changes to the Accounts and Audit Regulations (2015) which includes:
 - The roles and responsibilities associated with informing electors of their rights; and
 - The publication of the draft and audited statements of accounts and information that accompanies those statements.

Emerging Issues and Developments

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

Recommendation

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

Contact: 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

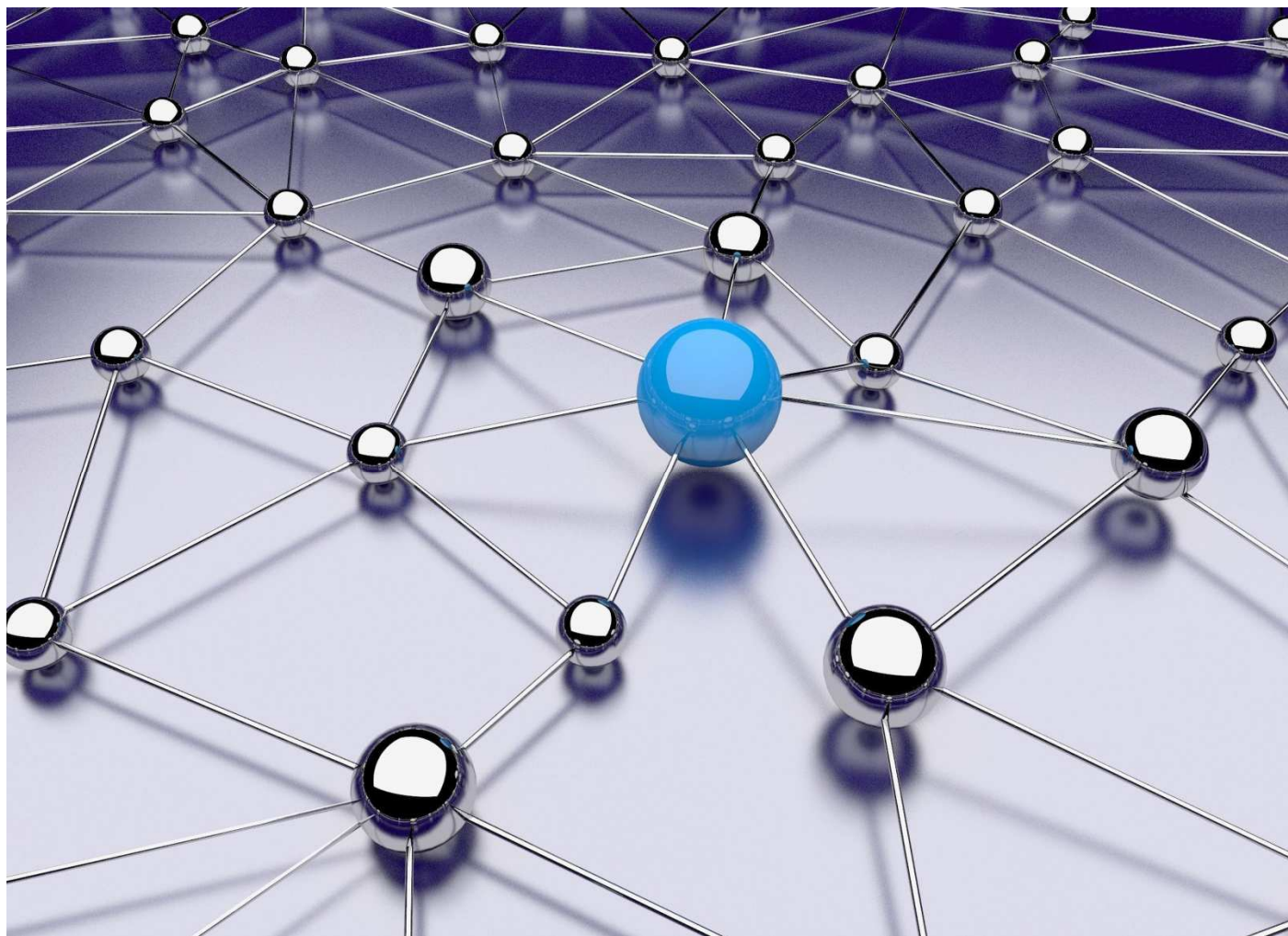
None

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Durham County Council

Audit Progress Report

May 2016



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

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

01 Introduction

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

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

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

02 2015/16 audit

2015/16 planning

We have now completed our audit planning and our Audit Strategy Memorandum is also on the agenda for this meeting. This document sets out the risks we have identified for both the opinion on the financial statements and the value for money conclusion, and our overall approach to the audit.

Accounts workshops for officers

In January 2016, Mazars provided a workshop for finance staff on accounting and auditing issues relating to the closedown and preparation of the 2015/16 statement of accounts. The workshop was well attended and well received by our clients. Some of your officers attended the workshop.

This year we also provided an additional workshop on infrastructure assets, an area where the accounting requirements change significantly next year. Highways engineers and accountants were brought together for this workshop, and the officers who attended, found the workshop helpful as part of their preparations for these changes.

Changes impacting on the public inspection of the accounts

The Accounts and Audit Regulations (2015) have made changes to, amongst other things:

- the roles and responsibilities associated with informing electors of their rights; and
- the publication of draft and audited statements of account and information that accompanies those statements.

It is now the Responsible Financial Officer's responsibility to publish a statement that includes details of the period for the exercise of public rights. It is also now the Responsible Financial Officer's responsibility to inform the auditor of the date on which that period commences; previously the auditor was responsible for 'calling the audit' and appointing a specific date on which electors could ask questions relating to the audit.

The period for the exercise of public rights must be a single period of 30 working days. Electors can only exercise their rights of inspection and objection, as set out in the Local Audit and Accountability Act 2014, during this period. The period must include the first 10 working days of July for this year's audit and, as a result, the earliest date that the audit of a local authority can be completed for 2015/16 is 15th July 2016.

The Regulations also set out the revised timetable for the preparation and audit of the Council's financial statements from 2017/18 that we have mentioned in previous audit progress reports / audit committee meetings. We continue to work closely with the Council's finance team to ensure that we both meet the revised timetable.

Further details on the requirements are set out in the Appendix to this report.

03 National publications and other updates

This section contains updates on the following:

1. **Guidance for Directors of companies partly or fully owned by the public sector, January 2016**
2. **Supporting the transition, Public Sector Audit Appointments Ltd, February 2016**
3. **Results of auditor's work 2014/2015: local government bodies, Public Sector Audit Appointments Ltd, December 2015**
4. **Cipfa: Guide to auditor panels, December 2015**
5. **Mazars: Public services blog 'Let's talk public services'**

1. **Guidance for Directors of companies partly or fully owned by the public sector, January 2016**

This guidance, which has been published by the Cabinet office, is to help directors of companies owned by the public sector, in full or in part, to understand their duties and responsibilities, including identifying and managing conflicts of interest. As local government and related bodies increasingly explore alternative models of service delivery, including establishing local authority trading companies, this guidance is of relevance.

<https://www.gov.uk/government/publications/guidance-for-directors-of-companies-fully-or-partly-owned-by-the-public-sector>

An additional guidance paper referred to in the Cabinet Office report is a National Audit Office paper produced in January 2015 on Conflicts of Interest. This is also of relevance to authorities that are operating in an increasingly complex environment of related entities.

<https://www.nao.org.uk/report/conflicts-interest-2/>

2. **Supporting the transition, Public Sector Audit Appointments Ltd, February 2016**

Public Sector Audit Appointments Ltd (PSAA) has published its Corporate Plan for the period to 2018 – <http://www.psa.co.uk/about-us/what-we-do/corporate-plan-2015-2018/>

The Plan sets out how the company will discharge the functions delegated to it by the Secretary of State for Communities and Local Government which include managing audit contracts originally let by the Audit Commission and supporting a smooth transition to the new audit regime introduced by the Local Audit and Accountability Act 2014 (the Act).

PSAA's work programme involves two parallel strands: ensuring that the existing audit contracts continue to deliver good quality and positive value for audited bodies and effective assurance to the public; and, providing as much support as possible to assist local bodies to prepare for, and be ready to meet, their new responsibilities as the legislation is fully implemented.

The plan was informed by the fact that the timetable for the expiry of the existing audit contracts is now clear. For NHS bodies and smaller local authorities (mainly parishes and internal drainage boards) existing arrangements will cover the audits up to and including 2016/17. For these bodies the new regime will therefore apply to the audits of the financial year 2017/18 and onwards. For principal local authorities and criminal justice bodies the existing arrangements are expected to run for a further year covering the audits up to and including 2017/18. For these bodies the new regime will apply to 2018/19 audits and beyond.

The plan details PSAA's responsibilities to redistribute any surplus monies, including money received on the closure of the Audit Commission, to audited bodies. PSAA's current plan is to implement a phased redistribution of surplus fees to all audited bodies as follows:

- NHS bodies: the amount of redistribution, based on current information, is likely to be in the order of 10 per cent of 2016/17 scale audit fees, with expected payment in 2017 (total redistribution: circa £1.5 million which is calculated after allowing for closedown and redundancy costs);
- local government bodies: the amount of redistribution, based on current information, is likely to be in the order of 15 per cent of 2017/18 scale audit fees, with expected payment in 2018 (total redistribution: circa £7.5 million) and in 2019 of any remaining surplus once the final expected costs of ending the audit contracts are established.

The DWP has confirmed that it requires PSAA to make arrangements for auditor certification of housing benefit subsidy claims from local authorities for 2016/17.

The Local Government Association (LGA) and the Improvement and Development Agency (IDeA) wish to support local authorities with their responsibilities under the Act by securing the establishment of a sector led body to appoint auditors in the new regime. PSAA has agreed to work with LGA and IDeA to explore the feasibility and viability of PSAA taking on this role in the future. Further information will be provided on PSAA's website as this work progresses.

As part of its role in supporting local bodies to prepare for their responsibilities under the new regime, PSAA has set up on its website a dedicated Supporting the transition area containing resources to assist local public bodies in making the transition to the new arrangements - <http://www.psaa.co.uk/supporting-the-transition/>

3. Results of auditor's work 2014/2015: local government bodies, Public Sector Audit Appointments Ltd, December 2015

This is the first report for local government bodies published by Public Sector Audit appointments Ltd (PSAA), and it summarises the results of auditors' work at 509 principal bodies and 9,755 small bodies for 2014/2015. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.

The timeliness and quality of financial reporting for 2014/2015 remained broadly consistent with the previous year for both principal and small bodies. Against a background of financial challenges, the sector is clearly working hard to achieve appropriate standards in its stewardship of resources.

Auditors at 97 per cent of principal bodies were able to issue the opinion on the 2014/2015 accounts by 30 September 2015, with 23 bodies receiving an unqualified audit opinion by 31 July 2015. For the second year in a row there have been no qualified opinions issued to date to principal bodies (at the time of this

report being written). The number of qualified conclusions on value for money arrangements remained consistent with the previous year at 4 per cent.

For small bodies, auditors were able to issue their opinion on the annual return by 30 September 2015 at 99 per cent of parish councils and internal drainage boards. This is consistent with the previous year.

<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

4. Cipfa: Guide to auditor panels, December 2015

This publication is aimed at those within local authorities who will have a role to play in deciding how and who to appoint as their organisation's local auditors.

It has been commissioned by DCLG, and a working group including DCLG, NAO, Public Sector Audit Appointments Limited (PSAA) and other stakeholders have ensured that the guidance is relevant and specific to authorities.

<http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>

5. Mazars: Public services blog 'Let's talk public services'

Mazars has launched a blog 'Let's talk public services' where Mazars' team of auditors and advisors working with UK public service organisations can provide a place in which public service practitioners can exchange experience and ideas relevant to their jobs. The blog can be found here:

<http://blogs.mazars.com/lets-talk-public-services>.

04 Contact details

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

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Appendix: Changes arising from the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015

Changes to legislation which set the framework for the work auditors undertake on local authority statement of accounts will lead to changes in the audit process and timetable.

The relevant legislation can be found here:

The Local Audit and Accountability Act 2014: <http://www.legislation.gov.uk/ukpga/2014/2/contents/enacted>

Accounts and Audit Regulations 2015: http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

Arrangements for the publication and audit of the statement of accounts

The changes to legislation do not change the publication and audit process to a great degree, however there are differences that auditors, and audited bodies need to be aware of. These, and the timings involved, are set out in the table below:

	Action	Regulation	Timing (15/16 and 16/17)	Timing (17/18 onwards)
1	RFO signs and dates the statements and confirms that they present a true and fair view	9(1)(a)	Prior to publication of draft statements (see below)	Prior to publication of draft statements (see below)
2	RFO must publish (including publication on the authority's website): <ul style="list-style-type: none"> • The statement of accounts and an accompanying declaration that they are unaudited and subject to change • The AGS (whether approved or not) • The Narrative Statement • A statement that sets out <ul style="list-style-type: none"> ○ The period for the exercise of public rights ○ Details of the manner in which notice of the intention to documents should be given ○ The name and address of the auditor 	15(2)	By 30th June* by virtue of the fact that the period for the exercise of public rights (3 below) must include the first 10 working days of July as per 15(1)(a) as adjusted by 21(b).	By 31st May* by virtue of the fact that the period for the exercise of public rights (3 below) must include the first 10 working days of June as per 15(1)(a).

	<ul style="list-style-type: none"> o The provisions of section 26 and 27 of the LAAA 2014 			
3	RFO must commence the period for the exercise of public rights and notify the auditor of the date on which the period commences. The period must be a single period of 30 working days as per regulation 14(1) and must include the first 10 working days of July (for 2015/16 and 2016/17) as explained above.	9(1)(b) And 9(1)(c)	The day following the date on which the RFO has met the responsibilities in (2) above.	The day following the date on which the RFO has met the responsibilities in (2) above.
4	Following conclusion of the period for exercise of public rights the accounts must be: <ol style="list-style-type: none"> 1. considered by members (committee or meeting as a whole) 2. re-confirmed by the RFO on behalf of the authority that the statement of accounts presents a true and fair view before the accounts are approved 3. approved by the same committee or meeting 4. signed – this must be by the person who presides over the meeting where the accounts were considered and approved. 	9(2) and (3)	By 30th September	By 31st July
5	The approved and audited accounts, approved AGS, and Narrative Statement, must be published (including on the authority's website)	10(1)	By 30th September	By 31st July
6	An authority must publish (including on the authority's website) that the audit has been concluded and that the statement of accounts has been published.	16 (1)and (2)	By 30th September	By 31st July

* The exact date will depend on when the first working day falls in July (for 2015/16 and 2016/17) and in June (for 2017/18 onwards).

Further information on public rights under the LA&A Act

Period for exercise of rights

The period for questions to the auditor is now restricted to the 30 days of the inspection period, there is no appointed date for questions to the auditor. As noted above, the period must include the first 10 working days of July in for the audit years 2015/16 and 2016/17 under the transitory arrangements.

Calling the audit is no longer the responsibility of the auditor; it has been superseded by the notification of the period for public rights by the RFO (point 3 in the table above).

There is no longer a set date for questions to the auditor, but a local elector must be given the opportunity to question the auditor about the accounting records if they request it (section 26(2) of the LA&A Act). Rights of objection also remain (section 27 of the LA&A Act). All objections to the auditor must be made in writing and be copied to the authority. Regulation 14(1) makes it clear that the rights conveyed by sections 26 and 27 of the Act may only be exercised within the single 30 day period.

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Audit Committee

17 May 2016

Strategic Risk Management Progress Report for the Quarter period January to March 2016



Report of Corporate Management Team

Don McLure, Corporate Director Resources

Purpose of the Report

- 1 To highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period January to March 2016.

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 March 2016, there were 23 strategic risks, one less than as at 31 December 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 and PPCI 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 March 2016.
- 7 Management has assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.

Recommendations and reasons

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

Contact: David Marshall Tel: 03000 269648

Appendix 1: Implications

Finance – 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 March 2016, there were 23 strategic risks, one less than as at 31 December 2015.

The following matrix categorises the strategic risks according to their Net risk evaluation as at 31 March 2016. To highlight changes in each category during the last quarter, the number of risks as at 31 December 2015 is shown in brackets.

Overall number of Strategic Risks as at 31 March 2016

Impact					
Critical	1 (1)		2 (2)		1 (1)
Major		2 (3)	7 (6)		
Moderate			7 (7)	3 (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 There are no new risks this quarter.

Increased Risks

- 2 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*’ has changed. Consequently, the likelihood of the risk occurring has been increased from **unlikely** to **possible**. (RED)

- 3 The impact of the risk '*Failure to protect a child from death or serious harm (where service failure is a factor or issue)*' has decreased to **major**, but the likelihood of the risk occurring has been increased from **unlikely** to **possible**. Working Together 2015 provides clear information in relation to when a Serious Case Review (SCR) 'must' be held, as opposed to 'may' be held. Prior to the new procedure, there was more discretion about whether or not to hold a serious case review, and as a result cases that may have been reviewed through alternative processes such as the Learning Lessons process or Internal Management Review are now progressed to a Serious Case Review, which is a published document. This increases the likelihood of SCRs being held. (CAS)
- 4 The likelihood of the risk '*A service failure of Adult Safeguarding leads to death or serious harm to a service user*' has increased from **unlikely** to **possible**. The profile of safeguarding across adult services has risen considerably as a result of there now being a statutory responsibility within the Care Act for protecting vulnerable adults. This is monitored through the multi-agency Safeguarding Adults Board. Furthermore, Children & Adults Services has increased its focus in relation to risk management within its safeguarding activity. Nationally there has been an increased awareness of potential vulnerabilities relating to adults with care and support needs which has resulted in increased media publicity. (CAS)

Removed Risks

- 5 The risk that "*The Council will not be able to maintain its non-educational and non-housing buildings to industry standard*" has been removed as this is now being monitored as business as usual. (NS)

Reduced Risks

- 6 No risks have been reduced this quarter.

Emerging Risks

- 7 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. 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 Potential industrial action in response to proposed changes to teaching assistants' terms and conditions has been highlighted as an emerging risk. The consultation period ended on 24 March 2016 and the situation is being reviewed. In the meantime, there is ongoing formal consultation with affected staff and Trade Unions, as well as communications with Teachers, Governors, and the workforce to keep them advised of developments.

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	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: auto;"> <p>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.</p> </div>				
Insignificant					
Net Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

Key Risks Schedule

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

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	RES Risk Owner: Don McLure	Altogether Better Council	If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.	Critical	Possible	The Delivery plan implementation will be monitored by CMT and Cabinet.		This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage.
2	RES Risk Owner: Don McLure	Altogether Better Council	Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services.	Critical	Highly Probable	Sound financial forecasting is in place based on thorough examination of the Government's "red book" plans.		This will be a significant risk for at least the next 4 years.
3	RES Risk Owner: Phil Jackman	Altogether Better Council	If we were to fail to comply with Central Government's Public Services Network Code of Connection and PCI 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. The risk register has been completed for submission in June 2016 and will be reviewed on a regular basis.

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

Based on the **Net** risk assessment as at 31 March 2016, the following tables highlight the risks for each Corporate Theme.

Corporate Theme – Altogether Better Council

Ref	Service	Risk
1	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.
2	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.
3	RES	If we were to fail to comply with Central Government's Public Services Network Code of Connection and PCI 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.
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 and the DCC capital programme going forward, both Technical and Building Services could see a loss of business.
6	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
7	ACE	Risk that the Council does not respond to the Government's changes to Welfare Reform
8	ACE	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation
9	RES	Major Interruption to IT Service Delivery
10	RES	Serious breach of Health and Safety Legislation
11	ACE	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation
12	RES	Due to the current economic climate and amount of change occurring across the Council, there is potential for increases in fraud and error.
13	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.

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
14	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.
15	CAS	The financial pressures experienced by Residential/Nursing and Domiciliary Care providers as a result of changes to the National Minimum/Living Wage could put the continued operation of some providers at risk.

Altogether Safer

	Service	Risk
16	CAS	A service failure of Adult Safeguarding leads to death or serious harm to a service user.
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	NS	Damage to Highways assets as a result of a severe weather event.
20	RED	Serious injury or loss of life due to Safeguarding failure (Transport Service)

Altogether Wealthier

	Service	Risk
21	RED	Diminishing Capital Resources, continuing depressed land values and cautious growth in the private sector will impact on the ability to deliver major projects and Town initiatives within proposed timescales.
22	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.
23	RED	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 Q3 Actual	2015/16 Q4 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)	One (County Durham Plan risk)	None
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 Local Code of Corporate Governance has been revised and will be proceed to Audit Committee for approval on 29 February 2016.	The revised Local Code of Corporate Governance was approved by the Constitution Working Group on 14 March 2016 and Full Council on 13 April 2016.
Objective: To ensure that Officers and Members are appropriately skilled in risk management				
Appropriate staff are adequately skilled in risk management	Tier 4 managers attending risk management training course	Target N/A (Quarterly)	28 officers attended a 2-hour course, 'Managing Business Risks', delivered by Zurich Municipal, the Council's insurer.	96 officers attended a 2-hour course, 'Managing Business Risks', delivered by Zurich Municipal, the Council's insurer.
Appropriate staff are adequately skilled in risk management	Tier 5 managers attending risk management training course	Target N/A (Quarterly)	See previous	See previous
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, but a one-hour training course has been developed and approved by the Officer and Member Risk Champions.	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 Q4 Evidence
Good governance maintained	Gather information on risk management successes, and beneficial outcomes the Council achieve in managing risks	Reported quarterly	
Successfully delivered projects	As above	As above	The Car Leasing Scheme project has been successfully concluded, and the project to transfer Resource Link to Oracle is has been progressing for a significant period without risks materialising.
Reputation protected	As above	As above	
Innovative decisions that were risk managed	As above	As above	Council continues to deliver initiatives that enable it to meet its efficiency targets but manage the corresponding risks to service delivery effectively.
Financial return for the Council	As above	As above	

AUDIT COMMITTEE**17 May 2016****Internal Audit Plan, Strategy and Charter
2016/2017**

Report of the Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. To submit the proposed Annual Internal Audit Plan for 2016/2017, the Internal Audit Strategy and the Audit Charter which are attached as Appendices 2, 3 and 4, for approval.

Background

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

“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
3. The agreed terms of reference for the internal audit service to fulfil this objective are detailed in the Internal Audit Charter.
4. The Internal Audit Strategy which has informed the development of the 2016/2017 audit plan has been reviewed and is provided in Appendix 2.

Preparation of 2016 / 2017 Audit Plan

5. Members will recall receiving the Emergent Internal Audit Plan at its meeting on 29 February 2016. As discussed in that paper, the plan has had further refinement and discussion has taken place with Corporate Management Team prior to presenting the final version to this Committee.
6. In consultation with Service Groupings’ Senior Management Teams, Heads of Service and Corporate Directors, the Internal Audit plan has been reviewed and revised to reflect changes in structures, changes in key service activities and management’s preference for the timing of reviews.
7. The Audit Plan has been prepared for the twelve months from 1 April 2016 to 31 March 2017.

8. The proposed Audit Plan for 2016/2017, attached at Appendix 3, is for endorsement by Corporate Management Team and includes provision for:
 - Work started in 2015/2016 which was not complete by 31 March 2016.
 - Work that was approved in the 2015/2016 audit plan but has been deferred and carried forward into 2016/2017 as previously agreed.
 - Planned assurance work scheduled from the 5 year strategic audit plan.
 - Annual due diligence on key systems and compliance with key corporate policies.
 - Service requests identified through the consultation process with senior management.
 - Grant certification work.
 - Work by the Corporate Fraud Team to complete proactive counter fraud reviews aimed at detecting and preventing fraud in high risk areas.
 - Corporate provision for reactive advice and consultancy work and new emerging risks, including any reactive fraud investigations and irregularities.
 - Corporate provision for planning, quality assurance and reporting.
 - Follow up of agreed audit recommendations.
9. The detailed scope of audit reviews included in the plan are not yet finalised, however an initial outline scope of each audit has been prepared. These will be further developed as part of the planning and preparation stage of each individual assignment in accordance with the agreed audit strategy. This ensures that audit resources assigned to individual reviews are focused upon operational risks, controls and the assurance environment expected to be in place at the time reviews are actually carried out. This is particularly important due to the extent of change management across the Council.
10. Operational risks are those that arise directly from the core activities of delivering services and include:
 - Financial Management Risks
 - Project Risks
 - Performance Management Risks
 - Partnership Risks
 - Human Resources Risks
 - IT and Information Governance Risks
 - Procurement and Contract Risks
 - Legal Risks
 - Service Specific Risks

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

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

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

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

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

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

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

Delivery of the 2016 / 2017 Audit Plan

18. The productive audit days required to deliver the proposed audit plan, which includes provision for a contingency provision for any new and emerging risks, has been estimated to be 4,748 days.
19. The audit days available to deliver the Council's Internal Audit Plan for 2016/17, based on actual staff in post is illustrated in the following table:

Audit Days required to complete and close audit reports relating to 2015/16	422
<u>Audit Plan 2016/2017</u>	
Assistant Chief Executive (ACE)	70
Children and Adult Services (CAS)	302
Neighbourhood Services (NS)	313
Regeneration and Economic Development (RED)	148
Resources (RES)	689
Durham Police and Crime Commissioner / Durham Constabulary	159
Durham and Darlington Fire and Rescue Authority	71
Durham County Council Pension Fund	45
Peterlee Town Council	23
Durham City Charter	6
Durham City Crematorium	19
Mountsett Crematorium – Joint committee	19
Schools (Service Level Agreements)	333
Productive Time – not directly allocable to services e.g. Audit Planning, Quality Assurance Reviews, Performance Management, Fraud Investigation (Pro-active and Reactive), Service Improvement and Follow Up of Recommendations etc.	2,129
TOTAL DAYS REQUIRED	4,748

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

Audit Charter

21. The Audit Charter was last approved by the Audit Committee in June 2015. The Charter is required to be reviewed annually therefore it is attached at Appendix 4. There have been no changes to the charter.

Recommendations

22. It is recommended that members:

- Approve the Internal Audit Strategy in Appendix 2.
- Approve the proposed Internal Audit Plan for 2016/2017, as detailed in Appendix 3.
- Approve the Audit Charter in Appendix 4

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

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

All Corporate Directors and Heads of Service have been consulted.

Procurement

None

Disability Issues

None

Legal Implications

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

DURHAM COUNTY COUNCIL



Internal Audit Strategy

1. Introduction

- 1.1 The Internal Audit Strategy for 2016/2017 focuses on the delivery of the assurance opinion and the Internal Audit plan to support this opinion. This strategy reflects Internal Audit's contribution to the Council's 'Altogether' agenda and fully supports the Council's ambitions as set out in the Sustainable Community Strategy. The Internal Audit Strategy incorporates best practice from Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Audit (CIIA).
- 1.2 The requirement for an Internal Audit function for local authorities is within section 151 of the Local Government Act 1972 and authority has been delegated to the Corporate Director, Resources to fulfil this function. Regulation 6 of the Accounts and Audit Regulations 2011 requires that "a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control".
- 1.3 The mission for of the Internal Audit service is to provide value for all of our stakeholders. There are three ways that we achieve this by providing:
 - Assurance
 - Objectivity; and
 - Insight
- 1.4 The assurance is provided through three elements:
 - Governance
 - Internal Control; and
 - Risk Management
- 1.5 The Terms of Reference of Internal Audit are contained within the Audit Charter. The measures in place to deliver these are set out below.

2. Strategy Statements

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

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

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

3. Delivery of the Service

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

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

4. Review of the Strategy

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

ANNUAL INTERNAL AUDIT PLAN 2016 / 2017 (April 2016 to March 2017)

CORPORATE PROVISIONS	DAYS
PLANNING, REPORTING AND SERVICE DEVELOPMENT	
Audit Planning and Reporting	450
Follow Up of Audit Recommendations	60
Quality Assurance and Performance Management	350
Service Development	75
External Audit Liaison	2
Audit Committee Reporting and Support	20
COUNTER FRAUD	
Irregularity Investigation	200
Counter Fraud Awareness	75
National Fraud Initiative	100
Tenancy investigations	50.0
Council Tax Reduction Investigations	75.0
Single Person Discount Investigations	65.0
Business Rates Investigations	35.0
Direct Payment Investigations	20.0
Blue Badge Investigations	25.0
Insurance Investigations	40.0
Proceeds of Crime Act (POCA)	2.0
DPA Requests for Information	10.0
SPOCC Requests	100.0
Counter Fraud Administration	25.0
Organised Crime	30.0
Proactive Counter Fraud Reviews including:	
<i>Financial Assessments</i>	20
<i>Blue Badge</i>	20
<i>Recourse to Public Funds</i>	20
<i>Schools Declarations of Interest</i>	20
<i>School Admissions</i>	20
<i>Employee Declarations of Interest</i>	20
<i>Members Gifts & Hospitality</i>	20
CONTINGENCY	
Advice and Consultancy	90
Contingency	90

2016 / 2017 INTERNAL AUDIT PLAN					
Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
Business Continuity	Assistant Chief Executive (ACE)	Policy and Communications	Key System	10	Altogether Better Council
Data Quality	Assistant Chief Executive (ACE)	Planning and Performance	Assurance	10	Altogether Better Council
Equality Impact Assessment process for MTFP	Assistant Chief Executive (ACE)	Planning and Performance	Assurance	10	Altogether Better Council
Data Protection (include DP Healthchecks for NS)	Assistant Chief Executive (ACE)	Planning and Performance	Assurance	20	Altogether Better Council
County Records Office	Assistant Chief Executive (ACE)	Planning and Performance	Assurance	7	Altogether Better Council
Information Governance Group	Assistant Chief Executive (ACE)	Planning and Performance	Advice & Consultancy	3	Altogether Better Council
Community Grants	Assistant Chief Executive (ACE)	Partnerships and Community Engagement	Assurance	10	Altogether Better Council
Shared Lives - Review of effectiveness of Service	Children and Adult Services (CAS)	Adult Care	Assurance	20	
Reablement Services - Review of effectiveness of Service	Children and Adult Services (CAS)	Adult Care	Assurance	20	
Continuing Health Care (Deferred 2015/16)	Children and Adult Services (CAS)	Adult Care	Assurance	20	
Pathways - Establishment Audit	Children and Adult Services (CAS)	Adult Care	Assurance	10	
Pathways Establishment Closure Audit (Consett)	Children and Adult Services (CAS)	Adult Care	Assurance	5	
Pathways Establishment Closure Audit (Chester le Street)	Children and Adult Services (CAS)	Adult Care	Assurance	5	
Pathways Establishment Closure Audit (Bishop Auckland)	Children and Adult Services (CAS)	Adult Care	Assurance	5	
2016 / 2017 INTERNAL AUDIT PLAN					

Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
Implementation of the Care Act	Children and Adult Services (CAS)	Adult Care	Advice & Consultancy	10	Altogether Healthier
Adaptations	Children and Adult Services (CAS)	Adult Care	Assurance	5	Altogether Healthier
Children's Homes - Establishment Audit	Children and Adult Services (CAS)	Children's Services	Assurance	10	Altogether Better for Children and Young People
One Point Hubs - Establishment Audit	Children and Adult Services (CAS)	Children's Services	Assurance	20	Altogether Better for Children and Young People
Supervised Spend - Leaving Care Service Follow Up	Children and Adult Services (CAS)	Children's Services	Assurance	15	Altogether Better for Children and Young People
Aycliffe Locality Office, Residential and Secure Services Follow Up	Children and Adult Services (CAS)	Children's Services	Assurance	15	Altogether Better for Children and Young People
Think Family Programme	Children and Adult Services (CAS)	Children's Services	Grant Claims	3	Altogether Better for Children and Young People
Direct Payment Cards	Children and Adult Services (CAS)	Commissioning	Advice & Consultancy	5	Altogether Better Council
Procurement - Arrangements for contract management and monitoring	Children and Adult Services (CAS)	Commissioning	Advice & Consultancy	10	Altogether Better Council
Transport - Input into groups established to consider outcomes of People 2 review.	Children and Adult Services (CAS)	Commissioning	Advice & Consultancy	15	Altogether Better Council
Schools - Safe Recruitment and Selection	Children and Adult Services (CAS)	Education Services	Assurance	15	Altogether Better for Children and Young People
Schools Financial Value Standard (SFVS) Completion of CFO Assurance Statement for 2015/2016	Children and Adult Services (CAS)	Education Services	Advice & Consultancy	10	Altogether Better Council
Education and Business Learning Organisation (Deferred 2015/16)	Children and Adult Services (CAS)	Education Services	Assurance	10	Altogether Better Council
Youth Employment Initiative - Support in developing control framework.	Children and Adult Services (CAS)	Education Services	Advice & Consultancy	20	Altogether Better for Children and Young People
Careers Service (Deferred 2015/16)	Children and Adult Services (CAS)	Education Services	Assurance	10	Altogether Better for Children and Young People
The Woodlands (Pupil Referral Unit) - Review of Finance and Governance arrangements	Children and Adult Services (CAS)	Education Services	Assurance	3	Altogether Better for Children and Young People
School Programme	Children and Adult Services (CAS)	Education Services	Assurance	333	Altogether Better for Children and Young People
Information Security - Caldicott Compliance	Children and Adult Services (CAS)	PSS	Assurance	10	Altogether Better Council
Petty Cash Arrangements: Locality Offices	Children and Adult Services (CAS)	PSS	Advice & Consultancy	10	Altogether Better Council
Stop Smoking Service (Nicotine Replacement Vouchers) Revisit further to Advice and Consultancy work currently being undertaken in support of the service.	Children and Adult Services (CAS)	Public Health	Advice & Consultancy	2	Altogether Healthier
Supervised Consumption (Pharmoutcomes) Review potential for delivering VFM in dispensing of prescriptions.	Children and Adult Services (CAS)	Public Health	Advice & Consultancy	2	Altogether Healthier
Alcohol Brief Interventions Service (Pharmoutcomes) Revisit further to Advice and Consultancy work currently being undertaken in support of service.	Children and Adult Services (CAS)	Public Health	Advice & Consultancy	2	Altogether Healthier
Stop Smoking Service (Nicotine Replacement Vouchers) Revisit further to Advice and Consultancy	Children and Adult Services (CAS)	Public Health	Assurance	10	Altogether Healthier
DCRS - Quality of information held to inform key service performance indicators (Deferred 2015/16)	Children and Adult Services (CAS)	Public Health	Assurance	5	Altogether Better Council
Bulky Goods Collections Service	Neighbourhood Services (NS)	Direct Services	Advice & Consultancy	8	Altogether Better Council
Bereavement Services - Public Health Funeral Arrangements	Neighbourhood Services (NS)	Direct Services	Advice & Consultancy	5	Altogether Better Council
Allotment Management - Follow Up	Neighbourhood Services (NS)	Direct Services	Assurance	10	Altogether Better Council
Durham Crematorium	Neighbourhood Services (NS)	Direct Services	Assurance (Joint Ctte)	19	Altogether Better Council
Mounsett Crematorium	Neighbourhood Services (NS)	Direct Services	Assurance (Joint Ctte)	19	Altogether Better Council
Fuel Stocks & Stores	Neighbourhood Services (NS)	Direct Services	Assurance	20	Altogether Better Council
Building Services, Repairs & Maintenance works billing processes	Neighbourhood Services (NS)	Direct Services	Assurance	25	Altogether Better Council
QMS (Quarterly Visit)	Neighbourhood Services (NS)	Direct Services	Advice & Consultancy	5	Altogether Better Council
Facilities Management	Neighbourhood Services (NS)	Direct Services	Assurance	15	Altogether Better Council
Electrical Components - Procurement Card Expenditure (Follow Up to Part 1	Neighbourhood Services (NS)	Direct Services	Assurance	10	Altogether Better Council
Play Areas - Inspection Mechanisms and Charges to Parish & Town Councils	Neighbourhood Services (NS)	Direct Services	Assurance	8	Altogether Better Council
Control of Infectious Diseases (Third Party Assurance)	Neighbourhood Services (NS)	EHCP	Assurance	5	Altogether Better Council
Pollution Control - Planning Consultation Arrangements	Neighbourhood Services (NS)	EHCP	Assurance	5	Altogether Better Council
Contaminated Land	Neighbourhood Services (NS)	EHCP	Assurance	5	Altogether Better Council
Trading Standards Grant	Neighbourhood Services (NS)	EHCP	Grant Claim	4	Altogether Better Council
Garden Waste Collection	Neighbourhood Services (NS)	Projects and Business Services	Assurance	5	Altogether Greener
Environmental Compliance	Neighbourhood Services (NS)	Projects and Business Services	Advice & Consultancy	10	Altogether Greener
CRM System Implementation	Neighbourhood Services (NS)	Projects and Business Services	Advice & Consultancy	10	Altogether Better Council
Customer Services Complaints	Neighbourhood Services (NS)	Projects and Business Services	Assurance	10	Altogether Better Council
Leisure Centre - Core Financial Systems (Shildon & Teesdale)	Neighbourhood Services (NS)	Sport and Leisure Services	Assurance	10	Altogether Better Council
Leisure Works management arrangements (Consett Leisure Centre)	Neighbourhood Services (NS)	Sport and Leisure Services	Assurance	10	Altogether Better Council
Life management arrangements (Peterlee and Seaham Leisure Centres)	Neighbourhood Services (NS)	Sport and Leisure Services	Assurance	10	Altogether Better Council
Review of Leisure Centre Timesheet authorisation procedures	Neighbourhood Services (NS)	Sport and Leisure Services	Assurance	15	Altogether Better Council
CLUK Income Share Agreement	Neighbourhood Services (NS)	Sport and Leisure Services	Assurance	6	Altogether Better Council
County Durham Sport	Neighbourhood Services (NS)	Sport and Leisure Services	Advice & Consultancy	2	Altogether Better Council
Stanley Bowls	Neighbourhood Services (NS)	Sport and Leisure Services	Audit of Accounts	5	Altogether Better Council
2016 / 2017 INTERNAL AUDIT PLAN					
Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
Integrated Leisure Management System	Neighbourhood Services (NS)	Sport and Leisure Services	Assurance	15	Altogether Better Council
DLI Museum	Neighbourhood Services (NS)	Sport and Leisure Services	Assurance	10	Altogether Better Council
Gala Stage School	Neighbourhood Services (NS)	Sport and Leisure Services	Assurance	10	Altogether Better Council
Picture House and Gala ticketing system arrangements	Neighbourhood Services (NS)	Sport and Leisure Services	Advice & Consultancy	5	Altogether Better Council

Locomotion - Follow Up	Neighbourhood Services (NS)	Sport and Leisure Services	Assurance	10	Altogether Better Council
Civil Engineering Framework Sub £50K - Follow Up	Neighbourhood Services (NS)	Technical Services	Assurance	5	Altogether Better Council
Stores (Buildings & Highways)	Neighbourhood Services (NS)	Technical Services	Assurance	30	Altogether Better Council
Local Highways Maintenance Fund - Incentive Element	Neighbourhood Services (NS)	Technical Services	Grant Claim	5	Altogether Better Council
Woodland Burial Trust	Neighbourhood Services (NS)		Advice & Consultancy	5	Altogether Better Council
Utility Bills	Regeneration and Economic Development (RED)	Planning and Assets	Assurance	10	Altogether Green
Section 106 arrangements	Regeneration and Economic Development (RED)	Planning and Assets	Assurance	10	Altogether Better Council
Building Control - Systems Review	Regeneration and Economic Development (RED)	Planning and Assets	Assurance	15	Altogether Better Council
Asset Management	Regeneration and Economic Development (RED)	Planning and Assets	Assurance	20	Altogether Better Council
Land Sales - Quality and Price	Regeneration and Economic Development (RED)	Planning and Assets	Advice & Consultancy	2	Altogether Better Council
Low Carbo	Regeneration and Economic Development (RED)	Planning and Assets	Grant	4	Altogether Better Council
Rebus	Regeneration and Economic Development (RED)	Planning and Assets	Grant	4	Altogether Better Council
EU Structural Funds Programme	Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	Assurance	5	Altogether Better Council
Project Management arrangements	Regeneration and Economic Development (RED)	Strategy, Programmes and Performance	Advice & Consultancy	5	Altogether Better Council
Public Right of Way	Regeneration and Economic Development (RED)	Transport and Contract Services	Assurance	10	Altogether Safer Council
On Street and Off Street Parking	Regeneration and Economic Development (RED)	Transport and Contract Services	Assurance	15	Altogether Safer Council
Concessionary Fares	Regeneration and Economic Development (RED)	Transport and Contract Services	Assurance	10	Altogether Better Council
Transport Contractual Arrangements (follow up)	Regeneration and Economic Development (RED)	Transport and Contract Services	Assurance	10	Altogether Better Council
Local Transport Capital Block Funding	Regeneration and Economic Development (RED)	Transport and Contract Services	Grant	3	Altogether Better Council
Local Pinch Point Fund	Regeneration and Economic Development (RED)	Transport and Contract Services	Grant	3	Altogether Better Council
Bus Subsidy Ring Fenced Grant	Regeneration and Economic Development (RED)	Transport and Contract Services	Grant	3	Altogether Better Council
Seaham Marina Grant (Capital)	Regeneration and Economic Development (RED)	Economic Development and Housing	Advice & Consultancy	5	Altogether Wealthier
Accommodation Project	Regeneration and Economic Development (RED)	Economic Development and Housing	Advice & Consultancy	10	Altogether Better Council
Disabled Facilities Grant	Regeneration and Economic Development (RED)	Economic Development and Housing	Grant	2	Altogether Better Council
Netpark Phase 3	Regeneration and Economic Development (RED)	Economic Development and Housing	Grant	2	Altogether Better Council
RIPA Officers Group	Resources	Legal and Democratic Services	Advice & Consultancy	2	Altogether Better Council
Newco Trading Arrangements - Follow Up	Resources	Legal and Democratic Services	Assurance	5	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
Off Contract Spend	Resources	Corporate Finance and HR	Assurance	15	Altogether Better Council
Procurement - Schools Commercial Focus	Resources	Corporate Finance and HR	Advice & Consultancy	5	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
Employee Car Leasing Scheme	Resources	Corporate Finance and HR	Advice & Consultancy	5	Altogether Better Council
SLAs with schools working group	Resources	Corporate Finance and HR	Advice & Consultancy	1	Altogether Better Council
Flexible Working - Variations to Contracts	Resources	Financial and HR Services	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
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

2016 / 2017 INTERNAL AUDIT PLAN

Audit Title	Service Grouping	Service	Audit Type	No. Days	Link to Council Plan
HB, CTR, DHP and Welfare Assistance	Resources	Financial and HR Services	Key System	40	Altogether Better Council
HB Sundb. 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 106 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
Resource Link Migration Group	Resources	Financial and HR Services	Advice & Consultancy	15	Altogether Better Council
Section 106 agreements	Resources	Financial and HR Services	Grant certification	5	Altogether Better Council
Better Care Fund (Section 75)	Resources	Financial and HR Services	Grant certification	5	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
Windows	Resources	Information and Communication Technology	Assurance	10	Altogether Better Council
Asset Register	Resources	Information and Communication Technology	Assurance	10	Altogether Better Council



INTERNAL AUDIT CHARTER

**May
2016**

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1. Introduction

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

2. Statutory Basis

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

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

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

3. Definition

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

4. Code of Ethics

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

5. Strategic Aims

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

6. Objectives of Internal Audit

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

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

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

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

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

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

6.5 Other objectives include:

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

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

7. Outcomes of Internal Audit

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

8. Independence, Objectivity and Authority

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

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

9. Scope of Audit Work

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

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

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

10. Strategic Audit Planning

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

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

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

10.4 In consultation with service managers internal audit will

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

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

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

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

11. Annual Audit Plans

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

12. Audit Approach

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

Strategic Risk

12.2 Reviews of strategic risks will provide assurance that:

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

Operational Risk

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

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

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

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

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

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

13. Audit Reporting

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

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

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

Reporting a draft annual risk based audit plan for approval

Presenting Quarterly Internal Audit Progress reports:

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

Presenting an Annual Audit Report to:

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

14. Responsibilities of Managers

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

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

15. Relationship with the Audit Committee

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

16. Audit Resources, Skills and Service Quality

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

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

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

17. Approval and Review

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

18. Key Contact

Head of Internal Audit

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Resources Directorate
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Durham
DH1 5UE

19. Other Related Documents

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

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

ASSESSMENT OF AUDIT FINDINGS, RECOMMENDATIONS AND AUDIT OPINIONS

APPENDIX A

Findings

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

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

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

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

Priority of our recommendations

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

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

Overall Assurance Opinion

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

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

PERFORMANCE INDICATORS

APPENDIX B

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Efficiency		
Objective: To provide maximum assurance to inform the annual audit opinion		
KPI	Measure of Assessment	Target & (Frequency of Measurement)
Productive audit time achieved	% of planned productive time from original approved plan completed as at 31 st March.	90% (Monthly)
Timeliness of Draft Reports	% of draft reports issued within 20 working days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Monthly)
Timeliness of Final Reports	% of final reports issued within 10 working days of receipt of management response Average time taken is also reported for information	95% (Monthly)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)
Quality		
Objective: To ensure that the service is effective and adding value		
KPI	Measure of Assessment	Target & (Frequency of Measurement)
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Monthly) 100%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (3 out of 5) where 1 is poor and 5 is very good	100% (Quarterly) 100% Overall average score 4.50
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly) 60%

Public Sector Internal Audit Standards

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

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

DEFINITIONS UNDER PSIAS

APPENDIX C

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

DEFINITIONS UNDER PSIAS

APPENDIX C

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

DEFINITIONS UNDER PSIAS**APPENDIX C**

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

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

Audit Committee

17 May 2016

Internal Audit Progress Report Period Ended 31 March 2016



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 March 2016 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 March 2016 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 / Complete
Assistant Chief Executive (ACE)	0	1	2	2	8
Children and Adult Services (CAS) excluding Schools	1	1	7	2	42
Children and Adult Services (CAS) - Schools	0	7	8	0	46
Neighbourhood Services (NS)	0	4	6	3	37
Regeneration and Economic Development (RED)	0	3	1	5	14
Resources (RES)	0	7	14	6	51
TOTAL	1	23	38	18	198

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 was 4,888. As at 31 March, the service delivered 4,762 productive days, representing 97% of the total plan. The year-end target was for 90% to be delivered, therefore performance has exceeded the target.

Audit Activity in the Quarter

Amendments to the Approved 2015/2016 Internal Audit Plan

10. The following 13 reviews were removed from the approved Internal Audit Plan in the 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)	Data Protection – Information Asset Registers	Assurance	Cancelled due to a separate exercise being carried out within CAS on information asset registers.
Assistant Chief Executive (ACE)	Business Continuity Planning	Assurance	This review is to be deferred to 2016/17.
Children and Adult Services (CAS)	Foster Carer Payments	Assurance	Deferred to 2016/17 with agreement of key contact.
Children and Adult Services (CAS)	Children's Homes - Cash handling - High Etherley / Framwellgate Moor	Assurance	Deferred to 2016/17 as priority given to Pathways Closure reviews. Children's Homes rescheduled to begin April 2016.
Regeneration and Economic Development (RED)	Project Management arrangements	Advice & Consultancy	This review is to be deferred to 2016/17, to allow for work within the service to be completed beforehand.
Regeneration and Economic Development (RED)	Warm Up North	Advice & Consultancy	At the request of the service, this review is to be cancelled.
Resources (RES)	General Ledger	Key system	Defer to 2016/17
Resources (RES)	MTFP	Key system	Defer to 2016/17
Resources (RES)	Capital Accounting	Key system	Defer to 2016/17
Resources (RES)	Housing Benefits Sundry Debtor Overpayments	Key system	Defer to 2016/17
Resources (RES)	Windows Security	Assurance	Defer to 2016/17
Resources (RES)	Variations to Contracts	Assurance	Defer to 2016/17
Resources (RES)	Unix review	Advice & Consultancy	Cancelled as work no longer required.

11. Nine unplanned reviews were added to the Internal Audit Plan in the quarter. Of these, five are potential fraud or irregularity investigations.
12. The four other reviews, which were 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)	Council arrangements in handling Employment Tribunal Case.	Advice & Consultancy	CMT request following a judgement that a significant financial payment be made to a former employee.
Children and Adult Services (CAS)	Certification of School Direct (Salaried) and Collaborative Fund expenditure	Grant Certification	Certification of DFE grant payments to schools.
Resources (RES)	Teaching Assistants	Advice & Consultancy	This review was added at the request of the service.
Resources (RES)	Employee Car Leasing Scheme	Advice & Consultancy	Involvement in working group for the proposed employee car leasing scheme

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 March 2016.

Service Grouping	Surveys issued	Surveys returned	% returned	Av. score
Assistant Chief Executive (ACE)	4	2	50	4.4
Children and Adult Services (CAS) excluding Schools	13	10	77	4.5
Children and Adult Services (CAS) - Schools	44	32	73	4.6
Neighbourhood Services (NS)	21	18	86	4.5
Regeneration and Economic Development (RED)	12	11	92	4.4
Resources (RES)	40	30	75	4.1
TOTAL	134	103	77	4.4

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 March 2016, 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)	17	14	3	3	0
Children and Adult Services (CAS)	169	153	16	16**	0
Neighbourhood Services (NS)	261	242*	19	19	0
Regeneration and Economic Development (RED)	107	100	7	7	0
Resources (RES)	348	333	15	15	0
TOTAL	902	842	60	60	0

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

**Note: This figure includes 16 actions from one report where revised target dates are to be confirmed prior to follow up.

17. It is encouraging to note that, of the 902 actions due to be implemented, 838 (93%) 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 three audits finalised in this quarter that have been issued with a 'limited assurance' opinion. These are:

Service Grouping	Service Area	Audit
Children and Adult Services	Children's Services	Aycliffe Locality Office, Residential and Secure Services
Neighbourhood Services	Culture and Sport	Locomotion Museum
Resources	All Services	Trading Arrangements (Service Direct Newco Ltd.)

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 March 2016, 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 March 2016 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

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INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2016

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	In Progress	
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	Defer to 2016/17	
Children and Adult Services (CAS)	Children's Services	Children Safeguarding Governance Arrangements	Assurance	Planning and	
Children and Adult Services (CAS)	Children's Services	Leaving Care Service	Assurance	Draft Report	
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 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	Complete for 2015/16	N/A
Children and Adult Services (CAS)	Commissioning	Social Care Financial Assessments and Reassessments	Assurance	Final Report	Moderate
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	Substantial
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	Complete for 2015/16	N/A
Children and Adult Services (CAS)	Public Health	Pharmoutcomes Supervised Consumption	Advice & Consultancy	Complete for 2015/16	N/A
Children and Adult Services (CAS)	Public Health	Commissioning of Clinical Public Health Services	Assurance	Final Report	Moderate
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	Draft Report	
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	Final Report	Substantial
Neighbourhood Services (NS)	Technical Services	School Crossing Patrol Wages Systems Review (Incorporate into Payroll Testing)	Key System	Complete	N/A
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	Draft Report	
Regeneration and Economic Development (RED)	Transport and Contract Services	Transport - Safeguarding Arrangements	Assurance	Final Report	Moderate
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	Cancelled	
Resources	HR&OD	Payroll	Key System	Final Report	Moderate
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	Legal and Democratic Services	Land Charges Fees and Income	Assurance	Draft Report	
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	Final Report	Moderate
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

INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2016

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Financial Services	Debtors: Follow Up to 2013-14 Review	Key System	Final Report	Moderate
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	TOR	
Resources	ICT	ICT Business Continuity Plan	Assurance	Final Report	Moderate
Resources	ICT	Design and Print Service	Assurance	Draft Report	
2015 / 2016 Internal Audit Plan					
Assistant Chief Executive (ACE)	Policy and Communications	Business Continuity Planning	Key System	Defer to 2016/17	
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	In Progress	
Assistant Chief Executive (ACE)	Planning and Performance	Data protection- Information Asset Registers	Assurance	Cancelled	
Assistant Chief Executive (ACE)	Planning and Performance	Data Protection- Security Breach arrangements in CAS	Assurance	TOR	
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	Complete	N/A
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	Draft Report	
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	Final Report	Moderate
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	Complete for 2015/16	N/A
Children and Adult Services (CAS)	Adult Care	Adaptations Service Follow Up	Assurance	Final Report	N/A
Children and Adult Services (CAS)	Adult Care	Implementation of the Care Act	Advice & Consultancy	Complete for 2015/16	N/A
Children and Adult Services (CAS)	Adult Care	Extra Care	Assurance	Final Report	Moderate
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	Complete	N/A
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	Defer to 2016/17	
Children and Adult Services (CAS)	Children's Services / PSS	Aycliffe Site - Collection and banking of income; imprest accounts and procurement cards	Key System	Final Report	Limited
Children and Adult Services (CAS)	Commissioning	Transport - Input into group established to consider outcomes of People 2 review.	Advice & Consultancy	Complete for 2015/16	N/A
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	Complete for 2015/16	N/A
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	In Progress	
Children and Adult Services (CAS)	Commissioning	Post Contract Arrangements	Advice & Consultancy	Complete	N/A
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	In Progress	
Children and Adult Services (CAS)	Education Services	Governor Training	Advice & Consultancy	Complete	N/A
Children and Adult Services (CAS)	Education Services	SBM Training	Advice & Consultancy	Complete	N/A
Children and Adult Services (CAS)	Education Services	Headteacher Group	Advice & Consultancy	Complete	N/A
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	34S, 11M, 1L
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	In Progress	
Children and Adult Services (CAS)	PSS	Caldicott Compliance - POPPIE System	Assurance	Draft Report	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2016

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Children and Adult Services (CAS)	PSS	Caldicott Group	Advice & Consultancy	Complete	N/A
Children and Adult Services (CAS)	PSS	Caldicott Compliance - DCRS	Assurance	In Progress	
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	Complete	N/A
Children and Adult Services (CAS)	Public Health	Integrated Drug & Alcohol Service for Adults and Young People: Data Quality	Advice & Consultancy	Final Report	N/A
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	Complete for 2015/16	N/A
Children and Adult Services (CAS)	Adult Care	Overpayment of car mileage to two Reablement employees	Advice & Consultancy	Complete	N/A
Children and Adult Services (CAS)	CAS/Resources	Council arrangements in handling an Employment Tribunal Case	Advice & Consultancy	In Progress	
Children and Adult Services (CAS)	Public Health	Provision of 0-19 Services	Advice & Consultancy	Complete for 2015/16	N/A
Children and Adult Services (CAS)	Adult Care	Pathway establishment closures - Ebony Woodwork	Assurance	Final Report	Substantial
Children and Adult Services (CAS)	Education Services	Certification of School Direct (Salaried) and Collaborative Fund expenditure	Grant Certification	Complete	7
Neighbourhood Services (NS)	Culture & Sport	Stanley Bowls	Audit of Accounts	Final Report	N/A
Neighbourhood Services (NS)	Culture & Sport	County Durham Sport	Grant Certification	Complete	N/A
Neighbourhood Services (NS)	Culture & Sport	Integrated Leisure Management System	Advice & Consultancy	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	Defer to 2016/17	
Neighbourhood Services (NS)	Culture & Sport	SevenHills - Library Resource Service	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Culture & Sport	Locomotion Museum - Review of governance arrangements / Core Financial Systems	Assurance	Final Report	Limited
Neighbourhood Services (NS)	Culture & Sport	Gala Theatre – Cinema Operator Procurement and links to Box Office	Assurance	Complete	N/A
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	Final Report	Moderate
Neighbourhood Services (NS)	Direct Services	School Billing Process	Assurance	Defer to 2016/17	
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	Final Report	N/A
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	Planning and Preparation	
Neighbourhood Services (NS)	Direct Services	Bereavement Services - Durham Crematorium	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Direct Services	Bereavement Services - Mountsett Crematorium	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Direct Services	Fleet Management - Follow Up	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Direct Services	Use of Fuel Cards	Assurance	Defer to 2016/17	
Neighbourhood Services (NS)	Direct Services	Property Help Desk - Schools and Public Building Maintenance	Advice & Consultancy	Final Report	N/A
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	Planning and Preparation	
Neighbourhood Services (NS)	EHCP	Licensing Enforcement	Assurance	In Progress	
Neighbourhood Services (NS)	EHCP	Pest Control and Accumulations	Assurance	In Progress	
Neighbourhood Services (NS)	EHCP	Works in Default	Assurance	Draft Report	
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	Planning and Preparation	
Neighbourhood Services (NS)	Projects & Business Services	Customer Complaints - Compensation Payments	Advice & Consultancy	In Progress	
Neighbourhood Services (NS)	Projects & Business Services	Environmental Compliance	Advice & Consultancy	Draft Report	
Neighbourhood Services (NS)	Projects & Business Services	Fly Tipping	Assurance	Planning and Preparation	
Neighbourhood Services (NS)	Projects & Business Services	TEEP	Advice & Consultancy	Cancelled	
Neighbourhood Services (NS)	Projects & Business Services	Attendance Management - Revised absence recording mechanisms (Corporate Activity)	Assurance	Defer to 2016/17	
Neighbourhood Services (NS)	Technical Services	CDM Compliance	Assurance	In Progress	
Neighbourhood Services (NS)	Technical Services / Direct Services	Stores Management - On site processes for disposal of surplus materials	Assurance	In Progress	
Neighbourhood Services (NS)	Technical Service	Civil Engineering Framework Sub £50K	Assurance	Final Report	Limited
Neighbourhood Services (NS)	Direct Services	Leases - Vehicles and Plant	Assurance	Final Report	Substantial
Neighbourhood Services (NS)	Direct Services	Allotments Management Follow UP	Assurance	Final Report	N/A
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	Complete	N/A

INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2016

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Neighbourhood Services (NS)	Direct Services	Fleet Management - Development of Fleet Management System	Advice & Consultancy	Complete for 2015/16	
Neighbourhood Services (NS)	Technical Services	Pothole Fund	Grant Certification	Complete	N/A
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	Complete	N/A
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	Defer to 2016/17	
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	Planning and Preparation	
Regeneration and Economic Development (RED)	Transport and Contract Services	CCTV	Assurance	Planning and 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	Draft Report	
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	TOR	
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	In Progress	
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	Draft Report	
Resources	HR&OD	Flexible Working Policy	Assurance	Final Report	Moderate
Resources	HR&OD	Recruitment & Selection Policy	Assurance	In Progress	
Resources	HR&OD	Flexible Working - Variations to Contracts	Assurance	Defer to 2016/17	
Resources	HR&OD	Appraisals	Assurance	In Progress	
Resources	HR&OD	Attendance Management Framework	Assurance	Defer to 2016/17	
Resources	HR&OD	Violent Persons Register	Assurance	TOR	
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	Final Report	Substantial
Resources	Legal and Democratic Services	Officer Scheme of Delegation	Assurance	Final Report	Substantial
Resources	Legal and Democratic Services	Service Direct Newco Ltd	Assurance	Final Report	Substantial
Resources	Legal and Democratic Services	Trading Arrangements (Service Direct Newco Ltd)	Assurance	Final Report	Limited
Resources	Legal and Democratic Services	RIPA	Advice & Consultancy	Complete for 2015/16	N/A
Resources	Corporate Finance	General Ledger	Key System	Defer to 2016/17	
Resources	Corporate Finance	MTFP	Key System	Defer to 2016/17	
Resources	Corporate Finance	Capital Accounting	Key System	Defer to 2016/17	
Resources	Corporate Finance	Journal Transfers	Key System	Draft Report	
Resources	Corporate Finance	Bank Reconciliation	Key System	Final Report	Substantial
Resources	Corporate Finance	Direct Debit Payments	Assurance	Final Report	Substantial
Resources	Corporate Finance	Treasury Management	Key System	Final Report	Substantial
Resources	Corporate Finance	Teachers Pension Fund (2015/16 = Follow Up)	Assurance	Final Report	Substantial
Resources	Corporate Finance	Bank Contract	Advice & Consultancy	Complete	N/A
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	Draft Report	
Resources	Corporate Finance	Procurement - Contract Procedure Rules	Assurance	In Progress	
Resources	Corporate Finance	Oracle Project Group	Advice & Consultancy	Complete for 2015/16	N/A
Resources	Financial Services	Subsistence Claims	Counter Fraud	Final Report	N/A
Resources	Financial Services	Business Rates - Charities	Counter Fraud	Final Report	N/A
Resources	Financial Services	Payroll	Key System	In Progress	
Resources	Financial Services	Taxation - PAYE	Assurance	Final Report	Moderate
Resources	Financial Services	Budgetary Control (lighter touch)	Key System	In Progress	
Resources	Financial Services	Revs and Bens Reconciliations	Key System	Final Report	Substantial
Resources	Financial Services	Creditor Payments	Key System	In Progress	
Resources	Financial Services	Creditor Payments - Invoices with no PO	Key System	Draft Report	
Resources	Financial Services	Creditor Payments - Supplier Masterfile	Key System	In Progress	
Resources	Financial Services	Creditors Working Group	Advice & Consultancy	Complete for 2015/16	N/A

INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2016

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Financial Services	Business Rates	Key System	In Progress	
Resources	Financial Services	HB, CTR and Welfare Assistance Scheme	Key System	In Progress	
Resources	Financial Services	HB Sundry Debtor Overpayments	Key System	Defer to 2016/17	
Resources	Financial Services	Council Tax	Key System	In Progress	
Resources	Financial Services	Cash Collection	Key System	In Progress	
Resources	Financial Services	Debtors	Key System	In Progress	
Resources	Financial Services	Debtors Working Group	Advice & Consultancy	Complete for 2015/16	N/A
Resources	Financial Services	Financial arrangements re Health Visitors / Family Practitioners Transfer	Advice & Consultancy	Cancelled	
Resources	Financial Services	Better Care Fund: Sn 256	Advice & Consultancy	TOR	
Resources	Internal Audit, Risk and Fraud	Confidential Reporting Code	Assurance	Cancelled	
Resources	Internal Audit, Risk and Fraud	Insurance	Counter Fraud	Complete for 2015/16	N/A
Resources	ICT	Data Management	Advice & Consultancy	Cancelled	
Resources	ICT	Information Security - Security Incident Management	Assurance	In Progress	
Resources	ICT	Information Security - PSN readiness	Assurance	TOR	
Resources	ICT	Information Security - Systems Development & Maintenance	Assurance	TOR	
Resources	ICT	Unix	Advice & Consultancy	Cancelled	
Resources	ICT	Windows	Assurance	Defer to 2016/17	
Resources	ICT	Active Directory	Advice & Consultancy	In Progress	
Resources	ICT	Internet	Assurance	Final Report	Moderate
Resources	ICT	Income/expenditure arrangements	Assurance	Planning and Preparation	
Resources	Financial Services	Agency	Advice & Consultancy	Final Report	N/A
Resources	Corporate Finance	Workstream on Petty Cash and Payment Cards	Advice & Consultancy	Complete for 2015/16	N/A
Resources	Corporate Finance	Transactional Purchasing Improvement Group	Advice & Consultancy	Complete for 2015/16	N/A
Resources	Corporate Finance	ResourceLink Migration Group	Advice & Consultancy	Complete for 2015/16	N/A
Resources	Financial Services	Teaching Assistants	Advice & Consultancy	Complete	N/A
Resources	HR&OD	Effectiveness of Employment Tribunal Arrangements	Advice & Consultancy	TOR	
Resources	Corporate Finance	Employee Car Leasing Scheme	Advice & Consultancy	Complete for 2015/16	N/A

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FINAL REPORTS ISSUED IN PERIOD ENDING 31 MARCH 2016

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
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ASSISTANT CHIEF EXECUTIVE (ACE)		
Community Grants (Governance and Payments)	Assurance review of the arrangements in place to mitigate against the risk of grants not achieving targets, objectives or expected outcomes.	Moderate

CHILDREN AND ADULT SERVICES (CAS)		
Ebony Woodwork Unit – Closure Audit	An assurance review that considered the following risks: <ul style="list-style-type: none"> Income is not accounted for/is misappropriated Unauthorised payments are made Loss of assets 	Substantial
Assessment and Collection of Fees and Charges	An assurance review that considered the following risks: <ul style="list-style-type: none"> Financial assessment / reassessment processes are inadequate Processes in place for paying providers are inadequate Processes in place for invoicing service users are inadequate 	Moderate
Aycliffe Locality Office, Residential and Secure Services	An assurance review that considered the following risks: <ul style="list-style-type: none"> Income is not accounted for/is misappropriated. Expected income is not received. Unauthorised payments are made. Young People allowances are not made in accordance with the established procedure. The Secure Services shop is not operated in accordance with the established procedure. 	Limited
Adaptations Service Follow Up	A review that considered action taken by the Service in implementing recommendations made following the issue of a Limited Assurance opinion. On this occasion as the Service had not had sufficient opportunity to fully implement key recommendations an interim report has been prepared and further work is to be scheduled for 2016/17.	N/A
Drug and Alcohol - Data Quality	An advice and consultancy review that considered the effectiveness of arrangements in place at Lifeline for data input into POPPIE which feeds into the National Drug Treatment Monitoring System (NDTMS) following its award of the contract for the Integrated Specialist Substance Misuse Service within County Durham.	N/A
Stronger Families Programme	Advice / Support provided during claim submission window.	N/A

NEIGHBOURHOOD SERVICES (NS)		
Killhope Lead Mining Centre	<p>An assurance review that considered the management of the following risks:</p> <ul style="list-style-type: none"> • Income is recorded or processed inaccurately • Admission charged at the incorrect rate • Cash is held or transported insecurely • Income is not received for group bookings/courses • The café franchise does not achieve VFM • Expenditure on goods and services is inappropriate • Grant funds are not spent appropriately • Exhibits and equipment lost or stolen • Stocks are insecure 	Moderate
Library Resource Service	<p>An assurance review that considered the management of the following risks:</p> <ul style="list-style-type: none"> • Acquisition of learning resources is not in line with service and service user requirements. • Stock is not properly or effectively controlled and distributed. • Insufficient control over the disposal of obsolete or unused stock. 	Substantial
Locomotion	<p>An assurance review that considered the management of the following risks:</p> <ul style="list-style-type: none"> • Income is recorded or processed inaccurately. • Cash is held or transported insecurely. • Unauthorised access to cash receipting system and till. • Stock is inadequately managed. • Visitor numbers provided are not accurate through error, IT failure, or manipulation. 	Limited
Contract Audit – Direct Services	<p>An assurance review that considered the management of the following risks:</p> <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
Allotment Management	<p>An assurance review that considered action taken by the Service in implementing recommendations made following the issue of a Limited Assurance opinion. On this occasion as the Service had not had sufficient opportunity to fully implement key recommendations an interim report has been prepared and further work is to be scheduled for 2016/17.</p>	N/A
Flooding Mitigation	<p>An assurance review following a Service Self-Assessment which considered the management of the risk that the Authority is unprepared for a major flooding incident. The review was supported by reports and information provided to the Environment and Sustainable Communities Overview and Scrutiny Committee.</p>	Substantial

Fleet Management Follow Up	An assurance review that considered action taken by the Service in implementing recommendations made following the issue of a Limited Assurance opinion.	Substantial
Mountsett Crematorium	An annual assurance review of key systems in accordance with agreed SLA.	Substantial
Durham Crematorium	An annual assurance review of key systems in accordance with agreed SLA.	Substantial
Property and Building Helpdesk	An advice and consultancy review that considered the effectiveness of the arrangements currently in operation within the Property and Building Helpdesk with the aim of supporting the function to improve the quality of service being provided to its customers.	N/A
QMS	An advice and consultancy review of Quality Management System and Procedures prior to external inspections.	N/A
Stanley Indoor Bowls Centre	A review to verify compliance with the terms and conditions of the annual grant provided from Durham County Council to SIBC for the period 1st June 2014 to 31st May 2015.	N/A

REGENERATION AND ECONOMIC DEVELOPMENT (RED)		
Transport – Safeguarding arrangements	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Complaints are not investigated in line with the Child and Vulnerable Adults Protection Referral Procedure • Unsuitable people work with children and vulnerable adults • Contractors/drivers are unaware of what is deemed to be poor/unsafe practice 	Moderate

RESOURCES		
Treasury Management – Short Term Investments	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Non-compliance with internal policies, professional guidance, statute and regulations • Inappropriate investments are made or investments made are not repaid • Investment opportunities are not taken • Poor decisions are made due to a lack of appropriate technical skills • Targets, e.g. for budgeted investment income, are not achieved. 	Substantial

Bank Reconciliation	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Material errors or fraudulent activities within bank accounts and/or the general ledger are not identified and corrected in a timely manner • Theft or misuse of Council funds and/or bank accounts • Transaction errors made by the bank go unnoticed • Inaccurate or misleading financial information • Performance is not properly managed or monitored • Reconciliations are not complete 	Substantial
Pension Fund – Bank Reconciliation	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Material errors or fraudulent activities within bank accounts and/or the general ledger are not identified and corrected in a timely manner • Theft or misuse of pension funds and/or bank accounts • Transaction errors made by the bank go unnoticed • Inaccurate or misleading financial information • Performance is not properly managed or monitored • Reconciliations are not complete 	Substantial
Direct Debit Payments	<p>Assurance review of the arrangements in place to mitigate against the risk of unauthorised or fraudulent payments being made.</p>	Substantial
Member Declarations of Interest	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Legal challenge for the Council resulting from non-compliance with the Local Government Act 2000 and the Localism Act 2011 • Fraudulent or corrupt decisions are made. 	Substantial
Service Direct Newco Ltd.	<p>Assurance review of the arrangements in place to mitigate against the risks of inappropriate management of the financial arrangements within Service Direct Newco Ltd.</p>	Substantial
Flexible Working Policy	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Inconsistent or illegal application/ interpretation of the flexible working policy • Corporate flexible working policy is abused by employees 	Moderate

Payroll	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Employees are unaware of the procedures to follow • Legislation is not known • Payments are not in accordance with the authorised establishment • New starters are not paid on a timely basis • Deductions are made which are not authorised / are incorrect • The organisation does not comply with HMRC, Department for Work and Pensions and superannuation scheme requirements • Deductions are not paid over to the relevant organisation in full and in a timely manner • Payments are made that have not been correctly calculated and validated following input and / or are not supported by appropriate documentation • Ex-employees continue to receive payment • Salary payments are not made • Incorrect / invalid financial data recorded in the General Ledger • Information and data are not protected from loss, damage or unauthorised disclosure 	Moderate
Payroll - PAYE	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Incorrect or late payment of Income Tax and National Insurance Contributions (NIC) to HMRC • Inadequate information produced regarding tax/NI deductions • The payroll system is not compliant with HMRC Real Time Information requirements 	Moderate
ICT Business Continuity Planning	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • The critical activities, resources and recovery priorities have not been identified so that the authority is unable to provide critical services in the event of a major disruption to the Authority. • The Authority is unable to recover business processes and procedures within required time. • Employees are unable to respond effectively to an incident or disruption. • The Authority is unable to achieve its key business objectives. • The ICT Business Continuity Plan is ineffective. • The Authority fails to review and update systems, policies, strategies and plans 	Moderate

Pension Fund – Debt Recovery	The objective of this assurance review was to ensure that the action plan created in November 2014, following a previous audit of this area, had been implemented	Moderate
Internet Security	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> • Information assets / data are not adequately protected from corruption, loss, or theft • Equipment / software become obsolete and are no longer supported • Remote access is not secure • Sensitive data is accessed by unauthorised persons • Access to the network from non DCC equipment, e.g. via Bring Your Own Device (BYOD), has not been set up securely 	Moderate
Welfare Rights Reporting System	Assurance review of the arrangements in place to mitigate against the risk of inaccurate or non-provision of performance reports and management information.	Moderate
Trading Arrangements (Service Direct Newco Ltd.)	Assurance review of the arrangements in place to mitigate against the risk of income and expenditure not being identified or allocated incorrectly leading to a breach of trading powers.	Limited
Subsistence Review	Counter Fraud review to identify potential fraudulent or invalid subsistence claims.	N/A
Teaching Assistants	Advice and consultancy review to verify the data to be issued by letter to Teaching Assistants.	N/A
Section 256	Certification of the section 256 grant claim.	N/A
Digital Durham	Certification of the Digital Durham grant claim.	N/A

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	8	8	7	0	7	1	1	0	7	0
Total	8	8	7	0	7	1	1	0	7	0
Overall Total	17	17	14	0	14	3	3	0	14	0
CHILDREN AND ADULT SERVICES (CAS)										
2014 / 2015										
High	2	2	2	0	2	0	0	0	2	0
Medium	40	39	39	0	39	0	0	0	39	0
Total	42	41	41	0	41	0	0	0	41	0
2015 / 2016										
High	3	1	1	0	1	0	0	0	1	0
Medium	142	127	111	0	111	16	16	0	111	0
Total	145	128	112	0	112	16	16	0	112	0
Overall Total	187	169	153	0	153	16	16	0	153	0
NEIGHBOURHOOD SERVICES (NS)										
2012 / 2013										
High	10	10	9	0	9	1	1	0	9	0
Medium	74	74	74	0	74	0	0	0	74	0
Total	84	84	83	0	83	1	1	0	83	0
2013 / 2014										
High	8	8	8	0	8	0	0	0	8	0
Medium	40	40	39	0	39	1	1	0	39	0
Total	48	48	47	0	47	1	1	0	47	0
2014 / 2015										
High	3	3	3	0	3	0	0	0	3	0
Medium	59	59	57	0	57	2	2	0	57	0
Total	62	62	60	0	60	2	2	0	60	0
2015 / 2016										
High	7	7	5	0	5	2	2	0	5	0
Medium	80	60	47	0	47	13	13	0	47	0
Total	87	67	52	0	52	15	15	0	52	0
Overall Total	281	261	242	0	242	19	19	0	242	0
REGENERATION AND ECONOMIC DEVELOPMENT (RED)										
2013/2014										
High	6	6	6	0	6	0	0	0	6	0
Medium	43	43	40	0	40	3	3	0	40	0
Total	49	49	46	0	46	3	3	0	46	0
2014 / 2015										
High	1	1	0	0	0	1	1	0	0	0
Medium	25	25	25	0	25	0	0	0	25	0
Total	26	26	25	0	25	1	1	0	25	0
2015/2016										
High	0	0	0	0	0	0	0	0	0	0
Medium	43	32	29	0	29	3	3	0	29	0
Total	43	32	29	0	29	3	3	0	29	0
Overall Total	118	107	100	0	100	7	7	0	100	0
RESOURCES										
2013 / 2014										
High	19	19	19	0	19	0	0	0	19	0
Medium	108	108	106	0	106	2	2	0	106	0
Total	127	127	125	0	125	2	2	0	125	0
2014 / 2015										
High	7	7	7	0	7	0	0	0	7	0
Medium	133	130	125	0	125	5	5	0	125	0
Total	140	137	132	0	132	5	5	0	132	0
2015 / 2016										
High	3	2	2	0	2	0	0	0	2	0
Medium	125	82	74	0	74	8	8	0	74	0
Total	128	84	76	0	76	8	8	0	76	0
Overall Total	395	348	333	0	333	15	15	0	333	0
TOTAL COUNCIL										
2012 / 2013										
High	10	10	9	0	9	1	1	0	9	0
Medium	74	74	74	0	74	0	0	0	74	0
Total	84	84	83	0	83	1	1	0	83	0
2013 / 2014										
High	33	33	33	0	33	0	0	0	33	0
Medium	191	191	185	0	185	6	6	0	185	0
Total	224	224	218	0	218	6	6	0	218	0
2014 / 2015										
High	14	14	13	0	13	1	1	0	13	0
Medium	265	261	252	0	252	9	9	0	252	0
Total	279	275	265	0	265	10	10	0	265	0
2015 / 2016										
High	13	10	8	0	8	2	2	0	8	0
Medium	398	309	268	0	268	41	41	0	268	0
Total	411	319	276	0	276	43	43	0	276	0
OVERALL TOTAL	998	902	842	0	842	60	60	0	842	0

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Performance Indicators as at 31 March 2016

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	97%
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview	90% (Quarterly)	97% (156 out of 160)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response	95% (Quarterly)	99% (149 out of 150)
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 4.4
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	77%
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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