



Audit Committee

Date Thursday 30 June 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 17 May 2016 (Pages 1 - 6)
3. Declarations of interest, if any
4. Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2016 - Report of the Interim Corporate Director, Resources (Pages 7 - 28)
5. Annual Audit Opinion and Internal Audit Report 2015 / 2016 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 29 - 56)
6. Draft Annual Governance Statement 2015 / 2016 - Report of the Interim Corporate Director, Resources (Pages 57 - 80)
7. External Audit - Progress Report - Report of External Auditor (Pages 81 - 88)
8. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
9. 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)

10. Protecting the Public Purse - Annual Report 2015/16 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 89 - 104)

11. 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
22 June 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,
W Stelling and O Temple

Co-opted Members:

Mr D Beavis and Mr C Robinson

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DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Tuesday 17 May 2016 at 10.00 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:

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

Co-opted Members:

Mr D Beavis and Mr C Robinson

The Chairman welcomed the newly appointed co-opted members to their first meeting – Mr David Beavis and Mr Clive Robinson.

The Chairman reported that this was the last meeting that the Corporate Director of Resources would be attending before his retirement. He thanked Mr McLure for his great assistance, forth right approach and the way in which he conducted himself in the meetings of this Committee. He presented Mr McLure with some civic gifts.

Mr McLure was humbled by the Chairman's words and said that it had been a pleasure working for a great council for the last six years and to the end of his career. He said that the Committee was held in the highest regards and gave his best wishes for the future.

1 Apologies for absence

Apologies for absence were received from Councillors L Armstrong, C Carr, J Robinson and W Stelling

2 Minutes

The minutes of the meeting held on 29 February 2016 were agreed and signed by the Chairman as a correct record.

Councillor O Temple referred to Item 8 of the Minutes and asked if any progress had been made in relation to an e-learning course for Members on Whistleblowing. The Chief Internal Auditor and Corporate Fraud Manager advised that his team had been in discussions with CIPFA and Meritech and were now working on their own package that would be developed and rolled out.

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

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

Mr J Collins, Mazars, highlighted the key points in the report including significant risks, value for money and fees.

Resolved:-

That the report be noted.

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

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

Ms S Liddle, Mazars introduced herself to the Committee as the Engagement Manager for Pension Fund Accounts and the team leader for the County Council Accounts. She highlighted the significant risks, including the valuation for unquoted investments. This was not information that appeared regularly on the stock exchange and the estimation techniques included risks.

Councillor Temple was advised that the description of risk on the unquoted investments at 32% was a normal figure and was no higher than other authorities.

Mr D Beavis asked if there were any recommendation to mitigate risks as referred to in the management override risk. He was advised that the Council do already have controls in place and Internal Audit would provide checks and assurances. Mr Collins added that risks could occur at the year end with potential to change statements and manipulate accounts. The Chief Internal Auditor and Corporate Fraud Manager assured Members that there were plans for the Pension Fund and County Council with anything significant being reported to this Committee.

Resolved:-

That the report be noted.

6 External Audit - Progress Update May 2016

The Committee considered a report of the External Auditor, Mazars that set out progress to May 2016 (for copy see file of Minutes).

Mr Collins, Mazars informed the Committee that the work on the final accounts would commence shortly. He asked Members to note the changes on the public inspection of the accounts. It was now the role of the Responsible Financial Officer to publish a statement to inform about the period for the exercise of public rights, and to inform the External Auditor the date that this period commences. The 30 day inspection period must include the first ten working days of July.

Members were updated in relation to national publications, including 'Guidance for Directors of Companies partly or fully owned by the public sector'.

The Corporate Director, Resources referred to the guidance for directors and following the Committees interest in this area he advised that the Council would be embarking on a training programme for employees and Members involved with companies.

Resolved:

That the progress report be noted.

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

The Committee considered a report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and that gave an insight into the work carried out by the Corporate Risk Management Group during January to March 2016 (for copy see file of Minutes).

The Strategic Insurance & Risk Officer informed the Committee that there were 23 strategic risks with the removal of one since the last report. The increased and emerging risks were highlighted.

The Chairman welcomed to the meeting the Strategic Manager for Policy, Planning and Partnerships, the Strategic Manager for Safeguarding and Access and the Local Safeguarding Children Board Business Manager, who would be available to answer any queries in relation to the increased risks within Children and Adult Services.

Mr C Robinson asked what the rationale was behind the decision to decrease the risk of 'failure to protect a child from death or serious harm' to major. The Strategic Manager for Policy, Planning and Partnerships advised that assessments are carried out using the criteria and this moved some of the risk from critical to major. The risk to the stakeholder would remain critical. The Strategic Insurance & Risk Officer added that there are number of things to take into account such as the financial, service delivery and stakeholder impact. He advised that the financial and stakeholder delivery risks were less than critical using the criteria.

The Local Safeguarding Children Board Business Manager informed the Committee that there was a requirement to carry out serious case reviews. The 'Working Together' document provided information as to whether a serious case review must be held. Members were informed that there has been a national increase to the number of serious case reviews held and that any decisions are taken to a panel for approval.

The Strategic Manager for Safeguarding and Access referred to the risk of 'A service failure of Adult Safeguarding leads to death or serious harm to a service user' increasing from unlikely to possible. Members were advised that the profile had changed and that the risk of serious harm had not increased. There were NHS changes to learning disabilities and a national drive to look at mortality reviews. Processes were being reviewed and looked at in more detail taking on board consequences of lessons learnt.

Mr Robinson expressed concern of the significance of the changes and the Chairman suggested that it was important for the Committee to understand the differences in the criteria used. He said that the Committee needed assurances that everything was being done to mitigate risks and to have some understanding of any subtle changes being made.

The Strategic Manager for Safeguarding and Access assured the Committee that the risk in terms of the individual concerned would remain as critical however when looking at service delivery this would not be critical.

Referring to the emerging risk of 'potential industrial action in response to proposed changes to teaching assistants terms and conditions', Councillor Temple said that it had been a difficult day at the full Council meeting the previous day. He expressed concern that this risk had only appeared on this Committees' papers today. He had concerns that this had not been flagged up previously and questioned if the mechanisms of delivering the risk to this Committee were not as good as they should be. He went on to refer to the disposal of the Single Status Pay in 2013 and in particular the four groups of employees that were set aside – such as the Salisbury grade, Youth Workers and Craft Workers and those above spinal column 39. He asked that the Committee seek analysis of where we stand with those groups.

Councillor M Davinson said that the Public Health workers should also be added to that list.

The Chairman agreed that risks surrounding this may be substantial in future.

Councillor Temple added that the risk to the Council would be overwhelming and he re-iterated his point that the risk had not been delivered to this Committee and questioned if there was a failure in the system.

The Corporate Director of Resources said that these points would be taken on board and discussed further in terms of the dormant risks in relation to the other five groups of employees mentioned. He added there would be an emerging risk of equal pay claims. In terms of the full Council meeting on 16 May 2016 he advised

that an agreement had been reached to move to a formal stage of consultation whereby existing contracts would be terminated and new contracts offered, effective from 2017. The potential risk of industrial action had increased and discussions were taking place with head teachers to mitigate to the risk of education available to children.

The Chairman asked that these concerns were addressed and reported back to the Committee.

Resolved:

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

8 Internal Audit, Plan, Strategy and Charter 2016/2017

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which outlined the Annual Internal Audit Plan for 2016/2017, Internal Audit Strategy and the Audit Charter (for copy see file of Minutes).

Mr Beavis was assured that there was flexibility to accommodate emerging plans. He was advised that any changes to the plan would be reported to this Committee.

Resolved:-

- (i) That the Internal Audit Strategy in Appendix 2, be approved;
- (ii) That the proposed Internal Audit Plan for 2016/2017, as detailed in Appendix 3, be approved;
- (iii) That the revised Audit Charter in Appendix 4, be approved.

9 Internal Audit Progress Report Quarter Ended 31 March 2016

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed members of the work carried out by Internal Audit during the period January to March 2016 (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 93% of actions had been implemented. 77% of the Service groupings had responded to the survey, with an average score of 4.4 out of 5. There had been 3 audits finalised in the quarter that had been given a limited assurance opinion.

Councillor Davinson noted once again that the survey response rate from CAS-Schools had improved. The Chairman congratulated the team for working hard to achieve this improvement.

Mr Beavis asked if the service could be compromised for asking for feedback. The Chief Internal Auditor and Corporate Fraud Manager explained that it was a requirement to request feedback on every assignment carried out. The service had found that the best way to do this was by means of a survey. It was found to be a learning curve for all involved in the process.

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 31 March 2016 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.

10 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.

11 Internal Audit Progress Report Quarter Ended 31 March 2016

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).

Full limited assurance reports were circulated for information and would be discussed at the next meeting.

Resolved:

That the report be noted.

AUDIT COMMITTEE

30 June 2016



Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2016

Paul Darby, Interim Corporate Director Resources

Purpose of the Report

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

Background

2. The general principles adopted in compiling the Statement of Accounts are in accordance with the 'Code of Practice on Local Authority Accounting 2015/16' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code defines proper accounting practices for local authorities in England, Wales, Scotland and Northern Ireland.
3. The Code requires that a local authority's Statement of Accounts is prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the authority will continue in operational existence for the foreseeable future. This means that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to curtail significantly the scale of the operation.
4. An inability to apply the going concern concept can have a fundamental impact on the financial statements.
5. In reality, it would be highly unusual for a local authority to have a going concern problem. There may be cases where part of an authority's operations cease to be viable or affordable. However, this will not give rise to a going concern issue for the authority given that the impact would be restricted to only that part of the operation.
6. Transfers of services under combinations of public sector bodies similarly do not negate the presumption of going concern.

Key Issues

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

Historical Position

10. The assets and liabilities of the seven former District Councils were transferred to the new Unitary County Council on 1 April 2009. The following table shows the Net Assets of the Council at each year end up to 31 March 2015:

Year ended 31 March	Net Assets £m
2009	1,240.742
2010	900.094
2011	856.994
2012	571.779
2013	457.004
2014	682.773
2015	466.547

11. The External Auditor also provides a 'Value For Money' conclusion at each year end which gives their opinion on whether the Council has put arrangements in place for securing economy, efficiency and effectiveness in its use of resources. The Council's arrangements are considered against two criteria:
 - *The Council has proper arrangements in place for securing financial resilience* – The Council has robust systems and processes to manage financial risks and opportunities

effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future;

- *The Council has proper arrangements in place for challenging how it secures economy, efficiency and effectiveness* – The Council is prioritising resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

12. As part of the work the External Auditors also:

- Reviewed the Annual Governance Statement;
- Reviewed the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on the Auditors responsibilities (where applicable) and;
- Carried out any risk-based they determined to be appropriate.

13. In their last Audit Completion Report for 2014/15 which was produced on 30 September 2015, External Audit stated, as evidence of securing financial resilience:

Financial Governance

“The Council appreciates the significant financial pressures it faces in coming years. Systems and processes to manage the financial risks are in place to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The medium term financial plan (MTFP) shows the Council needs to achieve savings of £87.6 million between 2015/16 and 2017/18 which would bring the total level of savings since 2011/12 to £224.5 million. The achievement of efficiency savings continues to be a priority. There is recognition that to achieve this, senior management and Members need to review all areas of potential efficiency.

Through prudent financial management, at 31 March 2015, the Council has increased:

- earmarked reserves to £214.6 million; and
- the general fund balance to £28.9 million.

This will help the Council to manage the impact of expected future reductions in funding and reserves and the Council has planned to utilise reserves in a structured way to support MTFP (5). This includes the planned delivery programme reserve which is intended to reduce the burden of savings in 2015/16 and 2016/17. Other reserves, such as the Adult Demographic Reserve are intended to delay the impact of

cost pressures. The Council keeps earmarked reserves under review on a regular basis. As part of its budget setting the Council reviews reserves to ensure that balances earmarked for specific schemes are still relevant, where they are not, the reserve is released.

Within the Council, the statutory s151 officer (Corporate Director, Resources) is a key part of the management team, contributing to strategic decisions.”

Financial Planning

“There are robust arrangements in place for planning for the medium and longer-term. The Council has identified savings for 2016/17 and officers and members are discussing savings plans for 2017/18. Workshops are held throughout the year with members and officers.

The Council has been successful in achieving significant savings in recent years. There is recognition that efficiencies are becoming more difficult to achieve and requiring longer lead in times. The Council recognises this and is planning on a worse case scenario. Senior Officers monitor progress of identified savings.

The MTFP includes a risk assessment. This is linked to the Council Strategic Risk Management. Risk one in the Strategic Risk Register relates to the achievement of MTFP savings.

Equality Impact assessments are completed for savings with the aim to assess the likely impact of individual savings proposals. Performance is monitored and reported to Cabinet on a regular basis. The Council has a good history of consultation with staff and the public.”

Financial Control

“Underspend and the achievement of significant savings in recent years reflect the Council’s good record of financial management. Revenue and capital budgets are regularly reported to Senior Officers and Cabinet. This allows any budget pressures to be identified at an early stage and where required remedial actions to be taken. The MTFP and savings plans are closely monitored with a traffic light system used to identify any high risk areas. The council has a good record of identifying mitigating actions where planned savings are not going to be achieved at the required levels.

As noted above the Council has maintained adequate levels of reserves.

The authority maintain a Treasury Management Strategy and a mid year treasury review is reported to the Audit Committee. The Treasury Management Strategy notes the primary principle governing the Council’s investment criteria is the security of its investments.”

14. External Audit further stated on 30 September 2015, as evidence of securing economy, efficiency and effectiveness:

Prioritising Resources

“The MTFP demonstrates the leadership of the Council understand the future environment and are putting in place plans to address the identified risks. The first risk in the risk register relates to failure to achieve MTFP savings. This demonstrates the prominence of savings to the council.

Significant efficiencies have been delivered in recent years. The Council is prioritising its resources within tighter budgets, and seeking to achieve cost reductions by improving efficiency and productivity. However the Council acknowledges that efficiencies alone will not bridge the funding gaps identified. There is an acknowledgment by management and members that tough decisions will be required if the Council is to achieve its future financial targets.

Consultations are carried out with staff and the public.”

Improving Efficiency and Productivity

“The Council has some challenging financial targets to meet in the coming years. Arrangements are in place to evaluate options for making efficiencies and meet savings targets. The Council has access to good quality information and uses comparative information available. The council are members of benchmarking clubs and uses this information to identify potential areas for efficiencies.

Performance management is monitored on a regular basis allowing the council to identify any consequences of decisions made. Significant savings have already been made, and service performance has been maintained.”

Current Position

15. The Council held general reserves of £28.9 million at 31 March 2015 and reserves earmarked for specific future purposes, including those held for schools of £214.6 million.
16. The Net Assets of the Council at 31 March 2015 amounted to £466.5 million, a decrease of £216.2 million, which is mainly due to the increase in its Pensions Liability for employees, for which statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. There was also a net reduction in the net book value of Property, Plant and Equipment long term assets due to the positive ballot and the subsequent transfer of the Council Housing

stock to County Durham Housing Group (CDHG) on 13 April 2015. The Balance Sheet as at 31 March 2015 reflects the value of Council Dwellings based on the Tenanted Market Value.

17. Current forecasts of the likely position as at 31 March 2016 were reported to Cabinet in March 2016. At that time it was anticipated that the Council would hold general reserves of £30.422 million and reserves earmarked for specific future purposes, including those held for schools would be £225.415 million.

Future Plans

18. The Council approved its budget for 2016/17 and Medium Term Financial Plan to 2019/20 in February 2016.

Medium Term Financial Plan (MTFP) – 2016/17 to 2019/20

19. The financial outlook for the Council and the whole of local government remains extremely challenging. The Council has faced government funding reductions since 2010/11 with reductions forecast to continue until at least 2019/20.
20. The Chancellor of the Exchequer's Autumn Statement published on 25 November 2015, announced an overall improvement in the public finances compared to their previous forecasts which afforded some protection for unprotected government departments. Unfortunately this protection was not given to local government and in cash terms, the average reduction in budgets for unprotected government departments over the 2016/17 to 2019/20 period is circa 6%, whereas the reduction for local government over the same period is circa 53% in cash terms.
21. It is apparent therefore that the financial landscape for local authorities will continue to be extremely challenging until at least 2019/20, resulting in the longest period of austerity in modern times. By 31 March 2016 the Council will have delivered savings of £153 million since 2011. In the January 2016 MTFP Cabinet report it was forecast that the savings required between 2016/17 and 2019/20 would be circa £124 million. Having further analysed the final Local Government Finance Settlement of 8 February 2016, it is now forecast that the savings required for this period will be £104 million, mainly due to confirmation of receipt of increased Better Care Funding from 2017/18 to 2019/20 and the forecasted council tax income of £15 million from 2016/17 to 2019/20 from the Government's 2% adult social care precept.
22. The Council was originally forecasting that funding reductions would be applied in line with previous government policy, however following lobbying from some local authorities including Durham, the Association

of North East Councils (ANEC) and the Special Interest Group of Municipal Authorities (SIGOMA), the government has made some methodology changes which have beneficially impacted upon our previous savings forecast as shown below:-

- (i) Revenue Support Grant (RSG) reductions are now based upon a Core Spending Power calculation which includes Council Tax and Business Rate income as well as RSG. This has resulted in a fairer apportionment of reductions in RSG across all local authorities going forward, but does not address the inequality of cuts applied across the period 2011/12 to 2015/16.
 - (ii) Local authorities providing adult social care services have been given the flexibility to increase council tax by an additional 2% for an adult social care precept over and above the existing 2% referendum level. In reporting the percentage Core Spending Power reduction applied to local government, the government has assumed that all authorities responsible for adult social care will apply the additional 2% social care precept increase in each of the next four years.
 - (iii) The Better Care Fund (BCF) has been increased by £1.5bn nationally and will be allocated directly to local authorities rather than through a pooled budget arrangement with the National Health Service. The allocation will take into account each local authority's ability to raise income via the additional 2% council tax adult social care precept flexibility. The Council will receive £23 million in this regard, although the majority of this additional funding will not be received until 2018/19 and 2019/20 and the funding for this will come from top sliced funding, primarily the New Homes Bonus.
23. Overall, the Council's final settlement position was slightly better than the provisional settlement due to the receipt of £140k more than forecast from the New Homes Re-imbursment grant. The delivery of additional savings of £104 million across the next four years will be extremely challenging and will mean the Council needing to deliver cumulative savings of £258 million between 2011/12 and 2019/20.
24. The forecasted savings required to balance the 2016/17 budget are £36.8 million and includes forecast savings of £4.3 million in relation to Public Health. The 2016/17 savings plans approved by Council in February 2016 amounted to £28.3 million. A £4.2 million savings shortfall in 2016/17 will be covered by the utilisation of £1.6 million of the Budget Support Reserve (BSR) and the utilisation of the £2.6 million 2015/16 Collection Fund surplus. The utilisation of these sums have enabled the Council to delay the impact of further cuts in front line services until later years.

25. The Council's MTFP strategy for the last five years has been to protect front line services as far as possible and the 2016/17 proposals are in line with this strategy. This strategy is becoming increasingly difficult to maintain over time and the likelihood is that front line services will become increasingly impacted over the next four years. This report summarises how the main proposals are in line with the Council's overall strategy and have been shaped by residents' and stakeholders' views with a high level analysis of the equalities impact.
26. Detailed savings proposals were only included for 2016/17.
27. The final Local Government Finance Settlement published on 8 February 2016 provided details of RSG cuts up to 2019/20 and also provided the opportunity for local authorities to receive confirmation of this 'four year settlement' on the production of an 'Efficiency Plan'. Cabinet agreed on 13 January to provisionally notify the government how the Council would be minded to submit an efficiency plan in order to receive confirmation of a four year financial settlement subject to approval by Full Council.
28. Despite this very challenging financial period through the scale and sustained level of Government spending cuts and the impact on the Council's finances, this report includes some very positive outcomes for the people of County Durham including:
 - (i) Continued support to protect working age households in receipt of low incomes through the continuation of the existing Council Tax Reduction Scheme where they will be entitled to up to 100% relief against their council tax payments;
 - (ii) Ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people through the services we provide;
 - (iii) Continue to work with community groups to explore opportunities for the transfer of council assets so that they can be sustainable into the future through the 'Durham Ask' initiative;
 - (iv) Significant investment in capital expenditure in line with the Council's highest priority of regeneration in order to protect existing jobs and create as many new jobs as possible including investing in our town centres and industrial estates; extending fast speed broadband access across the whole county and infrastructure including new transport schemes and maintenance of our highways and pavements.
29. The Council's MTFP (6) is aligned to the Council plan, which sets out the Council's strategic service priorities over the next three years 2016/17 to 2018/19 with an indicative direction of travel for 2019/20.

30. The MTFP provides a comprehensive resource envelope to allow the Council to translate the Council Plan into a financial framework that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes.
31. Looking back to MTFP (1) the following drivers for the Council's financial strategy were agreed by Cabinet on 28 June 2010, which still underpin the strategy in MTFP (6):-
- (i) To set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in council tax;
 - (ii) To fund agreed priorities, ensuring that service and financial planning is fully aligned with the Council Plan;
 - (iii) To deliver a programme of planned service reviews designed to keep reductions to front line service to a minimum;
 - (iv) To strengthen the Council's financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery outcomes;
 - (v) To ensure the Council can continue to demonstrate value for money in the delivery of its priorities.
32. The strategy the Council has deployed to date has been to seek savings from management, support services, efficiencies and, where possible, increased income from fees and charges to minimise the impact of reductions on frontline services as far as possible.
33. Throughout the period covered by the MTFP (1) 2011/12 through to MTFP (6) 2019/20, the cumulative savings required has risen from £123 million to £258 million. It is therefore clear that it will become increasingly difficult to protect frontline services going forward.
34. To date the Council has implemented the agreed strategy very effectively:-
- £153.2 million of savings will have been delivered by 31 March 2016.
 - Savings have been delivered on time and in some areas ahead of time. This is critically important, because slippage would mean that the Council would have to deliver higher savings over time.
 - The number of employees earning over £40,000 a year, since 2011 has been reduced by 34%. This has significantly reduced management costs.

- Proportionally more than three times as many manager posts have been removed than frontline staff.
 - Whilst income from fees and charges has been increased, this has not resulted in the Council having the highest levels of fees and charges in the region, which is important given the socio-economic make-up of the county.
 - It was originally forecast in MTFP (1) that there would be a reduction in posts of 1,950 by the end of 2014/15 with the actual figure being broadly in line with this forecast. Looking ahead with the significant savings requirements over the next two years, the Council is expecting to see further reductions in the workforce. For 2016/17 the forecast is a further reduction of around 400 posts including the deletion of an anticipated 60 vacant posts.
 - Following the abolition of the national Council Tax Benefit system in 2013 and despite government funding reductions for the Local Council Tax Reduction Scheme, the Council has been able to maintain a scheme that protects all working age households in line with the support they would have previously received under the Council Tax Benefit system. This is a significant achievement and the Council is one of small number of Councils that have been able to maintain this support at a time when working age households are suffering from continued impacts of the government's welfare reforms.
 - The council has been able to protect those services prioritised by the public such as winter maintenance whilst also continuing to support a fully funded capital programme.
35. The benefits of delivering savings early if practical to do so, cannot be over emphasised. The generation of reserves in the form of cash limits has been essential in ensuring the smooth delivery of the savings targets and enabled a managed implementation of proposals across financial years.
36. In general, the Council has been quite accurate in forecasting the level of savings required, which has allowed the development of strong plans and to robustly manage the implementation and delivery on time, including extensive consultation and communication. This has put the Council in as strong a position as possible to meet the ongoing financial challenges across this medium term financial plan and beyond, where savings proposals are becoming more complex and difficult to deliver and will inevitably require increased utilisation of reserves to offset any delays and 'smooth in' reductions across financial years.

37. It is clear that austerity will continue over the four year period of this medium term financial plan. Where the savings targets were declining year on year from the huge reduction of £66 million in 2011/12, the Council is likely to face two more years where the savings targets will be higher than those for 2015/16. Obviously, the fact that each year's reduction is on top of those of previous years is leading to a forecasted, cumulative total of £258 million since 2011/12 up to 2019/20 and means that the Council continues to face a very considerable financial challenge to balance budgets whilst providing a good level of services.
38. In addition, Local Government generally is facing more uncertainty about future funding and absorbing more risks from Central Government.
39. Increased risk is arising from several sources:-
- (i) Under the Local Council Tax Reduction Scheme, previous national risk arising from any increased numbers of benefits claimants has been transferred to Local Authorities since 2013/14. The risk is greater for authorities like Durham that serve relatively more deprived areas and have relatively weaker economic performance than the national average.
 - (ii) Business Rates Retention was introduced in 2013/14 to incentivise local authorities to focus on economic regeneration by being able to retain 49% of business rates raised locally. Economic regeneration has always been the top priority for the Council. Unfortunately the practical consequences of these changes shifts risks once managed nationally to local authorities should there be a downturn in the local economy and local business rate yield reduces. In addition, the Council also now carries a share in the risk arising from successful rating appeals against the rateable value assigned to a business by the Valuation Office, part of HM Revenues and Customs which can go back many years and predate the introduction of Business Rates Retention.
 - (iii) The Chancellor of the Exchequer's 2015 Autumn Statement confirmed the government's aspiration that local authorities will be able to retain 100% of business rates collected locally by the end of this parliament. The transfer of 100% of business rates would result in local government as a whole receiving more income than would be required. On this basis, the government has confirmed that additional service responsibilities will be transferred to local government. Although the transfer of service responsibilities will be consulted upon, the government has indicated at this stage that they would favour transferring Public Health funding and Attendance Allowance payments (currently administered by the Department of Works and Pensions) into the Business Rate Retention Scheme. The transfer of

Attendance Allowance in particular is likely to result in local authorities facing a range of additional risks in terms of demand.

- (iv) The government's proposed Welfare Reform changes carry increased financial risk to the Council in areas such as the Benefits Service, homelessness and housing. Similarly, Council Tax may become more difficult to collect, creating increased financial pressure.
 - (v) Normal risks such as future actual price and pay inflation beyond MTFP forecasts and demographic pressures also will still apply and are not currently recognised in government funding allocations, increasing the real terms cuts required to set a balanced budget.
40. Since clarity has been received in relation to RSG settlements up to 2019/20, there can be some confidence in the savings targets over the next four years.
41. Work is continuing on refining the savings plans for 2017/18 and developing additional savings plans and strategies for the period 2018/19 and 2019/20. The certainty in terms of RSG settlements in those years will be helpful in terms of financial planning, although delivery of the scale of savings that we need to in these years will be extremely challenging and cuts in front line services will be inevitable.
42. After taking into account base budget pressures, additional investment and savings, the Council's Net Budget Requirement for 2016/17 is £401.515m. The financing of the Net Budget Requirement is detailed below.

Financing of the 2016/17 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	77.140
Business Rates	54.841
Business Rates – Top Up Grant	60.996
Business Rates – Collection Fund Surplus	2.617
Council Tax	185.798
New Homes Bonus	10.182
New Homes Bonus Reimbursement	0.267
Education Services Grant	5.407
Section 31 – Small Business Rate Relief	2.432
Section 31 – Empty Property and Retail Relief	0.160
Section 31 – Settlement Funding Adjustment	1.675
TOTAL	401.515

43. The government has confirmed that the Council Tax Referendum Limit for 2016/17 remains at 2%. In addition the government has also announced that local authorities which provide adult social care services also have the flexibility to increase council tax by a further 2% through an adult social care precept. A 3.99% council tax increase would generate additional income of £7.1 million in 2016/17 which will enable the Council to protect front line services whilst also covering significant base budget pressures such as the additional costs associated with the introduction of the national living wage.
44. The 2016/17 Council Tax Base which is the figure utilised to calculate Council Tax income forecasts, was approved by Cabinet on 18 November 2015 as 133,892.4 Band D equivalent properties. Based upon the Council's track record in collecting Council Tax from Council Tax payers, the tax base for Council Tax setting and income generation processes will continue to be based upon a 98.5% collection rate in the long run.

Capital Funding

45. The revised 2015/16 to 2018/19 capital budget was approved by Cabinet on 18 November 2015. County Council on 24 February 2016 approved the Capital Budget and financing for the period 2015/16 to 2018/19. Details of the current Capital Programme can be found at Appendix 8 of the County Council report.
46. Service Groupings developed capital bid submissions during the summer 2015 alongside the development of revenue MTFP (6) proposals. Prior to Cabinet's agreement on 17 February 2016 the Capital Member Officer Working Group (MOWG) chaired by the Leader of the Council, had considered the Capital bid submissions taking the following into account:-
 - (v) Service Grouping assessment of priority.
 - (vi) Affordability based upon the availability of capital financing. This process takes into account the impact of borrowing upon the revenue budget.
 - (vii) Whether schemes could be self-financing i.e. capital investment would generate either revenue savings or additional income to repay the borrowing costs to fund the schemes.
47. Whilst considering Capital bid proposals, MOWG have continued to recognise the benefits of committing to a longer term capital programme to aid effective planning and programming of investment. At the same time, MOWG also recognised the need for caution in committing the Council to high levels of prudential borrowing at this stage for future years.

48. Specific capital programmes were included in MTFP (5) financed from assumed allocations of capital grants. These allocations have now been confirmed and the only significant reduction was in respect of the Local Transport Plan (LTP) – Highways Maintenance grant. The 2016/17 allocation of £10.897 million is £0.989 million less than originally forecast and the budget was revised and approved by Cabinet in November 2015.
49. In addition, the Council has received confirmation for additional capital grants for 2016/17 and has included indicative grants for 2017/18 in developing the MTFP (6) Capital Programme. If the actual allocations for 2017/18 vary from the forecast then the capital budget may need to be adjusted accordingly.
50. Capital receipts are generated from asset sales and from VAT shelter arrangements in relation to previous council housing stock transfers within the former district councils.
51. In the Autumn Statement the Chancellor of the Exchequer announced that local authorities would be given flexibility under certain circumstances to utilise capital receipts to finance one off revenue costs associated with service transformation and reform. Additional details were included in the local government finance settlement in this regard.
52. An revenue budget of £2 million has been included in the MTFP (6) for 2017/18 to support prudential borrowing. A proportion of this budget is being utilised to support the leasing costs of replacement vehicles and plant. The residual sum is available to support additional new schemes in the MTFP (6) Capital Programme.
53. The government has identified that revenue expenditure would qualify to be financed from capital receipts in the following circumstances:-
 - (i) Qualifying expenditure is expenditure on any project designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years.
 - (ii) The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's, or several authorities', and/or to another public sector body's net current expenditure.
 - (iii) Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

- (iv) The Secretary of State believes that individual local authorities or groups of authorities are best placed to decide which projects will be most effective for their areas.
 - (v) Set up and implementation costs of any new processes or arrangements can be counted as qualifying expenditure. However, the ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.
54. The government believes that it is important that individual authorities demonstrate the highest standard of accountability and transparency. The draft guidance recommends that each authority should prepare a strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council or the equivalent. This strategy can be included as part of the annual budget documentation and approved by full Council or the equivalent at the same time as the annual budget.
55. At this stage it is not considered that there are a large range of opportunities for the Council to utilise this new flexibility. Careful consideration also needs to be given to the other options of funding such expenditure as identified above e.g. from contingencies or from reserves. Notwithstanding this it is recognised that it would not be unreasonable for the Council to consider utilising this new flexibility to finance severance costs associated with the MTFP process.
56. On that basis to ensure that the Council has this option available it will be recommended that as part of the Council's overall approach to efficiency that it is noted at this stage that capital receipts could be utilised to finance severance costs.
57. If this option is taken up there will be a natural impact upon the financing of the capital programme. In former years the Council has set a target of £10 million of capital receipts income to support the capital programme. A target of £10 million is in place for 2016/17 which was included in MTFP (5). It is also recommended at this stage that a £10 million sum is included in the 2017/18 capital financing budget.
58. If a decision is made and agreed by Cabinet in the future to utilise capital receipts to finance severance costs then the impact upon the capital financing budget will need to be considered.
59. During 2016/17 there may be other opportunities that manifest for the Council to utilise this new capital receipts flexibility to finance service transformation and reform one off costs. If there is a business case in this regard Cabinet approval will be sought and the case in question included in a formal Efficiency Strategy.

60. In previous years an additional £2 million of revenue was provided in the budget to finance Prudential Borrowing to continue the support for new projects within the Capital Programme. High cash balances however have delayed the need for the Council to borrow to the levels and forecast and Interest rates continue to be at historically low levels. On that basis it is forecast that the current budget available for prudential borrowing will be able to absorb the costs associated with the capital bids detailed within this report. A proportion of this budget is being utilised to support the leasing costs of replacement vehicles and plant.
61. A comprehensive 2016/17 capital programme was approved as part of MTFP (5) in line with the Council policy of developing a two year rolling capital programme. The need to continue to invest in capital infrastructure is seen as an essential means of maintaining and regenerating the local economy whilst supporting job creation. Additional investment will maintain and improve infrastructure across the County, help retain existing jobs, create new jobs and ensure the performance of key Council services are maintained and improved.
62. After considering all factors, including the availability of capital finance, the additional schemes were approved for inclusion in the MTFP (6) Capital Programme as shown in the following table.

Service Grouping	2016/17	2017/18
	£m	£m
ACE	0	2.100
CAS	1.143	6.778
Neighbourhoods	1.289	20.581
RED	1.949	17.158
Resources	0	3.424
Total	4.381	50.041

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

New MTFP (6) Capital Programme

Service Grouping	2015/16	2016/17	2017/18	2018/19	Total
	£m	£m	£m	£m	£m
ACE	3.991	3.307	2.244	0	9.542
CAS	40.683	23.105	7.520	0	71.308
Neighbourhoods	40.903	36.511	25.030	4.150	106.594
RED	34.543	63.026	26.942	0	124.511
Resources	11.616	9.026	3.424	0	24.066
TOTAL	131.736	134.975	65.160	4.150	336.021
Financed by					
Grants and Contributions	52.318	40.452	25.392	0	118.162
Revenue and Reserves	13.167	0.072	0	0	13.239
Capital Receipts	16.631	15.883	17.897	0	50.411
Borrowing	49.620	78.568	21.871	4.150	154.209
TOTAL	131.736	134.975	65.160	4.150	336.021

64. The council has been able to set a balanced budget for 2016/17 and has a clear plan in place to continue to deliver local services up to 2020. Based on this, it is clear that the County Council is a going concern.

Financial Reserves

65. Reserves are held:-
- (i) As a working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves.
 - (ii) As a contingency to cushion the impact of any unexpected events or emergencies e.g. flooding and other exceptional winter weather – this also forms part of General Reserves.
 - (iii) As a means of building up funds, 'earmarked' reserves to meet known or predicted future liabilities.
66. The Council's current reserves policy is to:-
- (i) Set aside sufficient sums in Earmarked Reserves as is considered prudent. The Interim Corporate Director Resources should continue to be authorised to establish such reserves as required, to review them for both adequacy and purpose on a regular basis

and then reporting to the Cabinet Portfolio Member for Finance and to Cabinet.

- (ii) Aim to maintain General Reserves in the medium term of between 5% and 7.5% of the Net Budget Requirement which in cash terms equates to up to £30 million.
67. Each earmarked reserve, with the exception of the Schools' reserve, is reviewed on an annual basis. The Schools' reserve is the responsibility of individual schools with balances at the year end which make up the total reserve.
68. A Local Authority Accounting Panel Bulletin published in November 2008 (LAAP77) makes a number of recommendations relating to the determination and the adequacy of Local Authority Reserves. The guidance contained in the Bulletin "represents good financial management and should be followed as a matter of course".
69. This bulletin highlights a range of factors, in addition to cash flow requirements that Councils should consider. These include the treatment of inflation, the treatment of demand led pressures, efficiency savings, partnerships and the general financial climate, including the impact on investment income. The bulletin also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term option. If Members were to choose to use General Reserves as part of the budget process appropriate action would need to be factored into the MTFP to ensure that this would be addressed over time so that the base budget is not reliant on a continued contribution from General Reserves.
70. The forecast balance on all reserves is reported to Cabinet every quarter as part of the Forecast of Outturn reports and Cabinet received the latest report on 16 March 2016. A range of reserves are being utilised to support MTFP (6). Details are as follows:-
- **MTFP Redundancy and ER/VR Reserve** – this reserve was originally created in 2010 with a balance of £26.9 million. The reserve was replenished during 2013/14 when a further £15 million was contributed to the reserve and was replenished again in 2015/16 when a further £10 million was contributed. At the end of 2015/16 it is presently forecast that the balance on the reserve will be £15.9 million. Having this reserve in place will be a major factor in managing the savings realisation process effectively across the MTFP (6) period. This reserve will continue to be closely monitored.

- **Budget Support Reserve (BSR)** – It is forecast that £1.6 million of the £30 million BSR will be utilised to support the MTFP in 2016/17 and £11.6 million in 2017/18. The residual balance of £16.8 million will be available to support the budget in later years.
 - **Cash Limit Reserves** – Service Groupings continue to utilise Cash Limit Reserves to enable re-profiling of when MTFP savings are realised. A sum of £0.210 million is to be utilised in 2016/17.
71. Overall, it is forecast that over £11.8 million of earmarked reserves will be utilised to support the 2016/17 budget.
72. The County Council agreed that the current Reserve Policy of maintaining the General Reserve of between 5% and 7.5% of the Net Budget Requirement is retained. This will result in a General Reserve range of up to £30 million.
73. Based on the level of reserves held, the County Council has demonstrated robust financial management that underpins its status as a going concern.

Risk

74. The Council has previously recognised that a wide range of financial risks need to be managed and mitigated across the medium term. The risks faced are exacerbated by the localism of business rates and the localisation of council tax support. All risks will be assessed continually throughout the MTFP (6) period. Some of the key risks identified include:
- (i) Ensure the achievement of a balanced budget and financial position across the MTFP (6) period.
 - (ii) Ensure savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and staff.
 - (iii) Government funding reductions are based upon the Local Government Finance Settlement. The inclusion in this report of an Efficiency Plan should secure a four year RSG settlement from the government. There is still a risk however that a deterioration in the public finances could result in further savings targets for local government in excess of those agreed to date.
 - (iv) The localisation of council tax support passed the risk for any increase in council tax benefit claimants onto the Council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers.

- (v) The Council retains 49% of all business rates collected locally but is also responsible for settling all rating appeals including any liability prior to 31 March 2013. Increasing business rate reliefs and appeals settlements continue to make this income stream highly volatile and will require close monitoring to fully understand the implications upon MTFP (6).
75. Based on the above there are no risks which would indicate that the County Council is not a going concern.

Housing Revenue Account (HRA)

76. On 13 April 2015, the Council transferred its housing stock of circa 18,500 dwellings to the County Durham Housing Group Ltd. Consent was received from the Secretary of State to close down the HRA any time from 30 April 2015 onwards as the Council is no longer a social housing landlord and not required to maintain a ring-fenced HRA.
77. There were some residual transactions still taking place reflecting the relatively short period of activity in 2015/16 and also costs associated with delivering stock transfer in April which have been met from available income and reserves. All transactions are now complete and the HRA is closed.

Conclusion

78. When approving the accounts, the Audit Committee members being those charged with governance for the Council will need to consider which of the following three basic scenarios is the most appropriate:
- the body is clearly a going concern and it is appropriate for the accounts to be prepared on the going concern basis;
 - the body is a going concern but there are uncertainties regarding future issues which should be disclosed in the accounts to ensure the true and fair view;
 - the body is not a going concern and the accounts will need to be prepared on an appropriate alternative basis.
79. Based on the assessment undertaken, in my view:
- the Council has a history of stable finance and ready access to financial resources in the future,
 - there are no significant financial, operating or other risks that would jeopardise the County Council's continuing operation.

- the Housing Stock Transfer, although a transfer of a function, does not impact on the presumption of the Council's ability to continue to operate.
80. Therefore the Council is a going concern and it is appropriate for the Statement of Accounts to be prepared on that basis.

Recommendation

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

Background papers

- (a) County Council – 24 February 2016 – Medium Term Financial Plan, 2016/17 to 2019/20 and Revenue and Capital Budget 2016/17
- (b) County Council – 24 February 2016 – Budget 2016/17. Report under Section 25 of Local Government Act 2003
- (c) Cabinet - 16 March 2016 - Forecast of Revenue and Capital Outturn 2015/16 for General Fund and Housing Revenue Account – Period to 31 December 2015
- (d) Annual Completion Report – 2014/15 – Durham County Council

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance -

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

Staffing -

None

Risk -

None

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

AUDIT COMMITTEE

30 June 2016



Annual Internal Audit Opinion and Report 2015/2016

Report of Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. This report provides members with the Chief Internal Auditor and Corporate Fraud Manager's assurance opinion on the adequacy and effectiveness of the Council's internal control environment.
2. The report also presents the Annual Internal Audit Report for 2015/2016.

Background

3. The Public Sector Internal Audit Standards (PSIAS) established in 2013 are the agreed professional standards for internal audit in local government. PSIAS was the Code under which the Internal Audit Service operated during 2015/2016. It sets out the requirement for the Chief Internal Auditor and Corporate Fraud Manager ("Chief Audit Executive") to report to officers and the Audit Committee ("The Board") to help inform their opinions on the effectiveness of the Internal Control environment in operation within the Council.
4. The Annual Internal Audit Report should therefore be considered in the context of fulfilling the above requirement.
5. The annual internal audit opinion contributes to the completion of the Annual Governance Statement (AGS). It is specifically timed to be considered as part of the Council's annual review of governance and internal control.
6. Internal Audit therefore has a professional duty to provide an unbiased and objective view of the Council's Internal Control environment. Internal Audit is independent of the processes that it evaluates and as such reports to Corporate Management Team and the Audit Committee.
7. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.

8. Based on the work undertaken during the year, Internal Audit is able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2015/2016. There are no issues of that would qualify this opinion.
9. This moderate opinion provides assurance that there is a sound system of control in place however there are some weaknesses and evidence of ineffective controls. Given the constant extent of change the Council continues to face, the reduction in resources and the ever increasing diverse nature of the Internal Audit Plan this assurance opinion should be regarded as positive. This is supported by the improvements made over recent years particularly within key financial systems where significant improvements have been made since the Council's formation following Local Government Reorganisation and whilst further work is required this is actively being pursued through relevant working groups also supported by Internal Audit.
10. There are no adverse implications for the Authority's Annual Governance Statement arising from any of the work that Internal Audit has undertaken in 2015/2016. All of the risks raised within Internal Audit reports have been accepted. Internal Audit's recommendations, or alternative proposed actions made by Management in response to the risk issues, have been agreed to be implemented. Full implementation of the agreed actions will realise the benefits of the control improvements detailed in each individual audit report. Internal Audit continues to follow up the implementation of its recommendations, or any agreed alternative actions, with the relevant responsible officers, as soon as is practically possible, after the target implementation dates. Again it should be noted the implementation rate (93%) and agreement to recommendation that the service is making (100%) is positive. Progress on the implementation of audit recommendations will continue to be reported through CMT and the Audit Committee in 2016/2017.

Recommendation

11. Members are asked to note the content of the Annual Internal Audit Report and the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's Internal Control environment for 2015/2016.

Contact: Paul Bradley

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Appendix 1: Implications

Finance

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

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

Compliance with the Accounts and Audit Regulations 2011

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INTERNAL AUDIT

ANNUAL REPORT

2015 / 2016

Altogether better



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APPENDICES

Appendix A: Performance Indicators

Appendix B: Key Advice and Consultancy Work

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

Appendix D: Assurance Opinion Methodology

Appendix E: Summary of Assurance Work 2015/2016

1. Introduction and Background

- 1.1 This report summarises the work carried out by Internal Audit during the financial year 2015/16 and provides assurance on the effectiveness of the Council's control environment, risk management and corporate governance arrangements in place during the year.
- 1.2 The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires Local Authorities 'make arrangements for the proper administration of their financial affairs and ensure that one of its officers has responsibility for the administration of those affairs'.
- 1.3 The Accounts and Audit (England) Regulations 2011 requires the Council to, "undertake an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with proper practices in relation to internal control". The Council has delegated this responsibility to the Corporate Director, Resources and the Internal Audit and Risk service carry out the Internal Audit role.
- 1.4 From 1 April 2013 Public Sector Internal Audit Standards (PSIAS) define the proper internal control practices alongside the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note.
- 1.5 This report fulfils the requirement of PSIAS 2450 for the Chief Internal Auditor and Corporate Fraud Manager ("Chief Audit Executive") to provide an annual report to the Audit Committee ("The Board") timed to support the Annual Governance Statement (AGS).
- 1.6 The report sets out:
 - The annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment).
 - A summary of the audit work carried out from which the opinion is derived.
 - Details of the quality assurance arrangements in place during 2015/2016 which incorporates the outcomes of the last annual review of the effectiveness of Internal Audit carried out by the Audit Committee in June 2015. A review of effectiveness against compliance with the PSIAS.

2. Service Provided and Audit Methodology

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

3. Types of Audit Work Carried Out in 2015/2016

Assurance Reviews

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

Advice and Consultancy Work

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

Counter Fraud Work

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

Grant Certification

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

4. Audit Quality Assurance Framework

- 4.1 The Internal Audit Charter sets out the performance and quality framework for the service. This reflects the requirements of the PSIAS.
- 4.2 Key elements of the quality assurance framework operating during 2015/2016 include:
- Independent quality reviews undertaken by audit managers as a matter of routine and periodically by the Chief Internal Auditor and Corporate Fraud Manager to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained.
 - Key contacts, determined by appropriate Heads of Service, agree the Terms of Reference for each audit review and are able to challenge the findings and content of draft reports prior to them being finalised.
- 4.3 A summary of our performance against agreed indicators is provided in Appendix A.
- 4.4 As at 31 March 2016, the % of planned work completed indicated that the service has achieved its target to complete 90% of the audit plan in terms of productive days.
- 4.5 The Accounts and Audit (England) Regulation 2011 requires the Council to carry out an annual review of the effectiveness of Internal Audit. The outcome is reported to Audit Committee. This was last completed in the form of a self-assessment June 2015.
- 4.6 As per PSIAS requirements, an External Assessment must be completed once every five years. An External Assessment therefore has been performed by Newcastle City Council in April 2016 the results of which will be reported to management and the Audit Committee. The assessment involved an evaluation against the requirements of PSIAS, a sample review of audit files and working papers and an interview with the Corporate Director, Resources. The external assessment concluded “Durham County Council’s Internal Audit Service **conforms** to the requirements of the Public Sector Internal Audit Standards”. The full outcomes of this review will be reported to both Management and the Audit Committee in July.

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

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

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

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

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

An external assessment has been undertaken by Newcastle City Council in late April 2016 via a peer review process, with a view that this will be reciprocated by Durham County Council across one of the other three authorities in the arrangement (Newcastle City Council, North Tyneside Council and South Tyneside Council).

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

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

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

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

- 5.2 The trainee IT auditor in the service passed their final examinations in June 2015 and was promoted to Principal Auditor (IT) in September 2015, In order to provide business continuity to the service expressions of interest in completing the IT Audit examinations are to be sought from existing employees in 2016.
- 5.3 A specialist Procurement and Contract Auditor has been in post from January 2014. This has added value to both the service and to Corporate Procurement who have found their experience and knowledge to be beneficial in developing improvements across the Council in matter relating to procurement.
- 5.4 The Corporate Fraud Team has been in place for over 12 months and influences pro-active fraud work and promotes the counter fraud strategy across the organisation.
- 5.5 In addition one employee has successfully qualified as a member of the Institute of Internal Auditors (IIA) and another employee will be sitting their final papers during 2016.

6. Summary of Audit Work Carried Out

Assurance Work

- 6.1 Our work programme for the financial year 2015/2016 included work carried out between April 2015 and March 2016.
- 6.2 A summary of assurance work completed during the year is attached at Appendix E.

Advice and Consultancy Work

- 6.3 All planned reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks and the development of controls. This evaluation and challenge supports the effective and efficient use of resources and value for money (VFM).
- 6.4 Through our advice and consultancy work we are able to add value proactively and reactively.

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

7. Key Areas for Opinion

- 7.1 The three main areas of the control environment considered when determining our assurance opinion are:
- Financial Management
 - Risk Management
 - Corporate Governance
- 7.2 Assurance has been provided on some aspects of all key financial systems during the year. It is acknowledged that good progress continues to be made during the year in improving the operational efficiency and performance of key financial systems. However, testing of the control environment in operation during the year still highlighted some weaknesses in controls.
- 7.3 Independent assurance on the effectiveness of the Council's risk management arrangements has been provided by consideration of the adequacy and effectiveness of operational risk management through the risk based audit approach and the CRA methodology applied to individual audit assignments. This in turn provides some assurance on the management of related strategic risks.
- 7.4 A number of audits have been carried out during the year to provide independent assurance on the effectiveness of specific key corporate governance arrangements. In addition, compliance with relevant key council policies and procedures has also been considered as part of the risk based approach to the audit service related planned assurance reviews.
- 7.5 Key issues arising from audit work where controls have improved or further improvements have been identified are summarised in Appendix C.

7.6 The implementation of audit recommendations made to improve the control environment helps to embed effective risk management and strengthen the effectiveness of the Council's corporate governance arrangements. Details of progress made on the implementation of all High and Medium ranking recommendations are reported quarterly to Corporate Directors and the Audit Committee. A summary of progress on actions due at the 31 March 2016 is given below:

Service Grouping	Number of Actions Due to be Implemented	Number of Actions Actually Implemented	Actions Overdue by Agreed Original Target Date	Actions with an Agreed Revised Target Date	Actions Overdue by Revised Target Date
Assistant Chief Executive (ACE)	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

7.7 The % of audit recommendations implemented by service managers within agreed target dates continues to improve and the Council out performs many of its benchmarked comparators. This statistic stands at 93% before revised targets are incorporated, this increases to 100% if revised to include revised target dates.

8. Audit Opinion Statement

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

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

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

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

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

8.5 We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's system of internal control. Based on the work undertaken, we are able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2015/2016. There are no qualifications to this opinion. This moderate opinion ranking provides assurance that there is a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls.

8.6 This overall 'moderate' opinion reflects the widening scope of internal audit, with new audit areas being undertaken each year as part of the agreed audit strategy to review key service activities over a five year rolling programme. Over the last five years the number of 'Substantial' assurance opinions continues to increase as illustrated in the table below. It is important to recognise however in many cases these audits are not performed annually unless they are key systems both financial and non-financial.

Assurance Level	2011/12	2012/13	2013/14	2014/15	2015/16
Full	4	7	5	N/A	N/A
Substantial	14	23	37	40	65
Moderate	34	40	60	51	60
Limited	10	15	10	12	6
Total	62	85	112	103	131

- 8.7 The adequacy and effectiveness of key financial controls is a major consideration in our opinion. Whilst good progress continues to be made during the year, including improvements to a number of key financial systems which has provided a better operational platform for effective financial risk management, there has been however some key controls not operating effectively in 2015/2016 hence the 'moderate' opinion on the financial control environment as the last four years. The expectation is that the financial control environment will continue to improve as new systems and processes become more robust and the recently refreshed and enhanced financial management standards become embedded. Our findings suggest that policies and procedures are now in place across most key financial systems however a number of our recommendations relate to non-compliance where the system owner is requested to send reminders to employees or offer refresher training as appropriate.
- 8.8 It is especially pleasing to note that service groupings are valuing the work of Internal Audit and particularly around involving us in advice and consultancy work where major systems or processes are being implemented or amended. This is illustrated in the continuing work around key financial systems, e.g. Creditors, Debtors and Payroll. It is therefore important that service groupings continue to engage Internal Audit in work of this nature where controls and processes can be evaluated before implementation.
- 8.9 All audits with a limited assurance opinion have disclosed at least one high risk finding or a number of medium priority recommendations and these are subject to a follow up audit six months after the final report has been issued and are reported to Audit Committee on an exception basis.
- 8.10 Where Internal Audit has identified areas for improvement, recommendations are made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within target dates is high, in many cases there is a time gap between a control weakness being reported and the date determined by management for when the action can practically and realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion. Work is ongoing with management with regard to timely and realistic implementation dates for actions being agreed.

PERFORMANCE INDICATORS

Appendix A

Efficiency			
Objective: to provide maximum assurance to inform the annual audit opinion			
KPI	Measure of Assessment	Target (Frequency of Measurement)	Actual as at 31/03/2016
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%
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	100%
Quality			
Objective: To ensure that the service is effective and adding value			
KPI	Measure of Assessment	Target (Frequency of Measurement)	Actual as at 31/03/2016
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% - Average score 4.4
Customers providing feedback responses	% of Customer returning satisfaction returns	70% (Quarterly)	77%
Cost			
Objective: To ensure the service is cost effective			
KPI	Measure of Assessment	Target (Frequency of Measurement)	Actual as at 31/03/2016
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average	Yes (205/16 exercise) £226 cost per chargeable audit day (reported to Committee September 2016)

KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2015/2016

Information Governance

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

Grant Work

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

Review of Contracts (Ongoing)

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

Oracle Programme Board (Ongoing)

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

Debtors Working Group (Ongoing)

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

Invoice Payment Improvement Group (Ongoing)

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

Employee Salary Sacrifice Car Leasing Scheme

The service was represented on the working group and project board during the development and implementation of the employee salary sacrifice car leasing scheme. Advice was given as to ensuring proper controls in the system, reconciliations are in place and that eligible employees are able to access all relevant information.

Potential Payroll Migration to Oracle (Phase 1)

The service is represented on the project working groups to establish if it could be feasible and cost effective to move the current payroll system onto the Oracle Financial System. This was to establish the benefits of doing so whilst ensuring no critical controls would be lost in any system migration. Work continues on this project.

Petty Cash / Procurement Cards

Following the Council's change of Banking Contractor a review of current Petty Cash arrangements are being reviewed alongside the use of Procurement Cards as an alternative. The Service is represented to give advice on controls and reconciliations to be put in place and to give counter fraud guidance as applicable.

KEY CONTROL ISSUES

Key Financial Systems

It is acknowledged that good progress continues to be made to improve the financial management framework, including the recent refresh of financial management standards. However the assurance opinion on the financial control environment operating during 2015/2016 was, overall, still considered to be Moderate.

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

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

Limited Assurance Opinions

During the year limited assurance opinions were delivered against the following areas with follow up working either currently being in progress or is planned to be completed in the coming months. In all cases an agreed action plan has been developed and is being implemented.

Allotments

This review looked at providing assurance that:

- Allotments are allocated and managed inappropriately
- Breach of Tenancy Agreements
- Failure to deliver maintenance responsibilities
- Unlettable Allotments – Review of Stock only
- Income is not accounted for or is misappropriated
- Non-payment of renewal fees

The main issue identified as a result of the review was that there was a lack of assurance around the Public Liability Insurance arrangements in place across all of the associations in the County.

Civil Engineering Framework Sub £20k

This was a review of the operation of the Civil Engineering Framework for contracts under £20,000. The main findings related to a misunderstanding by employees as to how the contract should operate with mini tender competitions being ran where they were not required and at times works being awarded that did not represent best value to the Council.

Electrical Components Procurement Card Expenditure

This review was undertaken at the request of Corporate Procurement Manager and Direct Services in relation to the purchase of electrical components, using procurement cards. The areas for consideration were that Contract Procedure Rules the Procurement Card Policy & Manual and the Code of Conduct, particularly in regard to declaring gifts and hospitality from suppliers were being fully complied with and that purchases were achieving value for money through the correct use of the framework agreement for electrical components. The outcome highlighted that card limits were being exceeded and that the framework contract in place was not being consistently.

Aycliffe Locality Office, Residential and Secure Services

This review looked at providing assurance that:

- Income was promptly collected and properly recorded, controlled and banked.
- Imprest accounts/petty cash monies were operated effectively and that transactions were properly recorded, controlled and authorised and monies were securely held.
- Young people allowances were paid in line with the approved rates.
- Procurement cards were operated effectively and that transactions were properly recorded, controlled and authorised.
- The Secure Services shop is effectively operated, controlled and monies were securely held.

There were numerous control weaknesses across all areas.

Locomotion Museum

This review assessed that:

- Income is collected, handled and banked in an accurate and secure manner.
- Stocks and inventories are managed appropriately.
- Provide accurate visitor number data to support performance management.

Again there were control weaknesses in all areas and whilst it is important to note that the cash and stock within the museum is the property of the National Railway Museum (NRM) the employees within the museum are contracted to Durham County Council and it is important that appropriate policies and procedures are in place that protect their integrity. This has been discussed and agreed by the NRM.

Trading Arrangements (Service Direct Newco Ltd.)

Following a review of Fleet Services in 2014/2015 it was agreed with Legal and Democratic Services that a review would be completed to ensure the Council's trading arrangements with its wholly owned company (Service Direct Newco Ltd.) were robust. The review identified inconsistencies in the charging basis from different services and guidance supplied by Legal and Democratic Services with respect to what services should be charged for was not being adhered to.

Fraud and Irregularity

Weaknesses in control identified through fraud and irregularity investigations.

The Counter Fraud and Corruption Strategy which was refreshed in February 2016 and potential cases of suspected fraud and / or irregularity are reported to Internal Audit. Details of cases reported and the work being undertaken to combat the strategic corporate risk of fraud are reported to Corporate Management Team and the Audit Committee in the Annual Protecting the Public Purse Report.

It should be noted that of the potential cases reported in 2015/2016, improvements in controls weaknesses were identified in many of the cases, irrespective of whether or not any wrong doing was substantiated.

Findings

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

Impact Rating	Assessment Rationale
Critical	A finding that could have a:
	Critical impact on operational performance (Significant disruption to service delivery)
	Critical monetary or financial statement impact (In excess of 5% of service income or expenditure budget)
	Critical breach in laws and regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime)
	Critical impact on the reputation of the Council (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
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 (noncompliance 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 (noncompliance will have very little or no impact on operational performance, monetary of financial statement impact or reputation of the service)

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

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

Priority of our recommendations

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

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

Overall Assurance Opinion

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

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

Service Grouping	Service	Audit Activity	Assurance Opinion
Assistant Chief Executive	Policy and Communications	Business Continuity Planning	Substantial
Assistant Chief Executive	Planning and Performance	Data Protection: Access to Records (Legal Services)	Moderate
Assistant Chief Executive	Planning and Performance	Data Protection: Access to Records (Environmental Health and Consumer Protection)	Moderate
Assistant Chief Executive	Planning and Performance	Data Quality – Follow Up Audit	Moderate
Assistant Chief Executive	Planning and Performance	Data Quality – Performance Management Framework	Moderate
Assistant Chief Executive	Partnerships and Community Engagement	Community Grants (Governance and Payments)	Moderate
Children and Adult Services	Adult Care	Ebony Woodwork Unit – Closure Audit	Substantial
Children and Adult Services	Adult care	Extra Care	Moderate
Children and Adult Services	Adult Care	Hawthorn House – Follow Up Audit	Moderate
Children and Adult Services	Children Services	First Contact Service	Substantial
Children and Adult Services	Children Services	Out of County Placements	Substantial
Children and Adult Services	Children Services	Disability Commissioning Arrangements (Short Breaks)	Substantial
Children and Adult Services	Children Services	Aycliffe Locality Office, Residential and Secure Services	Limited
Children and Adult Services	Commissioning	Management of Client Finances	Substantial
Children and Adult Services	Commissioning	Assessment and Collection of Fees and Charges	
Children and Adult Services	Education	Adult Learning and Skills Service	Moderate
Children and Adult Services	Planning and Service Strategy	Caldicott	Moderate
Children and Adult Services	Public Health	Commissioning Clinical Public Health Service	Moderate
Neighbourhood Services	Direct Services	Livin – Follow Up Audit	Substantial
Neighbourhood Services	Direct Services	Leases – Vehicles and Plant	Substantial
Neighbourhood Services	Direct Services	Fleet Management – Follow Up Audit	Substantial

Service Grouping	Service	Audit Activity	Assurance Opinion
Neighbourhood Services	Direct Services	Mountsett Crematorium	Substantial
Neighbourhood Services	Direct Services	Durham Crematorium	Substantial
Neighbourhood Services	Direct Services	Woodland Burial Trust	Moderate
Neighbourhood Services	Direct Services	Contract Audit – Direct Services	Moderate
Neighbourhood Services	Direct Services	Allotments	Limited
Neighbourhood Services	Direct Services	Electrical Components Procurement Card Expenditure	Limited
Neighbourhood Services	Culture and Sport	Competition Line UK	Substantial
Neighbourhood Services	Culture and Sport	Library Resource Centre	Substantial
Neighbourhood Services	Culture and Sport	Spennymoor Leisure Centre	Moderate
Neighbourhood Services	Culture and Sport	Newton Aycliffe Leisure Centre	Moderate
Neighbourhood Services	Culture and Sport	Killhope Lead Mining Centre	Moderate
Neighbourhood Services	Culture and Sport	Locomotion Museum	Limited
Neighbourhood Services	Environmental Health and Consumer Protection	Food Safety	Substantial
Neighbourhood Services	Environmental Health and Consumer Protection	Animal Health – Follow Up Audit	Substantial
Neighbourhood Services	Environmental Health and Consumer Protection	Markets – Review of income collection and contract monitoring arrangements	Moderate
Neighbourhood Services	Technical Services	Contract Audit – Construction Programme and Project Management	Substantial
Neighbourhood Services	Technical Services	Flooding Mitigation	Substantial
Neighbourhood Services	Technical Services	Contract Audit – Highways	Moderate
Neighbourhood Services	Technical Services	Civil Engineering Framework (Sub £20k)	Limited
Regeneration and Economic Development	Economic Development and Housing	Choice Based Letting Scheme	Substantial
Regeneration and Economic Development	Economic Development and Housing	Housing Solutions	Substantial
Regeneration and Economic Development	Economic Development and Housing	Disabled Facilities Grant	Moderate
Regeneration and Economic Development	Economic Development and Housing	Mentoring Project	Moderate
Regeneration and Economic Development	Economic Development and Housing	Private Sector Housing – Selective Licensing	Moderate
Regeneration and Economic Development	Planning and Assets	Building Control – Online Payments	Substantial
Regeneration and Economic Development	Planning and Assets	Carbon Reduction Commitment	Moderate

Service Grouping	Service	Audit Activity	Assurance Opinion
Regeneration and Economic Development	Planning and Assets	Planning System	Moderate
Regeneration and Economic Development	Transport and Contract Services	Park and Ride Scheme	Moderate
Regeneration and Economic Development	Transport and Contract Services	Transport – Safeguarding Arrangements	Moderate
Resources	Corporate Finance and HR	VAT Arrangements	Substantial
Resources	Corporate Finance and HR	Health and Safety	Substantial
Resources	Corporate Finance and HR	Collection Fund	Substantial
Resources	Corporate Finance and HR	Leases	Substantial
Resources	Corporate Finance and HR	Treasury Management – Short Term Investments	Substantial
Resources	Corporate Finance and HR	Bank Reconciliation	Substantial
Resources	Corporate Finance and HR	Direct Debit Payments	Substantial
Resources	Corporate Finance and HR	Attendance Management Framework – Phased Returns	Moderate
Resources	Corporate Finance and HR	Potentially Violent Persons Register	Moderate
Resources	Corporate Finance and HR	Contract Management	Moderate
Resources	Corporate Finance and HR	Flexible Working Policy	Moderate
Resources	Legal and Democratic Services	Officer Scheme of Delegation	Substantial
Resources	Legal and Democratic Services	Members Allowances and Expenses	Substantial
Resources	Legal and Democratic Services	Committee Services	Substantial
Resources	Legal and Democratic Services	Members Declarations of Interest	Substantial
Resources	Legal and Democratic Services	Service Direct Newco Ltd	Substantial
Resources	Legal and Democratic Services	Registrars	Moderate
Resources	Legal and Democratic Services	Trading Arrangements (Service Direct Newco Ltd)	Limited
Resources	Internal Audit and Risk	Insurance	Moderate
Resources	ICT	Information Security – Risk Assessment	Moderate
Resources	ICT	Information Security – Physical Security	Moderate
Resources	ICT	Password Management	Moderate
Resources	ICT	ICT Business Continuity Planning	Moderate
Resources	ICT	Internet Security	Moderate
Resources	Financial and HR Services	Revenues and Benefits Reconciliations	Substantial
Resources	Financial and HR Services	Creditors	Moderate

Service Grouping	Service	Audit Activity	Assurance Opinion
Resources	Financial and HR Services	Council Tax	Moderate
Resources	Financial and HR Services	Debtors	Moderate
Resources	Financial and HR Services	Business Rates	Moderate
Resources	Financial and HR Services	Cash Collection	Moderate
Resources	Financial and HR Services	Payroll	Moderate
Resources	Financial and HR Services	Payroll - PAYE	Moderate
Resources	Financial and HR Services	Welfare Rights Reporting System	Moderate

Audit Committee

30 June 2016

**Draft Annual Governance Statement for
April 2015 – March 2016**



Report of Paul Darby, Interim Corporate Director Resources

Purpose of the Report

- 1 This report seeks approval of the draft Annual Governance Statement (AGS) for 2015/16, attached in Appendix 2.

Background

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

Presentation of the Annual Governance Statement

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

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

(a) Consideration of corporate sources of assurance

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

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

Corporate Directors and the Assistant Chief Executive were asked to complete an assurance statement, which noted any changes implemented during the 2015/16 year, and to identify any improvements required/ planned.

Recommendations

7 Audit Committee is requested to approve the first draft of the AGS for 2015/16 attached in Appendix 2.

Contact: David Marshall Tel: 03000 269648

Appendix 1: Implications

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

Staffing - Ensuring the adequate capability of staff meets a core principle of the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) guidance.

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

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

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

Crime and Disorder – None.

Human Rights - None.

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

Procurement – None.

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

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

Appendix 2: Draft Annual Governance Statement 2015/16

SCOPE OF RESPONSIBILITY

1. Durham County Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
2. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an Annual Governance Statement, which must accompany the Statement of Accounts. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
3. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
4. In April 2016, the Council approved, adopted and published on its website, a revised Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – “Delivering Good Governance in Local Government”.
5. This statement explains how the Council has complied with the code and also meets the requirements of Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

8. The governance framework has been in place at the Council for the year ended 31 March 2016 and up to the date of approval of the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

9. The key elements of the systems and processes that comprise the Council's governance arrangements are detailed in the Council's Local Code of Corporate Governance, which is documented in the Council's [Constitution](#). This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the six core principles of the CIPFA/SOLACE Framework.
10. The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we have further improved our corporate governance arrangements during 2015/16.

The Six Principles of Good Governance

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

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

- Altogether healthier – improving health and wellbeing, supported by the [Joint Health and Wellbeing Strategy 2016 - 2019](#);
 - Altogether greener – ensuring an attractive and ‘liveable’ local environment and contributing to tackling global environmental challenges. This theme is supported by the [County Durham Plan](#);
 - Altogether safer – creating a safer and cohesive county, supported by the [Safe Durham Partnership Plan 2015 - 2018](#) and the [Police and Crime Plan 2015 - 2017](#).
12. The SCS was renewed and launched in November 2014 and identified six new areas of cross-thematic focus that will benefit from additional joined up working: Job Creation, Volunteering, Inequalities, Alcohol, Mental Wellbeing and Think Family. The 2014 version of the strategy reflects changes in local priorities and the need to deliver services with fewer resources. The strategy will undergo a substantial review during 2016/17.
 13. The County Durham Partnership, which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners, and is underpinned by thematic partnerships set around the five priority themes. Operationally, it is supported by the Delivery and Improvement Group, whose role is to monitor performance towards implementing the SCS, and consider strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.
 14. The [Council Plan 2016 - 2019](#) was approved in April 2016 and contains the Council’s corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the Council’s own improvement agenda. The [Council Plan](#) is supported by a series of Service Plans at a Service Grouping level which detail the planned actions to deliver the Council’s vision.
 15. The [Medium Term Financial Plan 2016 - 2019 \(MTFP\)](#) was approved by the Council in February 2016. This provides a financial framework associated with the [Council Plan](#) that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes. It also enables the continued provision of value for money (VFM). The key risk facing the Council continues to be the challenge of managing unprecedented budget reductions in the current period of economic austerity. To meet this challenge, a comprehensive schedule of savings targets has been programmed to achieve the necessary savings to enable us to deliver a balanced budget and [MTFP](#). Assurance over the delivery of this programme is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT) and, during the five years up to the end of March 2016, a sum of £153m of savings has been delivered. These

arrangements will equip the Council well for dealing with further austerity measures announced as part of the latest central government spending review. The Council has maintained prudent levels of reserves enabling us to meet unanticipated expenditure as necessary whilst still achieving planned savings targets and meeting service level expectations.

16. Despite sustained, large-scale Government spending cuts and rising demand for services, the MTFP seeks to deliver some very positive outcomes for the people of County Durham. Significant capital investment in town centres and industrial estates will support regeneration, the Council's highest priority, in order to protect existing jobs and create new ones. The Council Tax Reduction Scheme provides continued support for low-income, working age households; and ongoing work with partners aims to maximise health and social care funds for the benefit of vulnerable people.
17. In April 2014, the Council submitted the County Durham Plan to the Government and this was followed by an examination in public. After the Planning Inspector's Report rejected the plan, the council challenged the report and it was subsequently quashed by the High Court. Following discussions with the Department for Communities and Local Government and the Planning Inspectorate, legal advice was sought and the Council decided to undertake a three stage process in preparation of a new local plan, which will also ensure meaningful engagement with the community and other stakeholders. In the meantime, members have endorsed a revised Policy Position Statement to clarify how development proposals will be handled to ensure that appropriate sustainable development is not delayed.
18. To manage and measure service improvement, the Council has a locally led performance management framework that links to the SCS and the [Council Plan](#) and ensures that attention is focused on Council priorities. Key target indicators are used in areas where improvements can be measured regularly and can be actively influenced by the Council and its partners. Where possible, performance is compared with that of other Councils using a recognised, online tool. A new indicator set and targets were developed for 2015/16 to ensure that our efforts continue to be focused on the right areas, and these were agreed by Cabinet in June 2015.
19. There are numerous examples of internally-driven improvements during 2015/16 that evidence the effectiveness of the Council's governance arrangements:-
 - Successful transfer of ownership of the Council's housing stock to the new County Durham Housing Group Ltd in April 2015, representing a significant opportunity to increase investment in homes, local

neighbourhoods and housing services to further improve the lives of tenants;

- Established localised, multi-disciplinary 'Families First' teams to help children, young people and their families achieve and maintain good progress;
- Increased self-serve facilities, allowing people to access more services through our website on a 24/7 basis;
- A new mobile-friendly website, Locate, provides an improved directory of vital care and support services, replacing the Durham Information Guide;
- Effectively managed the reductions in library opening hours, rather than closing them, in response to consultation with service users;
- Refurbishment of three waste transfer stations giving improved recycling facilities and more scope to recycle.

20. Assurance can also be taken from the following external independent sources that, through good governance, the Council continues to maintain and improve the quality of services:-

- An inspection of children's services and review of the Local Safeguarding Children's Board by Ofsted under their single inspection framework. A Quality Improvement Board provides strategic oversight of the Ofsted implementation plan and quality assurance developments in Children's Services.
- An assessment of leisure centres against the QUEST quality standard.
- The Strategic Waste Team's management of seven former landfill sites and 11 closed landfill sites is regulated by the Environment Agency and Northumbrian Water;
- A programme of independent audits evaluates, for accreditation or certification, activities such as asset management, safety management and collaborative business relationships.

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

benchmarking exercises demonstrate that the Council compares favourably against other Councils in the majority of cases. Nevertheless, in the context of continuous improvement, the Council assesses any weaknesses identified from these exercises where improvements in performance can be achieved. Independent assurance of our VFM was also gained from our External Auditor, who issued an unqualified VFM conclusion for our 2015/16 Accounts.

22. The Council's Cabinet is responsible for monitoring performance and ensures that effective arrangements are put in place to deal with any failures in service delivery. Assurance is gained through quarterly performance reporting to Cabinet and through performance clinics between the Chief Executive and individual Corporate Directors and the Assistant Chief Executive during the year. Members have robustly scrutinised the performance of the Council, demonstrated by a number of key scrutiny reviews of Council services during 2015/16, which are outlined in the [Overview and Scrutiny Annual Report](#).
23. The Annual Statement of Accounts was approved by the Audit Committee in September 2015, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2011. Further independent assurance of the Council's financial management was provided by the External Auditor in both their Audit Completion Report and Certification of Claims and Returns Annual Report. Governance reviews are also led by Services, such as the quality assurance team in Children and Adults Services, who carried out a number of audits during the year.
24. To enable better use of resources, the Council has made the following changes:
 - A new banking service was implemented in December 2015, following the previous supplier's withdrawal from the local authority market in 2014;
 - Chapter Homes established as an arms-length private company to develop council-owned land for housing to be sold and rented at market values. This is in line with the overall aim to capitalise on our assets in order to improve our economic performance and the prospects of our people;
 - Ensuring all contracts contain clauses requiring providers to have appropriate procedures in place to prevent unlawful discrimination in employment.
25. A programme management approach for key corporate projects is embedded, supported by project management training across the Council. Examples which demonstrate that rigorous programme management has enabled effective delivery of major projects include the transfer of Community Buildings, the Housing Stock Transfer, the new banking contract and a two

year, £3.4 million programme of repairs to Seaham North Pier. Assurance is gained by regular monitoring of the delivery of these projects by Corporate Management Team.

26. The Council's Corporate Asset Management Plan (CAMP) and Property Strategy were approved by Cabinet in July 2013. The CAMP sets out the Council's approach to ensuring that it makes best use of its assets in terms of service benefit, financial benefit and value for money. The Property Strategy sets out the main principles to ensure that opportunities to share the use of property are identified, and to make sure that assets are fit for purpose, cost effective and used to support regeneration and economic development. The Council is now a forerunner in asset transfer, having successfully assigned a number of leisure centres, a golf course and children's centres to community organisations. The recently completed community buildings programme was one of six national winners in the Carnegie Trust's Enabling State Awards and was described as ground-breaking and innovative. A key element of the programme is to work with local communities and our partners to consider alternative ways of continuing to provide front line services.
27. Service Asset Management Plans are also in place and these include any heritage assets of the holding service.

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

28. The key governance documents supporting this principle are contained in the [Constitution](#). These arrangements are further strengthened by a number of formal member and officer working groups.
29. The [Constitution](#) sets out how the Executive is made up and how appointments to this committee are made. The roles and responsibilities allocated by the Leader under the terms of the [Constitution](#), to individual members and the committee as a whole, are set out in detail in the [Constitution](#) as well as the Scheme of Delegation for Senior Officers. The [Constitution](#) allows joint arrangements to be established for specific purposes such as the provision and maintenance of crematoria, and sets out details of existing joint arrangements, including purpose, parties and effective dates.
30. The Constitution Working Group, which consists of the lead members of each political party, and is chaired by the Leader of the Council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the Council in May 2016.

31. The arrangements and rules of procedure for the Overview and Scrutiny function, including the membership, functions and scope of the Overview and Scrutiny Board and each Committee is set out in detail in the [Constitution](#). Terms of Reference for the Board and Committees are set within the context of the [Council Plan](#) and the [Sustainable Community Strategy](#).
32. Under the terms of the [Constitution](#), the Council elected a Leader and made appointments to a number of committees with various regulatory and scrutiny responsibilities. The Leader has nominated nine other councillors, including a Deputy Leader, with specific responsibilities to form the Cabinet.
33. The Health and Wellbeing Board, a Committee of the Council, was established as a consequence of the Health and Social Care Act 2012. Public Health responsibilities also transferred to the Council from the NHS with effect from April 2013. Its functions include:
 - Developing and agreeing the Joint Strategic Needs Assessment and Joint Health and Wellbeing Strategy;
 - Promoting integrated working between commissioners of health services, public health and social care services, for the purpose of advancing the health and wellbeing of people in its area; and
 - Developing a Pharmaceutical Needs Assessment.
34. An example of members and officers working together is the Member Officer Working Group (MOWG) assessing capital bids in the development of the MTFP. Bid submissions were considered taking key factors account, such as the Service Grouping's assessment of priority, availability of capital financing and whether schemes could be self-financing. MOWG also recognised the need for caution in committing to high levels of prudential borrowing at this stage for future years.
35. A new Chief Executive was appointed following the retirement of the previous post-holder. The process was overseen by the Chief Officer Appointments Committee, which is made up of 11 Members of the Council including the Leader and Deputy Leader who are Chair and Vice-Chair respectively. The decision was approved in October 2015 by full council, in line with the Council's Constitution.
36. The Council has appointed the Corporate Director Resources as Chief Financial Officer and Section 151 Officer to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Chief Financial Officer, who is a member of the CMT and reports directly to the Chief Executive, has been involved in all CMT discussions, and has reviewed all reports to Cabinet which have financial

implications. The Chief Financial Officer has also provided an opinion under section 25 of the Local Government Act 2003 on the reserves for the Council, which Members considered when setting the budget.

37. The Children Act 2004 requires every top tier local authority to appoint a Director of Children's Services with professional responsibility for the leadership, strategy and effectiveness of local authority children's services. The Council completed a Local Test of Assurance (LTA) in accordance with statutory guidance, and this was reported to Audit Committee in September 2015. The purpose of the LTA is to ensure that the focus on outcomes for children and young people is not weakened or diluted as a result of combining this statutory role with other functions.
38. The new Chief Executive progressed plans to implement, during 2016, a revised chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths.
39. Members and Officers work together on the work programme of the Cabinet which is managed through a system of Cabinet pre-agenda meetings. To support this, Corporate Directors have held regular briefing sessions with Cabinet Portfolio Members and their support Members.
40. Members' remuneration is overseen by an independent panel, and their report was approved by Council in October 2015.

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

41. The key governance documents supporting this principle are the [Constitution](#), the [Council Plan](#) and the Register of Gifts and Hospitality.
42. The Standards Committee has the key governance role of promoting and monitoring high standards of conduct by elected Members, independent Members and co-opted Members. The Localism Act 2011 introduced a new duty to promote and maintain high standards of conduct and an ethical framework was adopted accordingly.
43. In terms of disclosure of gifts, hospitality and interests, assurance is gained over Member declarations and registrations by the Monitoring Officer maintaining and monitoring the Register of Gifts, Interests and Hospitality for Members, which is available online. Staff declarations are maintained and monitored by their Head of Service. An Internal Audit report recommending improved arrangements for maintaining registers was approved by Corporate Management Team in March 2015.

44. A climate of openness has been encouraged by the Council Leader who holds regular Cabinet meetings at various locations throughout County Durham. The key elements of the Council's approach to communicating and embedding the expected standards of behaviour for Members and staff are also detailed in the Council [Constitution](#). The Council's Codes of Conduct included in the [Constitution](#) also apply to its partnership working, and the revised Code of Conduct for Employees was approved by Corporate Management Team in September 2014. The [Constitution](#) also sets out a protocol for the Chairman and Vice-Chairman of the Council that includes an expectation of political neutrality and acting as the conscience of the Council.
45. The values of the Council are further promoted in the [Equality Policy](#), which was approved in January 2014 and includes 'protected characteristics' covered by the Equality Act. Supporting this scheme is an impact assessment process, which ensures that the impact on equality is considered in the Council's decision making. For example, the proposals in the 2016/17 MTFP strategy have been shaped by residents' and stakeholders' views with high level analysis of the equalities impact. A schedule of impact assessments is monitored through the Equality, Diversity and Cohesion Working Group. The implementation of the Access Strategy is monitored by the Equality, Diversity and Cohesion Working Group and a programme is in place for making access improvements to identified priority buildings.
46. During 2014/15, a new CCTV Policy and Code of Practice were implemented to improve the way the Council uses its powers under the Regulation of Investigatory Powers Act 2000 (RIPA).

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

47. The key governance documents supporting this principle are the [Constitution](#); the [Corporate Complaints Policy and Procedure](#); the Risk Management Strategy and Policy; the [Counter Fraud and Corruption Strategy](#); and the [Confidential Reporting Code \(Whistleblowing policy\)](#).
48. The Council's [Constitution](#) sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are effective, transparent and accountable to local people. Amendments made to the Constitution during the year include updated officer scheme of delegations, the inclusion of a civic handbook and an update to the Members' Allowance Scheme.
49. All major decisions as identified in the officer delegations scheme are documented, with the reports and decisions made for those that are in the

public domain being available on the website. All Cabinet reports must state that legal advice on proposals has been sought, as well as the source of the advice, and Chief Officers and Heads of Service were briefed on this by way of a refresher in February 2014 by the Head of Legal and Democratic Services.

50. The following improvements to governance arrangements in this area were implemented during the year:-
 - The complaints process was modified to resolve issues more quickly and informally with service groupings taking the lead in resolving matters, allowing the corporate complaints unit to focus on investigating cases where people are not satisfied with the handling of their complaint;
 - An internal audit of the Officer Scheme of Delegations concluded that there is a sound system of control with only minor risk to achieving system objectives; and
 - As a positive response to the Local Government Transparency Code, a transparency and accountability web page was set up.
51. A notice of key decisions covering a rolling period of four months is published on the Council's website. Decisions made by the Executive are published on the Council's website within two days of the respective meeting.
52. The key mechanism provided for employees, and contractors and suppliers providing services for the Council, to raise concerns about potential breaches of conduct in decision-making is the [Confidential Reporting Code \(Whistleblowing policy\)](#), which is part of the Council's [Constitution](#), and is monitored by the Audit Committee. The policy is referenced in the Scheme of Financing of Schools, and the School Financial Value Standard requires schools to have appropriate whistleblowing procedures. A revised [Confidential Reporting Code](#) was approved by Audit Committee in May 2014. An updated [Counter Fraud & Corruption Strategy and Fraud Response Plan](#) were approved by Audit Committee in February 2016. In June 2015, the Council established the Corporate Fraud Team to further strengthen its robust counter fraud arrangements, demonstrated by examples such as the development of proactive processes to identify and tackle suspicious insurance claims have been implemented during the year.
53. Overview and Scrutiny, which consists of an Overview and Scrutiny Management Board and six committees, has the key role to make decision-making processes transparent, accountable and inclusive and to improve services for people by being responsive to their needs. Where appropriate, Members have scrutinised the decisions of the Council, demonstrated by a number of key reviews which are outlined in the [Overview and Scrutiny](#)

[Annual Report](#). They also contributed to a number of consultations and policy development areas, such as:

- Joint Health and Wellbeing Strategy;
 - Joint Strategic Needs Assessment;
 - Housing Strategy; and
 - Flood Risk Management Authorities flood mitigation plans for County Durham.
54. A number of key in-depth evidence based reviews have also been carried out by Overview and Scrutiny Committees including:
- Attendance Management;
 - CRM system development and implementation; and
 - Alcohol and the demand upon Emergency services.
55. The Council has been shortlisted in the Excellence in Governance and Scrutiny category of the 2016 Municipal Journal Achievement Awards for its approach to scrutiny, community engagement and consultation on governance and council planning.
56. As part of the annual review of the [Constitution](#), the Terms of Reference of the Overview and Scrutiny Management Board and Committees were updated to reflect the refresh of the co-optee appointments. This demonstrates that the work of Overview and Scrutiny contributes to the strategic priorities of the Council and its partners, and reflects the legislative requirements placed on the Council in respect of scrutiny arrangements.
57. With regard to the Overview and Scrutiny Committees, key points to note include:
- The Adults Wellbeing and Health Overview and Scrutiny Committee has been conferred with the Council's powers of review and scrutiny in respect of NHS Service changes in accordance with the Health and Social Care Act 2012;
 - Cross party representation on all Overview and Scrutiny Committees serves to promote an independent, non-partisan approach in their activities;
 - A Joint Health Scrutiny Committee with Hartlepool and Stockton Borough Councils formally engages and responds to proposals to reconfigure emergency medical and critical care services at North Tees and Hartlepool NHS Foundation Trust.
58. The Police and Crime Panel, which includes councillors from Durham County Council and from Darlington Borough Council, scrutinises the annual report,

decisions and actions of the Police and Crime Commissioner (PCC). In March 2015, the Panel approved the refreshed Police and Crime Plan 2015 – 2017. An update on activity from the Panel is presented to each meeting of the Council's Safer and Stronger Communities Overview and Scrutiny Committee.

59. The Council's Monitoring Officer oversees the arrangements for conflicts of interest, gifts and hospitality. Members are required to review their declarations of gifts and hospitality annually. Officers and members are required to declare annually any conflicts of interest.
60. The Council's decision-making processes are also supported by:
 - A risk management strategy and policy;
 - An Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes; and
 - The Council ensuring that it complies with legal requirements in its decision making by ensuring that all reports requiring a decision include the legal implications, report authors confirming that they have obtained legal advice on proposals contained in reports, and the source of that legal advice.
61. An Audit Charter, which was approved in line with Public Sector Internal Audit Standards (PIAS), is in place. The Council's self-assessment against both the principles of the CIPFA Statement on the Role of Head of Internal Audit and the PIAS, which were presented to Audit Committee in June 2014, illustrates a high degree of compliance.
62. A Corporate Complaints policy is in place for non-statutory complaints, and details of complaints, and of investigations by the Commissioner for Local Administration, have been reported to Corporate Issues Overview and Scrutiny Committee.
63. A Freedom of Information (FOI) Policy and Publication Scheme are in place, and details of how to make a FOI request for information can be found on the Council's website.
64. To strengthen the Council's arrangements for maintaining good-quality information, a number of further improvements to governance in this area have been implemented in 2015/16. For example:
 - The Assistant Chief Executive was designated Senior Information Risk Officer and holds regular meetings with the Head of Planning and Performance, Head of ICT Services and the Council's designated Caldicott Guardian;

- An online Data Protection Act training module was developed, which the majority of officers had completed by April 2015;
- Data protection arrangements regarding data sharing were improved through standardised subject access requests, improved use of privacy impact assessments and a rolling programme of audits. A privacy impact assessment process was agreed and successfully piloted in September 2015.

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

65. The key governance documents supporting this principle are the [Constitution](#); the Member Learning and Development Strategy; Organisational Development Strategy; Health, Safety and Wellbeing Strategy; and the Recruitment and Selection Policy.
66. The Council is committed to continually reviewing the development needs of Members and Officers.
67. Our approach to Member development is outlined in the Member Learning and Development Strategy, and the Member Learning and Development Policy, both of which were revised in October 2014. Induction training was provided for new Members elected during 2015/16 and individual training and development plans exist for all Members.
68. The Council continues to be a member of the North East Public Service Academy, which promotes excellence in learning across the public sector. Improvements to further develop the capacity and capability of officers during the year include:
 - Numerous developments aimed at helping employees to meet the challenges of sustained reductions in finance and the consequent widespread changes in policy and service delivery;
 - The “The Durham Manager” programme continues to be evaluated, developed and promoted to support managers in meeting the changing needs of the organisation. Recent training courses include project; management, ‘succeeding through change’ and ‘difficult conversations’;
 - Resources Management Team agreed a three-year e-learning strategy in December 2015 following evaluation of the current process. This enables more training to be delivered on-line, ranging from corporate induction to recognising and managing stress in the workplace;
 - The processes for undertaking appraisals after a restructure were reinforced, including the rollout of the Business Intelligence module;

- Training and development is promoted regularly in the Buzz magazine, through employee updates and via the intranet.
69. A revised corporate Health and Safety policy was launched in May 2014, and a revised Health and Safety and Wellbeing strategy was issued in June 2014. Independent assurance over the effectiveness of the Council's Occupational Health Service was demonstrated when it was awarded Safe, Effective, Quality Occupational Health Service (SEQOHS) accreditation, which is the formal recognition that it has demonstrated the competence to deliver against the measures in the SEQOHS Standards developed by the Faculty of Occupational Medicine. The Council also continues to support employees through the change process with, for example, Jobcentre Plus information sessions and confidential counselling services through the Employee Assistance Programme.
 70. The Council continued to drive improvements in employee attendance with support for both employees and management through targeted health and wellbeing initiatives, training and changes to processes. The Corporate Issues Overview and Scrutiny Panel undertook a review of attendance management, which was reported to Cabinet in December 2015. The new Attendance Management Policy focuses on rehabilitation to support attendance at work and the main changes include early intervention with assistance from Occupational Health and a revised procedure for managing short-term absences.
 71. The Council has taken steps, in consultation with various organisations, including the Royal Society for the Prevention of Accidents, to improve arrangements around managing water safety. A new Open Water Safety Policy was implemented following consultation with the Council's Water Safety Group and the Health, Safety and Wellbeing Strategic Group.

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

72. The key governance documents supporting this principle are the [Constitution](#); the [Consultation and Engagement Strategy](#); and the County Durham Partnership Community Engagement and Empowerment Framework.
73. As the strategic partnership for the County, the County Durham Partnership (CDP) is the lead umbrella partnership for most other partnerships in County Durham, and the Leader of the Council is the chair of the CDP. The Council's relationships with partners are managed through the Partnership Governance Framework. There are several examples of effective partnership working by the Council, including County Durham Economic Partnership (CDEP). The EU

Investment Plan was created through the CDEP and used to inform the strategic approach developed through the Strategic Economic Plan and North East European Structural and Investment Fund (ESIF) Strategy for the effective use of funds to address Durham priorities. Clarity on relationships between the Council and these partners is provided through the County Durham Economic Partnership governance prospectus.

74. There were two significant developments around strategic partnership working in 2015/16. Firstly, the Durham Humanitarian Support Partnership was established to ensure that Durham's support for refugees placed in the county is joined up and will promote cross-service and agency working, as well as engagement with communities. The partnership is led by the Council and will also look to work with churches, the voluntary sector and other partners. Secondly, a newly-established Chief Officer Group provides support and oversight to chief officers across all statutory agencies of the safeguarding arrangements for children and adults services. The Group has an independent Chair and includes officers from the Council, NHS and the Police.
75. The Council's approach to engaging stakeholders is outlined in the [Consultation and Engagement Strategy](#). This is complemented by the County Durham Partnership Community Engagement and Empowerment framework, which has shaped and supported a common vision and approach for community engagement by partners in County Durham. The County Durham Compact provides a framework for partnership and engagement with the voluntary and community sector, and most partners within the County Durham Partnership are signatories. E-learning on the Compact has been delivered to partners and [VCS](#) organisations. Attendance by the public at Council meetings and the protocols for asking questions are contained in the [Constitution](#).
76. Three examples of active consultation and engagement with the public follow. Firstly, the consultation process for refreshing the Joint Health and Wellbeing Strategy involved a range of stakeholders and included a 'Big Tent' engagement event, which was attended by over 260 people. Secondly, the Council continued to work with community groups to explore opportunities for the transfer of council assets so that they can be sustainable into the future through the 'Durham Ask' initiative. Thirdly, the Council took account of a poll of County Durham voters, to inform its approach to the proposed Devolution Agreement for the North East Combined Authority. Advertisements informing residents of the poll were placed in the local press and ran on local radio, generating a significant amount of interest with a turnout of 21.7%. The agreement, if signed, would devolve significant powers, funding and responsibilities around transport, investment, jobs, skills, housing and business support.

77. The Council has a strong commitment to working with partners to meet the needs of its communities. There are 14 [Area Action Partnerships \(AAPs\)](#) in place across the County, who are each governed by a board comprising members of the public, partner organisations and elected Councillors. These are multi-agency partnerships that are fully engaged with the community in identifying and addressing local priorities, and utilise locality budgets to drive improvements to the local area.
78. Through its partnership governance framework, the Council has gained assurance that:
- Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority;
 - there is clarity about the legal status of the partnership; and
 - representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.
79. Customer service arrangements have improved significantly. The Council's Customer First Strategy, which aims to put people at the heart of everything the Council does, continues to transform the way in which our residents, visitors, businesses and partners access our services. A new Customer Relationship Management System was procured to support the delivery of the strategy and its implementation and benefits will be monitored by Cabinet. The new system will build on progress made with the launch of the new website in October 2014 to provide further automated transactions and enhanced service information, reducing unnecessary direct customer contact. Since October 2014, the average number of visits to the site is over 290,000 per month with the most popular pages including traffic cameras, job vacancies and planning applications.
80. The Council continues to engage with employees with positive and productive outcomes. February's employee roadshows were attended by around 850 people, many of whom took the opportunity to raise issues directly with the new chief executive. Also, more than 2,000 employees took part in an internal communications survey at the end of 2015. Almost 75 per cent said they would 'always' or 'mostly' speak highly of the council, which is above the national average across all business sectors. The information collected is now being used to improve internal communications, with further work being done to give employees more opportunities to have a say on council issues. Finally, in response to a staff suggestion through the Open Doors scheme, opening hours at the council's main headquarters were temporarily extended to help

employees avoid peak traffic times and, in this way, reduce the impact on commuters during repairs to Durham City's Milburngate Bridge.

REVIEW OF EFFECTIVENESS

81. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the annual report of the Chief Internal Auditor and Corporate Fraud Manager, and also by comments made by the external auditors and other review agencies and inspectorates.
82. Maintaining the effectiveness of the corporate governance framework involves the key Member and Officer roles outlined below, namely:
 - The Executive;
 - Chief Financial Officer;
 - Monitoring Officer;
 - Overview and Scrutiny Committee;
 - Standards Committee;
 - Audit Committee.
83. The Council's [Constitution](#) sets out the governance roles and responsibilities of these functions. In addition:
 - The Corporate Director Resources co-ordinates and oversees the Council's corporate assurance arrangements by:
 - Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the Council's governance arrangements;
 - Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
 - Preparing an Annual Governance Statement to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
 - Internal and External Audit provide independent assurance on the effectiveness of the corporate governance framework.
84. The review was also informed by a statement provided by each Corporate Director and the Assistant Chief Executive commenting on the effectiveness of the Council's governance arrangements generally and how they impacted

on their service areas. These included consideration of the effectiveness of internal controls.

85. Based on the delivery of the internal audit plan, Internal Audit is able to provide a moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2015/16. This opinion ranking provides assurance that, whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk. Given the extent of change across the Council and the overall reduction in resources during the year, the sustainment of this assurance opinion should be regarded as a positive outcome.

SIGNIFICANT GOVERNANCE ISSUES

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

Update on improvements identified in the 2014/15 Annual Governance Statement

87. Following the production of the Annual Governance Statement for 2014/15, one improvement action was identified for 2015/16.

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

In April 2014, the Council submitted the County Durham Plan to the Government and this was followed by an examination in public. After the Planning Inspector's Report rejected the plan, the council challenged the report and it was subsequently quashed by the High Court. Following discussions with the Department for Communities and Local Government and the Planning Inspectorate, legal advice was sought and the Council decided to undertake a three stage process in preparation of a new local plan, which will also ensure meaningful engagement with the community and stakeholders. In the meantime, members have endorsed a revised Policy Position Statement to clarify how development proposals will be handled to ensure that appropriate sustainable development is not delayed. An Issues and Options papers was presented to Cabinet on 15 June 2016 to start the consultation process on developing a new Local Plan.

Conclusion

88. In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2015/16 were fit for purpose in accordance with the governance framework. As a result of the review of governance arrangements, and the work of both internal and external audit, we have identified two actions as being necessary to improve governance arrangements in 2016/17. This is shown in the table below.

Proposed Governance Improvements required during 2016/17

No.	Actions to be taken	Lead Officer
1	Implement an action plan to enable approval of the County Durham Plan within statutory requirements	Head Of Planning and Assets, Regeneration and Economic Development
2	Implement a new chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths	Chief Executive Officer

Signed:

Simon Henig
Leader of Durham County Council

Terry Collins
Chief Executive

Paul Darby
Interim Corporate Director, Resources

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Audit Committee

30 June 2016



External Audit - Progress Report - June 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

Summary of Audit Progress

3. Planning for the 2015/16 audit is now complete and the Audit Strategy was presented at the last Audit Committee meeting.
4. Following receipt of the draft financial statements our final fieldwork will commence.

Emerging Issues and Developments

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

Recommendation

6. 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

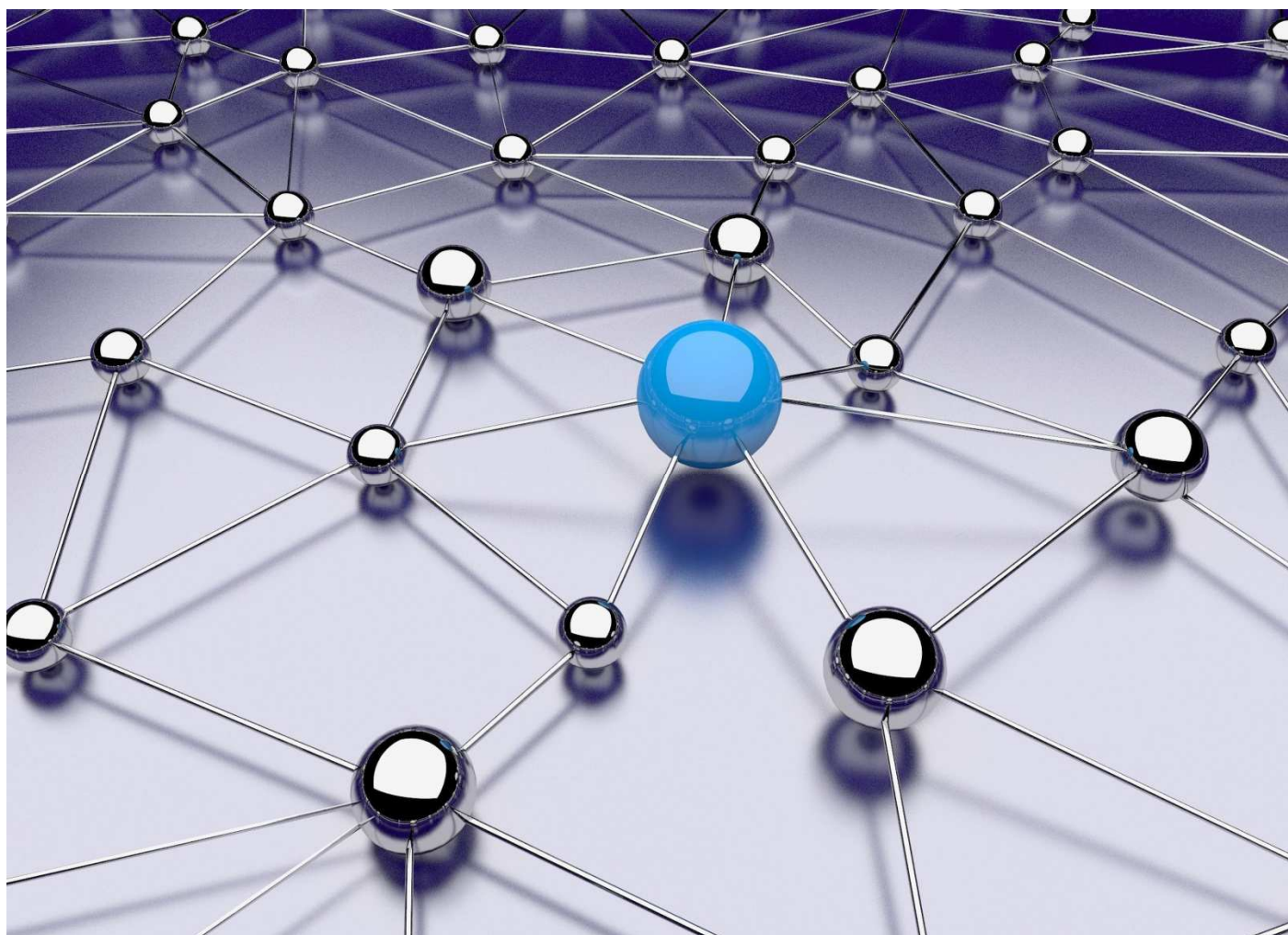
Legal Implications

None

Durham County Council

Audit Progress Report

June 2016



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

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 presented our Audit Strategy Memorandum at the May 2016 Audit Committee. 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. No changes, either to the risks or our audit approach, have been identified since we issued this document.

Final Fieldwork

With the receipt of the draft financial statements our audit moves into the final fieldwork phase. The culmination of this work will be our Audit Completion Report which we will present to members in September 2016.

03 National publications and other updates

This section contains updates on the following:

1. **Fighting Fraud and Corruption Locally (DCLG);**
2. **Local Authority Assets: Disposal Guidance (DCLG)**

1. **Fighting Fraud and Corruption Locally**

Published by the Department for Communities and Local Government (DCLG), the document aims to assist local authorities to:

- develop and maintain a culture in which fraud and corruption are understood to be unacceptable;
- understand their fraud risk and prevent fraud more effectively, and use technology to improve their response;
- share information and resources more effectively to prevent and detect fraud loss;
- bring fraudsters to account more quickly and efficiently; and
- improve the recovery of losses.

The document is produced as part of the fighting fraud and corruption locally initiative, a partnership between local authorities and key stakeholders, and succeeds the previous strategy, written in 2011.

<https://www.gov.uk/government/publications/fighting-fraud-and-corruption-locally-2016-to-2019>

2. **Local Authority Assets: Disposal Guidance**

This document brings together information and guidance for local authorities to use when disposing of property and details wider government initiatives that may help local authorities to unlock opportunities for rationalising their estate.

<https://www.gov.uk/government/publications/local-authority-assets-disposal-guidance>

04 Contact details

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

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