



Audit Committee

Date **Friday 24 February 2017**
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 28 November 2016 (Pages 5 - 12)
3. Declarations of interest, if any
4. Agreement of Accounting Policies for Application in the 2016-17 Financial Statements - Report of Corporate Director, Resources (Pages 13 - 42)
5. Final Accounts Timetable for the Year Ended 31 March 2017 - Report of Corporate Director, Resources (Pages 43 - 48)
6. Changes to the Code of Practice for Local Authority Accounting in the UK 2016-17 - Report of Corporate Director, Resources (Pages 49 - 54)
7. Decision to opt in to the National Scheme for Auditor Appointments - Report of Corporate Director, Resources (Pages 55 - 62)
8. External Audit - Durham County Council Audit Strategy Memorandum Year Ended 31 March 2017 - Report of the External Auditor (Pages 63 - 86)
9. External Audit - Durham Pension Fund Audit Strategy Memorandum Year Ended 31 March 2017 - Report of the External Auditor (Pages 87 - 102)
10. External Audit Progress Report - February 2017 - Report of External Auditor (Pages 103 - 112)
11. External Audit Certification of Claims and Returns - Report of External Auditor (Pages 113 - 118)
12. Corporate Governance Review 2016/2017 - Key Dates - Report of Corporate Director, Resources (Pages 119 - 122)

13. Revised Risk Management Policy and Strategy - Report of Corporate Director, Resources (Pages 123 - 128)
14. Strategic Risk Management - Progress Report for the Quarter Ended 31 December 2016 - Report of Corporate Director, Resources (Pages 129 - 142)
15. Emergent Internal Audit Plan 2017/2018 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 143 - 152)
16. Internal Audit Progress Report for the quarter ended 31 December 2016 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 153 - 178)
17. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
18. 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)

19. Internal Audit Progress Report for the quarter ended 30 September 2016 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 179 - 200)
20. Organised Crime Procurement Pilot - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 201 - 236)
21. 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
16 February 2017

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

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

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

Co-opted Members:

Mr D Beavis and Mr C Robinson

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Monday 28 November 2016 at 10.00 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:

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

Co-opted Members:

Mr D Beavis and Mr C Robinson

The Chairman welcomed Naci Akdemir to the meeting. Naci was researching for his PhD at Durham University the causes of economic cybercrime and its implications for policing.

1 Apologies

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

2 Minutes

The minutes of the meeting held on 30 September 2016 were confirmed as a correct record and signed by the Chairman.

In relation to the Employment Tribunal referred to in Minute no. 8, The Chief Internal Auditor and Corporate Fraud Manager informed the Committee that attempts had been made to meet with the complainant however, no meeting dates had been accepted to date.

3 Declarations of interest

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

Councillor C Carr declared an interest in Item No. 10, as Chair of the General Licensing and Registration Committees.

4 Cyber Security

The Committee received a presentation from Head of ICT and the Chief Internal Auditor and Corporate Fraud Manager that highlighted:-

- It's an arms race – continual battle and not something that could be fixed
- Hacked – real problem and big money for ransomware companies. E-mail scams netted 3m euros last year.
- Cyber Risk – Drivers
 - Technology Expansion – new technology everyday all vulnerable to risk
 - Data Growth
 - Evolving Business Models – state sponsored hacking
 - Motivated Attackers – people work globally
- Principles of Cyber Defence
 - Secure configuration
 - Boundary firewalls and internet gateways – attempted hacks on a weekly basis were 2.7m and one third of all e-mails had malicious content
 - Access control and administrative privilege management
 - Patch management
 - Malware protection
- What we are doing –
 - Physical security data centres – highly controlled
 - Firewalls - prevent internet traffic in and out of the system
 - Anti-virus – looks for specific packages
 - Spam filters – try to filter most out
 - Dual factor - authentication
 - Whitelisting – hardware & software – specific about what is allowed on network
 - Training and communication – continually train and communicate anything at all suspicious and not to open or download if unsure
- Internal Audit Helps – assurance over ICT controls
 - Key questions are:
 - Does the organisation use a security framework? PSN and PCI used
 - What are the high risks to the organisation related to cybersecurity e.g. Cloud Computing, Outsourced Business Critical Systems, Disaster Recovery and Business Continuity, Periodic Access Reviews and Log Reviews.
 - How are employees made aware of their role related to cybersecurity? – mandatory training, regional sessions, articles in staff magazines and e-mails.
- Internal Audits
 - Access Controls
 - Physical Security
 - Internet Security
 - Infrastructure/Network Management
 - Mobile Computing
 - Windows Operating System

- Security Incident Management
- ICT Purchasing
- Systems Development and Maintenance
- Third Party Access
- Business Continuity Planning
- ICT Asset Management
- ICT Risk Management
- Take away thoughts –
 - We must be prepared NOW not as a reaction to a Cyber Incident
 - Presume we are already breached or vulnerable
 - Think about it holistically – it is not just about penetration testing and firewalls
 - Get assurance. Use frameworks to assist but not define

The Chairman invited Mr Akdemir to ask a question. He informed the Committee that he was studying cyber-crime on an individual level and said that crime surveys had showed high levels of association with victimisation. He said that the Complaint Centre for cyber incidents had reported a number of people who had experienced a loss of money whilst trying to access the Government's website due to hoaxes. He asked if the Council protected people against such scams. The Head of ICT advised that the Council do filter any malicious content and advised employees not to open suspicious e-mails and send to a 'spam' e-mail address or to contact the ICT helpdesk.

Mr Akdemir asked if awareness had been increased for employees, especially when dealing with vulnerable younger and elderly people. The Head of ICT advised that employees received mandatory training and that peer to peer training takes place within schools.

Councillor Davinson asked if there were specific risks when people were using mobile devices and was informed that data traffic from the Council's system to your device would feature dual log in identification as protection. He further asked how this was tackled in schools, in particular through their VLE systems. He was aware that a school child had recently been suspended for hacking in the school's computer system. The Head of ICT said that the school based technology was vulnerable and that the Council did offer advice and support to them. He added that a lot of children try to hack just to see if they could do it. The ICT team had given training to a pupil recently to show him the repercussions of what he had done after hacking a schools system.

The Chairman thanked the Head of ICT and the Chief Internal Auditor and Corporate Fraud Manager for their informative presentation.

Councillor Davinson suggested that this information be taken to an Overview and Scrutiny Committee.

Resolved:

That the content of the presentation be noted.

5 Annual Audit Letter 2015/2016

The Committee received the Annual Audit Letter 2015/16 from Mazars summarising the 2015/16 audit of Durham County Council and Durham County Council Pension Fund (for copy see file of Minutes).

Mr J Collins, Mazars introduced Mr M Kirkham who would be taking over the responsibility from Mr Waddell. The Chairman welcomed Mr Kirkham to the meeting.

Mr Collins advised that all deadlines had been met and an unqualified opinion had been issued for both the County Council and Pension Fund Accounts. He advised that there would be challenges ahead with the early close down of accounts. A dry run would be taking place this financial year and work was ongoing with the finance team to ensure that deadlines were met. A change in the code for the highways infrastructure would have a huge impact on the balance sheet.

He concluded that the Council's arrangements were very good and that there was a lot of work ahead to ensure we were ready for the change in accounting dates.

Resolved:

That the contents of the letter are noted.

6 External Audit Progress Report - November 2016

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

Mr Collins informed the Committee that planning of the 2016/17 audit had commenced and as the accounts would be closed down earlier next year, the planning aspect would also move forward.

He highlighted the national publication on public sector audit appointments that would monitor the work of external audit.

Resolved:-

That the report be noted.

7 Update of the Local Code of Corporate Governance

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

The Risk, Insurance & Governance Manager highlighted the changes in the document and made reference to the review on CIPFA and SOLACE.

Resolved:

That the revised Local Code of Corporate Governance be approved.

8 Strategic Risk Management - Progress Report for the quarter ended 30 September 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 July to September 2016 (for copy see file of Minutes).

The Risk, Insurance and Governance Manager informed the Committee that there were 22 strategic risks and no new significant risks had been added.

Councillor Temple was concerned that the report did not show a real reflection of risks, but rather the risks that departments chose to disclose. He could not believe that the only risk to Children and Young People's Services was 'failure to protect child from death or serious harm'. He felt that the serious risk to children's education through the teaching assistant's dispute should also be included. He highlighted other risks that he felt should be included on the register, such as the shared loan to equity of the Cricket Club and price inflation risks. He suggested that all strategic risks be listed in the report.

The Risk, Insurance and Governance Manager explained that inflation risks were emerging and therefore difficult to assess. Risks were reported above a certain criteria scoring level. Some risks may appear quite large to an individual but they were assessed in terms of the organisational risk. Mechanisms were in place to assess internal risks and they went through a moderating process via Corporate Management Team. He was unable to comment on individual risks as they had come from the Service.

The Chairman suggested that this was reported to the Corporate Director of Resources with a response to be circulated to the Committee.

Councillor C Carr referred to the risks associated to Estates in terms of selling land as could often be delayed once a developer carried out their own site investigations. The Head of Assets and Planning assured Members that a three year programme was in place and that each sale was monitored. Sites could be brought forward for development and the service continued to deliver on capital receipts. He assured Members that the programme was monitored on a monthly basis and reviewed annually.

Moving on, the Finance Manager for Capital and Revenue, informed Members that work had been ongoing with the External Auditors regarding the Durham County Cricket Club. The Statement of Accounts was signed off in September and prior to that meetings took place with James Collins and Cameron Waddell of Mazars to ascertain if we needed to make a provision in the accounts of bad debts. It was agreed that as we did not know the debt and as we were not the only creditors therefore a degree of confidentiality applied and we could not include this. Since the signing off of the accounts, a deal had been made whereby the Council would receive £3.74m of redeemable shares. The balance sheet would not change and the share valuation going forward would be crucial. Any profit would be paid out as

dividends and the County Council would have the first option on those. The deal also protected the Cricket Club. External Audit and the Treasury Management advisor would work with the Council's Finance team to continually monitor the situation. The Corporate Director of Resources and Chief Executive would meet with the Cricket Club to finalise the deal and further details would be reported back to Members.

Councillor C Carr was advised that the Cricket Club had not missed any loan payments and the repayment of the loan had been put on hold.

Mr Robinson appreciated the information provided but was concerned that we had any value on shareholdings. He said that a realistic valuation was needed and that evidence should be presented to the Committee of what the Cricket Club can offer to the Council.

Mr Kirkham, Mazars said that external audit would challenge the accounts but that the point in which they needed to be satisfied would be carried out at the year end.

Mr Robinson was assured that information would be given to Members between now and the end of March on the level of the dividend from the Cricket Club. He stated that he had no complaint about the deal itself but was concerned about how it would be presented within the accounts.

The Head of Financial and HR Services advised that over the next few months a business plan would be developed taking on board the new Chairman's views. The robustness of this plan would have an impact on the valuation of the shares. He assured Members that the County would have the full protection of payments and would see an impact from the shares.

The Finance Manager for Capital and Revenue commented that the environmental impact and economy as a whole would benefit from the deal and that it was key to have the correct business plan in place.

Councillor Davinson said that there should be a clearer picture of where things stand by the end of March. He felt that membership would increase as people would stand behind the club and that sponsors would want to stay with the club.

Resolved:

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

9 Work of the Audit Committee - Report to Council

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

The Chairman had delegated the responsibility of presenting the report to the Vice-Chairman, as he would be chairing the full Council meeting.

Mr Robinson said that he had been overwhelmed with the amount of information that had been available to him and found the process to be excellent. Mr Beavis fully endorsed those comments.

The Chairman thanked the co-opted members for their comments.

Resolved:

That the draft report be agreed and reported to the meeting of the County Council being held on 7 December 2016.

10 Internal Audit Progress Report for the quarter ended 30 September 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 April to June 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 51% of the total plan had been delivered, exceeding the target of 45%. There had been 4 audits finalised in the quarter that had been given a limited assurance opinion. 6 audits had been removed from the plan and 35 unplanned reviews were added. With reference to the survey response rate an average score of 4.5 out of 5 was given from service groupings. The summary of progress on the actions due were highlighted and members were informed that all performance indicators had been achieved.

Resolved:

- (i) That the amendments made to the 2016/2017 Annual Audit Plan, be noted.
- (ii) That the work undertaken by Internal Audit during the period ending 30 September 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.

11 Exclusion of the public

Resolved:

That under Section 100A(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 paragraphs 2 and 3 of Schedule 12A to the said Act.

12 Internal Audit Progress Report for the quarter ended 30 September 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).

Members were advised that there were four audits finalised in the quarter that had been issued with a limited assurance opinion.

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

Resolved:

That the report be noted.

13 Protecting the Public Purse - Activity Update as at 30 September 2016

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager that provided an update on the Council's counter fraud activity as at 30 September 2016 (for copy see file of Minutes).

Resolved:

That the recommendation contained within the report be approved.

Audit Committee**24 February 2017**
**Agreement of Accounting Policies for
Application in the 2016/17 Financial
Statements**
John Hewitt, Corporate Director Resources
Purpose of the Report

1. To update the Audit Committee on the County Council's accounting policies to be applied in the preparation of the 2016/17 Statement of Accounts and to seek confirmation from the Audit Committee that appropriate policies are being applied.

Background

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

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

5. Appendix 2 provides a summary of all changes to be applied in preparing the 2016/17 Statement of Accounts.
6. Objective 2 of the Audit Committee's Terms of Reference requires it to provide *'Independent assurance over the financial reporting of the Council's Statement of Accounts ensuring that any issues arising from the process of drawing up, auditing and certifying the Council's annual accounts are dealt with properly to maintain an understanding of accounting policies and internal and external reporting requirements'*.

New and Amended Accounting Policies

7. The proposed accounting policies are in line with those used in the preparation of the 2015/16 accounts, with the exception of:
 - 2 (Accruals of Income and Expenditure) – the de minimis for accruing for manual sundry creditor or sundry debtor provisions has been increased from £1,000 to £10,000.
 - 20 (Overheads and Support Services) – amended to reflect the revised presentation of financial statements as required by the Code of Practice 2016/17
8. There are no new accounting policies.
9. The full list of accounting policies the Council proposes to disclose in its Statement of Accounts notes are detailed in Appendix 2.

Recommendations and reasons

10. The Committee is recommended to:
 - review the accounting policies;
 - approve their use in the preparation of the 2016/17 financial statements.
 - authorise the Corporate Director Resources to review the accounting policies as necessary, and report changes to the Audit Committee.

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance -

The report considers the Accounting Policies for the County Council's Statement of Accounts for 2016/17.

Staffing -

None

Risk -

None

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

Appendix 2: Accounting Policies 2016/17

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

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

Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required by the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts. In line with the Regulations, the Statement of Accounts is prepared in accordance with proper accounting practices.

Those practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) and the Service Reporting Code of Practice 2016/17 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

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

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The County Council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £10,000 other than in exceptional circumstances.

3. Business Improvement District Schemes

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

4. Cash and Cash Equivalents

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

5. Exceptional Items

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

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

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

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

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

7. Charges to Revenue for Non-Current Assets

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

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

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

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

8. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. These are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

Post Employment Benefits

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

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

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

The Local Government Pension Scheme

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

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

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

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

- Remeasurements, comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - Contributions paid to the Durham County Council Pension Fund – cash paid as employer’s contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

9. Events After the Reporting Period

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

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

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

10. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

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

Available-for-Sale Financial Assets

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

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

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.
- Equity shares with no quoted market prices – at cost.

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

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

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

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

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

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

11. Foreign Currency Translation

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

12. Government Grants and Contributions

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

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

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

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

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

13. Heritage Assets

Tangible and Intangible Heritage Assets

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

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

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

Recognition and measurement

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

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

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

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

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

Museum Collections and Artefacts

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

Artwork, including Public Art and Sculptures

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

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

Monuments, Statues and Historic Buildings

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

Civic Regalia and Silverware

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

Geophysical / Archaeological

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

Depreciation

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

Impairment

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

Disposal

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

If you would like more information about Durham County Council's heritage assets, contact details can be found on the front page of this document.

14. Intangible Assets

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

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

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

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

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

15. Interests in Companies and Other Entities

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

16. Inventories and Long Term Contracts

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

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

17. Investment Property

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

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

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

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

18. Joint Operations

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

19. Leases

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

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

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

The County Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The County Council as Lessor Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

20. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2016/17 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

This is a new heading from 2016/17 onwards in the Comprehensive Income and Expenditure Statement, within the net cost of services, to reflect the revised presentation of financial statements as required by the Code of Practice 2016/17. This replaces the previous headings of Corporate and Democratic Core and Non Distributed Costs.

21. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

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

All valuations have been undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). The effective date for valuations is 1 April of the financial year and assets are revalued on a five-year rolling programme. Council dwellings are reviewed annually. All valuations undertaken in 2016/17 were carried out by Council staff. In addition to this rolling programme, assets which have been subject to potentially material change as a result of transactions in any given year will be revalued as and when such changes occur.

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

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

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

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

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

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

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

23. Provisions

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

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

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

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

24. Carbon Reduction Commitment Allowances

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

25. Contingent Liabilities

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

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

26. Contingent Assets

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

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

27. Reserves

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

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

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

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

29. Value Added Tax (VAT)

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

30. Schools

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

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation/Foundation Trust

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

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

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

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

31. Collection Fund Statement

Council Tax Income

Council Tax income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. The difference between the accrued income for the year and the amount required by regulation to be credited to the General Fund will be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund balance Movement in Reserves Statement. Any balances owed to or from each preceptor will be shown as a creditor or debtor in the Council's accounts.

Business Rates Income

Business Rates income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. The difference between the accrued income for the year and the amount required by regulation to be credited to the General Fund will be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund balance Movement in Reserves Statement. Any balances owed to or from each preceptor or central government will be shown as a creditor or debtor in the Council's accounts.

Audit Committee

24 February 2017

Final Accounts Timetable for the year ended 31 March 2017



John Hewitt, Corporate Director Resources

Purpose of the Report

- 1 The purpose of the report is to provide Members with the Final Accounts Timetable for 2016/17. This timetable details the deadlines for key actions to complete the Statement of Accounts in line with statutory deadlines.
- 2 The report is presented in accordance with paragraph 4.2.3 of the Committee's operational terms of reference which requires it **'to maintain an understanding of internal and external reporting requirements'**.
- 3 The key dates taken from the Final Accounts Timetable are attached at Appendix 2.

Background

- 4 The 'Accounts and Audit Regulations 2015 require that the responsible financial officer, by no later than 31 May, signs and certifies that the Statement of Accounts presents a true and fair view of the financial position of the County Council for the year to 31 March previous, subject to the views of the External Auditor.
- 5 The Regulations then require that on or before 31 July, approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take into account the views of the External Auditor. This is done so that the Statement of Accounts can then be published.
- 6 Transitory provisions permit the current deadlines to continue for 2016/17 (30 June for stage one and 30 September for stage two).
- 7 In order to prepare for the earlier deadlines from 2017/18, the Council is planning a dry run for the 2016/17 Accounts. The Final Accounts timetable for 2016/17 has been developed with this in mind.
- 8 The Final Accounts timetable is a tool for the effective management and monitoring of the process of 'closing the accounts'.

The Timetable

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

Recommendations and reasons

- 15 Members are asked to note the key dates in the Final Accounts Timetable for 2016/17 detailed in Appendix 2.

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance –

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

Staffing -

None

Risk -

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

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

Appendix 2: Key dates from the Final Accounts Timetable

Task	Responsibility	Timetabled date 2015/16	Proposed completion date 2016/17
Final Accounts Timetable and Guidance Notes issued to key personnel	Strategic Finance	Mon 22 Feb 2016	Fri 27 Jan 2017
Sending out of Related Party Declarations for Members and Senior Officers	Resources – Democratic Services	Fri 1 Apr 2016	Wed 1 Mar 2017
Details of Related Party Declarations for Members and Senior Officers to be returned to Democratic Services	Members / Senior Officers	Fri 15 Apr 2016	Fri 17 Mar 2017
Final Postings by Benefits Section	Financial Services – Revenues and Benefits	Thu 31 Mar 2016	Fri 31 Mar 2017
Last creditors paysheet for 2016/17	Financial Services – Revenues and Benefits (Creditors)	Thu 31 Mar 2016	Fri 31 Mar 2017
All stock checks completed at 31 March	Services	Thu 31 Mar 2016	Fri 31 Mar 2017
All cash posted up to and including 31 March	Financial Services – Revenues and Benefits	Thu 31 Mar 2016	Sat 1 Apr 2017
Last Monthly Salaries and Wages information for 2016/17 processed into ledger	Payroll / Strategic Finance	Mon 4 Apr 2016	Mon 3 Apr 2017
All Bank Reconciliations to 31 March completed	Strategic Finance	Fri 29 Apr 2016	Tue 25 Apr 2017
Service Ledgers finalised and final reports produced and net revenue outturn for each Service Grouping notified to Strategic Finance	Financial Services / Strategic Finance	Thu 12 May 2016	Wed 26 Apr 2017

Task	Responsibility	Timetabled date 2015/16	Proposed completion date 2016/17
Analytical Review of service balance sheets and outturn to Strategic Finance	Financial Services	Fri 10 Jun 2016	Fri 12 May 2017
Draft Statement of Accounts to External Audit for Technical Review	Strategic Finance	Mon 20 Jun 2016	Mon 22 May 2017
Chief Financial Officer to sign the Statement of Accounts	Strategic Finance / Corporate Director Resources	Thu 30 Jun 2016	Wed 31 May 2017
Statement of Accounts to External Audit	Strategic Finance	Fri 1 Jul 2016	Thu 1 Jun 2017
Start of Statement of Accounts Audit	External Audit	Fri 1 Jul 2016	Thu 1 Jun 2017
Start of Inspection Period (provisional)	Strategic Finance	Fri 1 Jul 2016	Mon 5 Jun 2017
Unaudited Whole of Government Accounts (WGA) return to External Audit and CLG – provisional	Strategic Finance	Fri 8 Jul 2016	Fri 7 Jul 2017
Cabinet – Overall Outturn Report considered	Strategic Finance	Wed 13 Jul 2016	Wed 12 Jul 2017
End of Inspection Period (provisional)	Strategic Finance	Thu 11 Aug 2016	Fri 14 Jul 2017
Audit Committee Meeting – approval of Statement of Accounts – provisional (Statutory deadline date is still 30 Sept for 2016/17)	Strategic Finance	Fri 30 Sep 2016	Mon 31 Jul 2017
Publication of Accounts – provisional (Statutory deadline date is still 30 Sept for 2016/17)	Strategic Finance	Fri 30 Sep 2016	Mon 31 Jul 2017
Audited Whole of Government Accounts (WGA) return to CLG – provisional	Strategic Finance	Fri 30 Sep 2016	Fri 29 Sep 2017

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Audit Committee

24 February 2017

Changes to the Code of Practice for Local Authority Accounting in the UK for 2016/17



John Hewitt, Corporate Director Resources

Purpose of the Report

- 1 The purpose of the report is to provide the Audit Committee with a summary of the key accounting changes in the latest edition of the **Code of Practice for Local Authority Accounting in the UK** (the Code). These changes apply to the 2016/17 accounts.
- 2 The report is presented in accordance with paragraph 4.2.3 of the Committee's operational terms of reference which requires it **'to maintain an understanding of internal and external reporting requirements'**.
- 3 Appendix 2 provides a summary of the changes and their relevance to the Council.

Background

- 4 The Code is based on International Financial Reporting Standards (IFRS), and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.
- 5 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2016. It supersedes the 2015/16 Code.
- 6 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.

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

Recommendations and reasons

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

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance –

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

Staffing -

None

Risk -

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

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None

Appendix 2: Changes to the Code of Practice for Local Authority Accounting in the UK for 2016/17

The table below provides a summary of the changes in the 2016/17 CIPFA Code and their applicability to Durham County Council.

	Change	Relevant to Durham County Council
1	Following the amendments in the Update to the 2015/16 Code as a result of the Accounts and Audit Regulations 2015, amendments to chapter one (Introduction), chapter three (Financial Statements), and Appendix B (Sources and Legislation).	Yes
2	An update of section 2.1 (Concepts) for the issue of the IPSASB <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> , particularly to reflect the description of public sector users and understandability of local authority financial statements.	Yes
3	Amendment to section 2.10 (Fair Value Measurement) to remove the scope exclusion on the disclosures for retirement benefit plan investments measured at fair value in accordance with section 6.5 (Accounting and Reporting by Pension Funds).	Yes
4	Following the amendments in the Update to the 2015/16 Code, amendment to section 3.1 (Narrative Report) to reflect the new requirements in the Accounts and Audit Regulations 2015 for English authorities for a narrative statement. The section has also been updated to reflect the provisions of statutory guidance issued by the Scottish Government on the Management Commentary and a new recommendation is made to cross refer in the Narrative Report to the new Expenditure and Funding Analysis (see 5 below).	Yes

	Change	Relevant to Durham County Council
5	Amendments to section 3.4 (Presentation of Financial Statements) to reflect the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MRS) and to introduce a new Expenditure and Funding Analysis as a result of the Telling the Story review of the presentation of local authority financial statements. The presentation of financial statements section of the Code has also been amended to reflect the December 2014 changes to IAS 1 <i>Presentation of Financial Statements</i> under the International Accounting Standards Board (IASB) Disclosure Initiative.	Yes
6	An update to section 3.7 (Statement Reporting Reviews of Internal Controls) for the changes to the <i>Delivering Good Governance in Local Government: Framework (2016)</i> published by CIPFA and SOLACE.	Yes
7	An addition to the definition of a related party in section 3.9 (Related Party Disclosures) for the changes to IAS 24 <i>Related Party Disclosures</i> in relation to key management personnel as a result of the <i>Annual Improvements to IFRSs 2010-2012 Cycle</i> .	Yes
8	Introduction in section 4.1 (Property, Plant and Equipment) of the new measurement requirements for the Highways Network Asset in section 4.11 and consequential amendments for the definitions, measurement and disclosure provisions for 2016/17.	Yes – however an update issued by CIPFA in Nov 2016 has deferred implementation until 2017/18
9	Clarification in section 4.1 of the treatment of accumulated depreciation and impairment for items of property, plant and equipment that are not a part of the Highways Network Asset.	Yes
10	Introduction of a new section 4.11 (Highways Network Asset) for the new measurement requirements at depreciated replacement cost for the Highways Network Asset based on the methodologies in the CIPFA <i>Code of Practice on Transport Infrastructure Assets</i> .	Yes – deferred until 2017/18

	Change	Relevant to Durham County Council
11	<p>Amendments to section 6.5 (Accounting and Reporting by Pension Funds) as a result of a review of that section:</p> <ul style="list-style-type: none"> • update to the format of the Fund Account and the Net Asset Statement to be consistent with the new <i>Financial Reports of Pension Schemes – A Statement of Recommended Practice 2015</i> • confirmation of the new disclosure requirements for retirement benefit plan investments measured at fair value • recommendations for a new disclosure on investment management transaction costs • a new Annex setting out the application of other sections of the Code, and • other minor drafting improvements. 	Yes
12	<p>Amendments to chapter nine (Group Accounts) for the changes relating to IFRS 11 <i>Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations</i> and to include an interpretation of IAS 27 <i>Separate Financial Statements</i> where the option to equity account for investments in subsidiaries, associates or joint ventures is withdrawn.</p>	No
13	<p>Introduction of a new Appendix D listing the amendments to standards included in the 2016/17 Code.</p>	Yes

Audit Committee

24 February 2017



Decision to opt in to the National Scheme for Auditor Appointments

John Hewitt, Corporate Director Resources

Purpose of the Report

1. To update the Audit Committee on the request to County Council on 22 February to accept Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

Background

2. The attached report to be presented to Council on 22 February 2017 provides a detailed review of the proposal.

Recommendation and reasons

3. Members are asked to note the report to Council on 22 February 2017.

Appendix 1: Implications

Finance –

There are no direct financial implications arising for the Council as a result of this report.

Staffing -

None

Risk -

None

Equality and Diversity –

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Discrimination Act -

None

Legal Implications -

None

County Council

22 February 2017

Decision to opt in to the National Scheme for Auditor Appointments



Report of Corporate Management Team John Hewitt, Corporate Director Resources Councillor Alan Napier, Deputy Leader and Portfolio Holder for Finance

Purpose of the Report

- 1 This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond, as the current arrangements expire with the conclusion of the 2017/18 audit. The auditors are currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission.

Background

- 2 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England.
- 3 On 5 October 2015 the Secretary of State notified his intention to extend the transitional arrangements, whereby auditors are appointed by Public Sector Audit Appointments Limited (PSAA) under the contracts previously negotiated by the Audit Commission.
- 4 Whilst NHS and smaller local government bodies will move to the new appointment regime on 1 April 2017, larger local government bodies will remain on current appointment contracts until the completion of the 2017/18 audits. This means new appointments will need to be made by 31 December 2017 for the financial year beginning on 1 April 2018.
- 5 In 2017, councils will need to make choices about the arrangements for appointing external auditors. Briefly these options comprise:-
 - (a) Setting up an independent Auditor Panel;
 - (b) Joining with other councils to set up a joint independent Auditor Panel;
 - (c) Opting-in to a sector led body that will negotiate contracts and make the appointment on behalf of councils, removing the need to set up an independent Auditor Panel.

Summary of the Options

6 **Option 1** - Setting up an independent Auditor Panel.

In order to make a stand-alone appointment the Auditor Panel would need to be set up by Durham County Council itself. The members of the panel must be wholly or a majority of independent members as defined by the Local Audit and Accountability Act 2014. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close family and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.

7 **Option 2** - Joining with other councils to set up a joint independent Auditor Panel.

The Local Audit and Accountability Act 2014 enables the Council to join with other authorities to establish a joint Auditor Panel. As with Option 1 above this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act.

8 Neither of these options are recommended. Both of the above 2 options would be more resource intensive to implement and would likely result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

9 **Option 3** - Opting-in to a sector led body that will negotiate contracts and make the appointment on behalf of councils.

In addition to the transitional arrangements the Secretary of State also gave the role of appointing local auditors under a national scheme to PSAA.

The benefits of opting-in are as follows:

- (a) PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
- (b) PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
- (c) Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
- (d) It is reasonable to expect that large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;

- (e) The overall procurement costs would be lower than an individual smaller scale procurement;
- (f) The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
- (g) There will be no need for Durham County Council to establish alternative appointment processes locally, including the need to set up and manage an Auditor Panel;
- (h) It will provide both the perception and reality of independent auditor appointment through a collective approach.

The Way Forward

- 10 In accordance with the Local Audit and Accountability Act 2014, and Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations), PSAA has formally invited all eligible principal local government bodies to become opted-in authorities to the national auditor appointment arrangements.
- 11 The length of the compulsory appointing period is the five consecutive financial years commencing 1 April 2018.
- 12 A decision to become an opted-in authority must be taken in accordance with the Regulations that is by the members of an authority meeting as a whole, except where the authority is a corporation sole, such as a police and crime commissioner, in which case this decision can be taken by the holder of that office.
- 13 If Durham County Council is to become an opted-in authority then the closing date to give our formal acceptance of the invitation to PSAA is 5pm on Thursday 9 March 2017.
- 14 To date more than 200 of the 493 eligible local bodies have registered with PSAA and many more have expressed an interest. PSAA have recently stated that they are confident to have at least 400 authorities in the scheme by the above deadline.

Recommendations and reasons

- 15 The Council is requested to accept Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance - there is a risk that current external fee levels could increase when the current contracts end in 2018.

Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.

If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19.

Staffing - None.

Risk - The principal risks are that the Council fails to appoint an auditor in accordance with the new framework or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.

Equality and Diversity / Public Sector Equality Duty – None.

Accommodation – None.

Crime and Disorder - None.

Human Rights - None.

Consultation - None.

Procurement – The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.

Currently, there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these being firms with a national presence. This means that a local procurement exercise would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.

Disability Issues - None.

Legal Implications - Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a

financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council.

Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

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Audit Committee



24 February 2017

**External Audit – Audit Strategy
Memorandum – February 2017**

Report of the External Auditor

Purpose of the Report

1. This report requests that the Committee note the external auditor's strategy for the year ended 31 March 2017.

Background

2. The Audit Strategy Memorandum sets out the audit plan in respect of the audit of Durham County Council for the year ending 31 March 2017.
3. The report details:
 - The scope and approach to the auditors work.
 - The significant risks and key management judgements identified and the proposed work to address these risks.
 - The timing of the auditors work and when the outcomes of this work will be communicated to the Audit Committee.
 - The approach to the value for money conclusion. This includes details of the auditors initial risk assessment and proposed work.
 - The fees and the audit team.
4. Appendix B details the auditor's consideration of independence. The report highlights the proposed office relocation to Salvus House. The auditor's consideration of the threats and safeguards to its independence are detailed in Appendix B.

Recommendation

5. 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

Audit Strategy Memorandum

Durham County Council



For the year ending 31 March 2017



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Executive summary

Purpose of this report

The Audit Strategy Memorandum sets out our audit plan in respect of the audit of Durham County Council ('the Council') for the year ending 31 March 2017, and forms the basis for discussion at the Audit Committee meeting on 24 February 2017.

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

Timing of our work	<p>Our audit will be delivered in four main phases as outlined in page 9 of this report. The statutory deadline for the completion of our audit work is 30 September 2017.</p> <p>In 2018 the statutory deadline for preparation of draft accounts will move forward from 30 June to 31 May, and the statutory deadline for completion of audit work will move forward from 30 September to 31 July. To help prepare them for the 2018 revised deadlines, officers are aiming for 31 May 2017 deadline for preparation of the 2016/17 accounts. As agreed with officers we are aiming to issue the Audit Completion Report and audit opinion by 31 July 2017. This is on the basis that the draft accounts are available to audit by the 31 May 2017 and all necessary working papers and third party confirmations are received as requested.</p>
Financial Statements audit	<p>Significant risks</p> <p>We have identified the following areas on which we will carry out specific audit procedures to mitigate the risks of material misstatements in the Council's financial statements:</p> <ul style="list-style-type: none">• management override of controls;• revenue recognition; and• valuation of the defined benefit pension scheme <p>Materiality</p> <p>At the planning stage of the audit we have set materiality for the financial statements as a whole at £24.627 million. In reporting the results of our work we do not report identified misstatements below a clearly trivial level. We have set this level at £0.739 million.</p>
Value for Money conclusion	<p>The work we carry out to form a conclusion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources is summarised on page 11. This details our initial risk assessment and areas our additional work will focus on. We have not identified any significant risk in respect of our VFM work.</p>

Independence

We have considered any actual, potential or perceived threats to our independence on page 18. We have not identified any such threats at this stage of the audit.

Audit scope and approach

The scope of our work

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 ('the 2014 Act') and are summarised below.

Opinion on the financial statements

We are responsible for forming and expressing an opinion on the financial statements. Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Value for Money conclusion

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our Value for Money work in greater detail later in this report.

Whole of Government Accounts (WGA)

We report to the NAO on the consistency of the Council's financial statements with its WGA submission.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts by an elector. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our response to the risk of fraud

International Standards on Auditing (ISAs) require us to obtain reasonable assurance that the financial statements are free from material fraud and/or error. There are a range of ways in which fraud may arise in the context of your financial statements and we formally consider the risk of fraud as part of our planning work and design appropriate procedures to mitigate risks identified. We maintain an appropriate level of professional scepticism throughout the audit and are mindful that a material misstatement due to fraud is possible, however our audit should not be relied upon to identify all such misstatements.

Management and the Audit Committee, as those charged with governance also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

Our enquiries will focus on:

- what role the Audit Committee has in relation to fraud and how it is kept informed of fraud related matters by management;
- what anti-fraud measures you have in place and how your policies and procedures are monitored; and
- whether you are aware of any actual, alleged or suspected fraud.

We will formally write to you, in your role as those charged with governance, making the enquiries above, during our audit.

Our use of experts and other auditors

Management and auditor experts

There are material entries in your financial statements which are provided by management experts. For some of these entries, we will use our own expert to provide us with the assurance we require in relation to the work of your expert.

In addition to setting out information in respect of service organisations, Appendix A also summarises management's experts and our planned audit approach to obtaining assurance over their work.

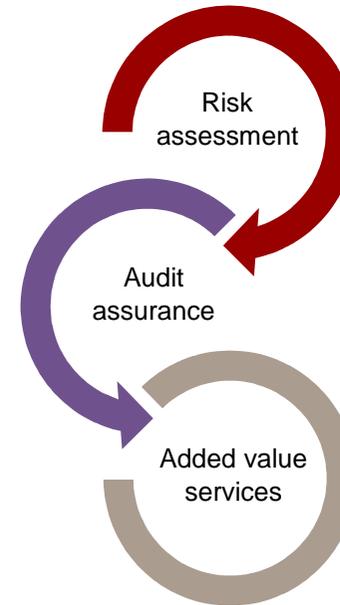
Internal audit

Where appropriate, we will seek to rely on work performed by internal audit where it provides us with the required assurance. We will meet with internal audit to discuss their work programme and findings, and factor this in when determining the most efficient testing strategy.

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

Audit efficiency and our use of IT

Innovative and integrated use of IT drives the efficiency and effectiveness of our audit. Your audit team uses the latest IT-based audit solutions and is supported by a team of IT auditors each of who have extensive knowledge of providing assurance and advisory services across the public sector.



We know that all organisations are different and face different risks. Our audit platform is modern and flexible and allows us to tailor our audit approach to the specific risks relevant to the Council, while ensuring compliance with underlying auditing standards.

We focus on the risks to your business continuity and those that give rise to a risk of material misstatement in the financial statements. Your audit team has access to a full suite of data analytics tools which allow them to determine the most effective and efficient testing strategy using IT-audit techniques where appropriate.

Significant risks and key judgements

Identified significant risks

As part of our planning procedures we have considered whether there are risks of material misstatement in the Council's financial statements that require special audit consideration. Although we report identified significant risks at the planning stage of the audit, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to mitigate these risks. Where we identify any significant risks in addition to those set out below, we will report these to the Audit Committee as part of our Audit Completion Report.

Significant risk	How we will mitigate the risk
<p>Management override of control</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We will address this risk by performing work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates affecting amounts included in the financial statements; • significant transactions outside the normal course of business; • the selections and application of accounting policies; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
<p>Revenue recognition</p> <p>There is a risk of fraud in financial reporting relating to income recognition due to the potential to inappropriately record revenue in the wrong period. ISA 240 allows the presumption of fraud relating to revenue recognition to be rebutted in exceptional circumstances, but given the Council's range of revenue sources we have concluded that there are insufficient grounds for rebuttal in 2016/17.</p>	<p>We will evaluate the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:</p> <ul style="list-style-type: none"> • testing revenue items recorded to ensure they have been recognised in the appropriate year; • testing adjustment journals; and • for major grant income, agree amounts to third party documentation.
<p>Valuation of defined benefit pension scheme</p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and • consider the reasonableness of the Actuary's assumptions that underpin the relevant entries made in your financial statements, through the use of an expert commissioned by the National Audit Office.

Identified key areas of management judgement

Key management judgement	How we will address this judgement
<p>Valuation of property, plant and equipment</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE.</p> <p>The value of the Council's PPE is material to the accounts and involve management judgements over the valuations and useful lives of assets.</p>	<p>We will:</p> <ul style="list-style-type: none"> • consider the Council's arrangements for ensuring that PPE values are reasonable; • engage our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer (where appropriate); • assess the competence, skills and experience of the valuer and the instructions issued to the valuer; and • where necessary, perform further audit procedures on individual assets to ensure that the basis and level of valuation is appropriate.

Timetable and communication

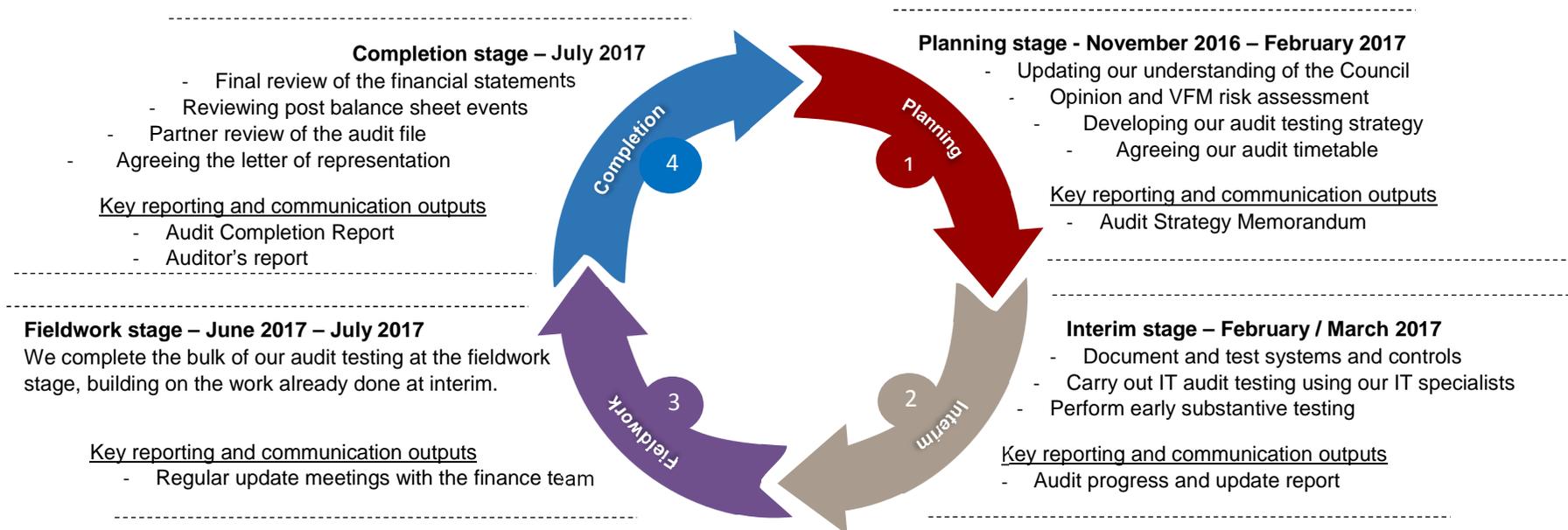
Our approach to communication

International Standards on Auditing require us to communicate a number of matters with you at various points during the audit cycle. Later in this section we outline exactly how we will communicate with the Audit Committee as those charged with governance. As well as being an integral part of our responsibilities under auditing standards, we see two-way communication with the Audit Committee and officers as being critical to building a robust knowledge of your services, the risks and challenges you face and the plans you have in place to meet those challenges.

Audit timetable

The diagram below outlines the main phases of your audit, when each will be carried out and the outputs that you will receive at each stage. This is underpinned by a 'no surprises' approach to communication that ensures management and the Audit Committee are kept aware of significant issues on a timely basis. We intend to issue our Audit Strategy Memorandum in February 2017, our Audit Completion Report in July 2017 and our Annual Audit Letter in September 2017.

The timetable is based on the Council providing a complete statement of accounts and supporting working papers by the end of May 2017.



Key communication points

ISA 260 'Communication with those charged with governance' and ISA 265 'Communicating deficiencies in internal control to those charged with governance and management', require us to communicate a number of matters to you. These matters are set out below:

Matter to be communicated	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Confirmation of our independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Conclusions on the significant audit risks and areas of management judgement		✓
Summary of unadjusted misstatements		✓
Management representation letter		✓
Our proposed audit report		✓

In addition to the matters outlined above which we are required to communicate under auditing standards, we also communicate regularly with the Audit Committee through our Audit Progress Reports, presented on a quarterly basis. We also report to the Council on an annual basis to summarise our work and main conclusions through our Annual Audit Letter.

Value for Money Conclusion

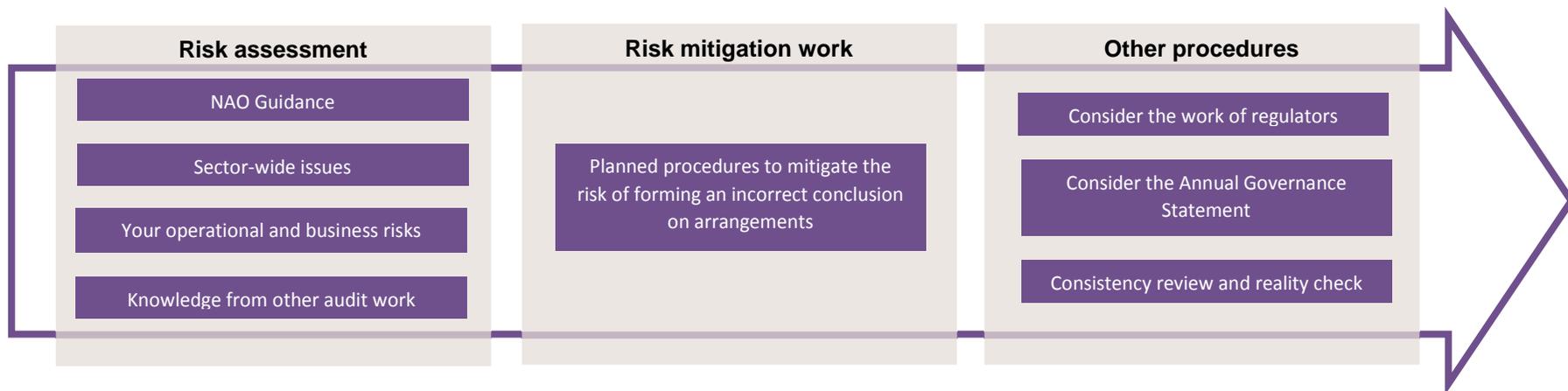
Our approach to Value for Money work

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are provided set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below.



Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a risk to the VFM conclusion exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For 2016/17, we have not identified a significant risk for our VFM conclusion.

Initial audit risk assessment

We undertook our initial risk assessment, based on the sub-criteria, using ratings with the following definitions.

Low	No risks to our vfm conclusion identified to date and no further work planned.
Medium	Not considered to be an audit risk at this stage, however, risk indicators to be followed up as further information becomes available.
Significant	Significant audit risk identified. This denotes risk to us as auditors, it is not an assessment or rating of the Council's arrangements.

Our risk assessment, by sub criteria, is shown in the tables on the following pages. Based on the risk assessment we have identified a number of areas which we do not consider to represent a significant risk to our VFM conclusion, but where further work is required for us in seeking sufficient assurance to inform our conclusion. In particular additional work is required for sustainable resource deployment, this work is detailed in the following table.

Area of additional work	Work we intend to carry out
<p>Sustainable resource deployment</p> <p>Our audit work in previous years has concluded that the Council has robust arrangements in place for medium term financial planning. We are not aware of any matters to suggest a significant change in arrangements.</p> <p>The Council continues to face financial pressure in the coming years and the Council is updating its medium term financial plan (MTFP) to meet these pressures. We need to ensure our knowledge of the Council's MTFP arrangements and its monitoring of the planned delivery of savings, remains up to date in order to ensure we give the correct VFM conclusion.</p>	<p>Building on our work from previous years, our work will include reviewing:</p> <ul style="list-style-type: none"> • how the Council has developed its MTFP and updated for LG Spending review; • the delivery of 2016/17 savings against plans; • the arrangements for 2017/18 savings, including review of robustness of identified plans, and the arrangements for the Transformation Programme; and • the arrangements for identifying savings in 2018/19 to 2019/20

We will also continue to monitor the Council's arrangements through:

- ongoing meetings with officers; and
- ongoing review of relevant meeting agenda papers and minutes where decisions relevant to our responsibilities are taken.

Sub-criteria	Proper arrangements	Audit risk rating at planning stage	Arrangements at Durham County Council
Informed decision making	Acting in the public interest, through demonstrating and applying the principles and values of sound governance	Low	<ul style="list-style-type: none"> • Constitution in place which is available on the Council's website. • Active Audit Committee in place.
	Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.	Medium	<ul style="list-style-type: none"> • Arrangements for ensuring data quality in respect of performance information in place. Final position to be confirmed at year end. • Regular reporting to Cabinet of financial information, including variances against budget. Final position to be confirmed at year end. • Performance indicators are reviewed by officers and members to ensure those used are still relevant. Regular performance reporting to Cabinet. Final position to be confirmed at year. • Medium term planning undertaken and plans in place – MTFP (7). MTFP is updated at least annually. • Reporting to Cabinet during the year sets out position on MTFP and any impact for future years.
	Reliable and timely financial reporting that supports the delivery of strategic priorities.	Medium	<ul style="list-style-type: none"> • Regular and timely reporting to members. Final position to be confirmed at year end. • MTFP is updated as part of budget setting. Final position to be updated and considered at year end.
	Managing risks effectively and maintaining a sound system of internal control.	Low	<ul style="list-style-type: none"> • Risk register and risk management arrangements in place. Risks reported to Audit Committee. • Corporate Risk Management Group which has senior officer and member representation. • Regular reporting by Internal Audit to Audit Committee. • Annual governance statement prepared, reviewed and approved by Members.

Sub-criteria	Proper arrangements	Risk rating at planning stage	Arrangements at Durham County Council
Sustainable resource deployment	Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	Medium	<ul style="list-style-type: none"> Financial and performance reports demonstrate a history of achieving financial targets. This includes delivery of significant savings. MTFP in place which is updated regularly. Transformation Programme initiated with Transformation Board in place. This will sit alongside the Council's current arrangements which have delivered significant levels of savings in recent years.
	Managing and utilising assets effectively to support the delivery of strategic priorities.	Low	<ul style="list-style-type: none"> Adequate levels of reserves which are regularly reviewed. Budget Support Reserve is available to support delivery of MTFP. Asset Register in place. Capital Strategy in place.
	Planning, organising and developing the workforce effectively to deliver strategic priorities.	Low	<ul style="list-style-type: none"> HR policies and procedures in place. Sickness information reported to Cabinet through performance reporting. Equality Impact Assessments (EIA) are used to consider fairness of savings plans.

Sub-criteria	Proper arrangements	Risk rating at planning stage	Arrangements at Durham County Council
Working with partners and other third parties	Working with third parties effectively to deliver strategic priorities.	Low	<ul style="list-style-type: none"> Better Care Fund (BCF) in place with Health and Wellbeing Board having oversight and receiving quarterly updates. Partnership management arrangements in place.
	Commissioning services effectively to support the delivery of strategic priorities.	Low	<ul style="list-style-type: none"> Better Care Fund in place and monitored. The Council's Constitution details the arrangements for contracting with third parties.
	Procuring supplies and services effectively to support the delivery of strategic priorities.	Low	<ul style="list-style-type: none"> The Council's Constitution details the arrangements for contracting with third parties.

Fees

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments Ltd (PSAA) as communicated to you in our fee letter dated 12 April 2016.

Area of work	2016/17 proposed fee	2015/16 final fee
Code audit work	£250,688	£250,688
Housing Benefit Subsidy certification	£24,158	£20,062

Fees for non-PSAA work

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

Area of work	2016/17 proposed fee	2015/16 final fee
Teachers Pensions	TBC**	£4,850
Skills Funding Agency	TBC**	£2,000

** We have not been engaged by the Council to complete this work for 2016/17. If we are, we will report the fees in future correspondence with the Audit Committee.

Our team



Mark Kirkham

Mark.kirkham@mazars.co.uk

0191 383 6300

This is Mark's first year as engagement lead at Durham County Council. Mark has been an external audit engagement lead since 2002



James Collins

james.collins@mazars.co.uk

0191 383 6331

James has been manager at the Council since 2015. Prior to this he was the Team Leader on the audit. James will manage and coordinate the different parts of the audit. He will be the key point of contact for the finance team.



Sharon Liddle

Sharon.liddle@mazars.co.uk

0191 383 6311

Sharon has been team leader on the audit since 2015. Sharon will be a key contact for the finance team, leading the day-to-day audit, reviewing the work of more junior members of the team and performing the audit work in more specialised areas.

In accordance with our internal policies for audit quality and risk management, we consider the audit of the Council to be a 'major audit'. As a result, and in line with the requirements of International Standards on Quality Control (ISQC) 1, the firm's Risk Management Partner has appointed an Engagement Quality Control Reviewer to the Council's audit who will bring an additional level of quality control to the engagement team.

Appendix A – Experts

Experts

The Council uses experts to provide entries in its financial statements. The table below outlines the areas of the financial statements where we expect the Council to use experts and an explanation of the approach we will take to obtaining assurance over those entries.

Financial statement area	Management's expert	Planned audit approach
Defined benefit liability and associated IAS 19 entries and disclosures.	Actuary (Aon Hewitt).	Review and consideration of work undertaken by the NAO's consulting actuary (PWC).
Property, plant and equipment valuations.	Internal valuer from the Council.	Review and consideration of the NAO's consulting valuer (Gerald Eve).
Financial instruments: fair value estimates.	Capita Asset Services.	Consider the reasonableness of Capita's output, referring to central assurances commissioned annually by the National Audit Office.
Business Rates Appeals provision	Analyse Local	We will consider the Council's arrangements for assessing the provision. Consider the reasonableness of Analyse Local's output, the Council's own review of the information provided and the likely impact on the financial statements.

Appendix B – Independence

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

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

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

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

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

Prior to the provision of any non-audit services, Mark will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. The following table outlines the potential threats to our independence and the safeguards put in place.

Area	Perceived threat	Safeguards and procedures
Services in relation to grant and returns certification and assurance.	Self -review	The review does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars.
	Self interest	The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis.
	Management	The work does not involve Mazars making any decisions on behalf of management.
	Advocacy	The work does not involve Mazars advocating the Council to third parties.

	Familiarity	Work is not deemed to give rise to a familiarity threat given these pieces of assurance work used to fall under the Audit Commission's certification regime and were the responsibility of the Council's appointed auditor.
	Intimidation	The nature of the work does not give rise to any intimidation threat from management to Mazars.

At the time of writing this report Mazars is considering relocating its North East office from the Rivergreen Centre to Salvus House, both in Aykley Heads. Salvus House is a building owned by Durham County Council and managed by Business Durham. If Mazars were to move into the building it would become a tenant of the Council. We met with the Chair of the Audit Committee on the 19 January 2017 to discuss the potential move and identify the potential threats and safeguards to our independence as the Council's external auditors. The following table outlines the potential threats to our independence and the safeguards we intend to put in place.

Area	Perceived threat	Safeguards and procedures
Mazars office relocation to Salvus House	Self-review	The transaction does not result in the auditor providing accounting services to Durham County Council (the Council). The transaction will not have a material impact on the financial statements of the Council.
	Self-interest	The amount paid to the Council in rent will be neither significant to Mazars LLP or the Council. Other office space would be available to the auditor were they required to move from the premises. Safeguards to mitigate the risk include: <ul style="list-style-type: none"> • None of the audit team, including the Engagement Lead, are involved in the negotiation of the office lease. The overall decision to rent space in the property will be taken by the firm's UK Executive. • The lease will be managed by the firm's estates team who are independent of the audit team. • The lease is negotiated on normal commercial terms. There are no favourable treatment or incentives being provided to the auditor by the Council or by Business Durham (who are managing the property). • Like any commercial deal the lease will include break clauses allowing Mazars to move without having to incur costs for the full lease term.
	Management	No threat identified as this business transaction does not see the auditor making decisions on behalf of the Council.
	Advocacy	The transaction does not involve Mazars advocating a position for the client. A threat may exist if the auditor, as tenant of the Council, is asked to take part in any commercial activities undertaken by the Council to encourage new tenants into the building. As a safeguard Mazars will refrain from any marketing activities on behalf of the Council.
	Familiarity	The nature of the transaction does not increase the familiarity threat as the building is one of many owned by the Council and Mazars will be one of many tenants.

		<p>Safeguards to mitigate the risk would include:</p> <ul style="list-style-type: none"> The negotiation and management of the lease will be independent of the audit team. The final decision will be taken by the firm's UK Executive.
	Intimidation	<p>It could be feasible that the Council use the rent or lease as a means to intimidate the auditor. Safeguards to mitigate the risk would include:</p> <ul style="list-style-type: none"> The lease is negotiated on a commercial basis by officers independent of the audit team. Terms of the lease will give the auditor and the Council rights which are expected in any commercial lease and will therefore reduce the risk of the client using the lease as a threat to the auditor. There is other office accommodation available in the area so the auditor is not restricted to this office location if a threat were to be made. The lease is managed by a separate team within the Council to those responsible for the Council accounts. The auditor has direct access to the Audit Committee as those charged with governance if any threats were to appear.

Appendix C - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

We consider materiality whilst planning and performing our audit.

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

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

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

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

Appendix D – Our added value

Our primary responsibilities as the Council's external auditor are outlined in the main body of this report. As your external auditor we are ideally placed to provide added value in delivering those responsibilities and the diagram below provides a summary of how we do this.



Audit Committee



24 February 2017

**External Audit – Audit Strategy
Memorandum – February 2017**

Report of the External Auditor

Purpose of the Report

1. This report requests that the Committee note the external auditor's strategy for the year ended 31 March 2017.

Background

2. The Audit Strategy Memorandum sets out the audit plan in respect of the audit of Durham County Council Pension Fund for the year ending 31 March 2017.
3. The report details:
 - The scope and approach to the auditors work.
 - The significant risks and key management judgements identified and the proposed work to address these risks.
 - The timing of the auditors work and when the outcomes of this work will be communicated to the Audit Committee.
 - The fees and the audit team.
4. The auditor's consideration of the threats and safeguards to its independence are detailed in Appendix B.

Recommendation

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

Contact: Sharon Liddle

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

Audit Strategy Memorandum

Durham County Council Pension Fund



For the year ended 31 March 2017



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Executive summary

Purpose of this report

The Audit Strategy Memorandum sets out our audit plan in respect of the audit of Durham County Council Pension Fund 'the Fund' for the year ending 31 March 2017, and forms the basis for discussion at the Audit Committee meeting on 24 February 2017.

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

Timing of our work

Our audit will be delivered in four main phases as outlined in page 8 of this report. The statutory deadline for the completion of our audit work is 30 September 2017.

In 2018 the statutory deadline for preparation of draft accounts will move forward from 30 June to 31 May, and the statutory deadline for completion of audit work will move forward from 30 September to 31 July. To help prepare them for the 2018 revised deadlines, officers are aiming for 31 May deadline for preparation of the accounts. As agreed with officers and on the basis that all necessary working papers and third party confirmations are received as requested, we are aiming to issue the Audit Completion Report and audit opinion by 31 July.

Financial Statements audit

Significant risks

We have identified the following areas in which we will carry out specific audit procedures to mitigate the risks of material misstatements:

- management override of controls;
- valuation of unquoted investments for which a market price is not readily available; and
- disclosure of funding arrangements.

Materiality

At the planning stage of the audit we have set materiality for the financial statements as a whole at £11.04m.

In reporting the results of our work we do not report identified misstatements below a clearly trivial level. We have set this level at £0.33m.

Independence

We have considered any actual, potential or perceived threats to our independence on page 14. We have not identified any such threats at this stage of the audit.

Audit scope and approach

The scope of our work

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 ('the 2014 Act') and are summarised below.

Opinion on the financial statements

We are responsible for forming and expressing an opinion on the financial statements. Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Fund for the year.

Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Fund and consider any objection made to the accounts by an elector. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our response to the risk of fraud

International Standards on Auditing (ISAs) require us to obtain reasonable assurance that the financial statements are free from material fraud and/or error. There are a range of ways in which fraud may arise in the context of your financial statements and we formally consider the risk of fraud as part of our planning work and design appropriate procedures to mitigate risks identified. We maintain an appropriate level of professional scepticism throughout the audit and are mindful that a material misstatement due to fraud is possible, however our audit should not be relied upon to identify all such misstatements.

Management and the Audit Committee, as those charged with governance also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

Our enquiries will focus on:

- what role the Audit Committee has in relation to fraud and how it is kept informed of fraud related matters by management;
- what anti-fraud measures you have in place and how your policies and procedures are monitored; and
- whether you are aware of any actual, alleged or suspected fraud.

We will formally write to you, in your role as those charged with governance, making the enquiries above, during our audit.

Our approach to obtaining assurance over service organisations

There are material entries in your financial statements where the Fund is dependent on an external organisation. We call these entities service organisations. In Appendix A, we outline our approach to understanding the services received from each organisation and the approach we intend to take to obtain sufficient appropriate evidence over items of account that derive from them.

Our use of experts and other auditors

Management and auditor experts

There are material entries in your financial statements which are provided by management experts. For some of these entries, we will use our own expert to provide us with the assurance we require in relation to the work of your expert.

In addition to setting out information in respect of service organisations, Appendix A also summarises management's experts and our planned audit approach to obtaining assurance over their work.

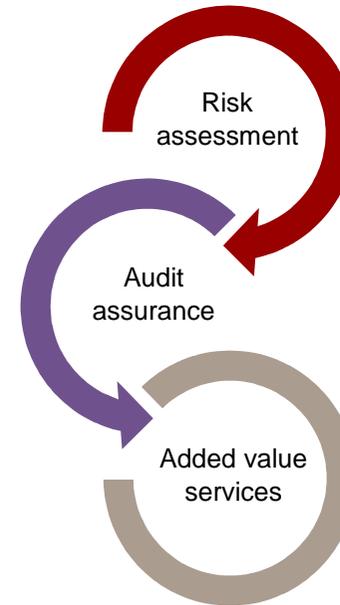
Internal audit

Where appropriate, we will seek to rely on work performed by internal audit where it provides us with the required assurance. We will meet with internal audit to discuss their work programme and findings, and factor this in when determining the most efficient testing strategy.

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

Audit efficiency and our use of IT

Innovative and integrated use of IT drives the efficiency and effectiveness of our audit. Your audit team uses the latest IT-based audit solutions and is supported by a team of IT auditors each of who have extensive knowledge of providing assurance and advisory services across the public sector.



We know that all organisations are different and face different risks. Our audit platform is modern and flexible and allows us to tailor our audit approach to the specific risks relevant to the Fund, while ensuring compliance with underlying auditing standards.

We focus on the risks that give rise to a risk of material misstatement in the financial statements. Your audit team has access to a full suite of data analytics tools which allow them to determine the most effective and efficient testing strategy using IT-audit techniques where appropriate.

Significant risks and key judgements

Identified significant risks

As part of our planning procedures we have considered whether there are risks of material misstatement in the Fund's financial statements that require special audit consideration. Although we report identified significant risks at the planning stage of the audit, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to mitigate these risks. Where we identify any significant risks in addition to those set out below, we will report these to the Audit Committee as part of our Audit Completion Report.

Significant risk	How we will mitigate the risk
<p>Management override of control</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We will address this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates affecting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
<p>Valuation of unquoted investments for which a market price is not readily available</p> <p>As at 31 March 2016 the fair value of investments which were not quoted on an active market was £154m, which accounted for 6.7 per cent of net investment assets. The values used in the accounts are those provided by fund managers which are based on Net Asset Value statements. This results in an increased risk of material misstatement.</p>	<p>In addition to our standard program of work we will:</p> <ul style="list-style-type: none"> • evaluate management controls over the valuation process; • agree holdings from fund manager reports to the global custodian's report; • agree the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation; • agree the investment manager valuation to audited accounts. Where these are not available, agree the investment manager valuation to other independent supporting documentation; • where audited accounts are available, check that they are supported by a clear opinion; and • agree the price to independent evidence, for those valuations not supported by valuation statements.

Timetable and communication

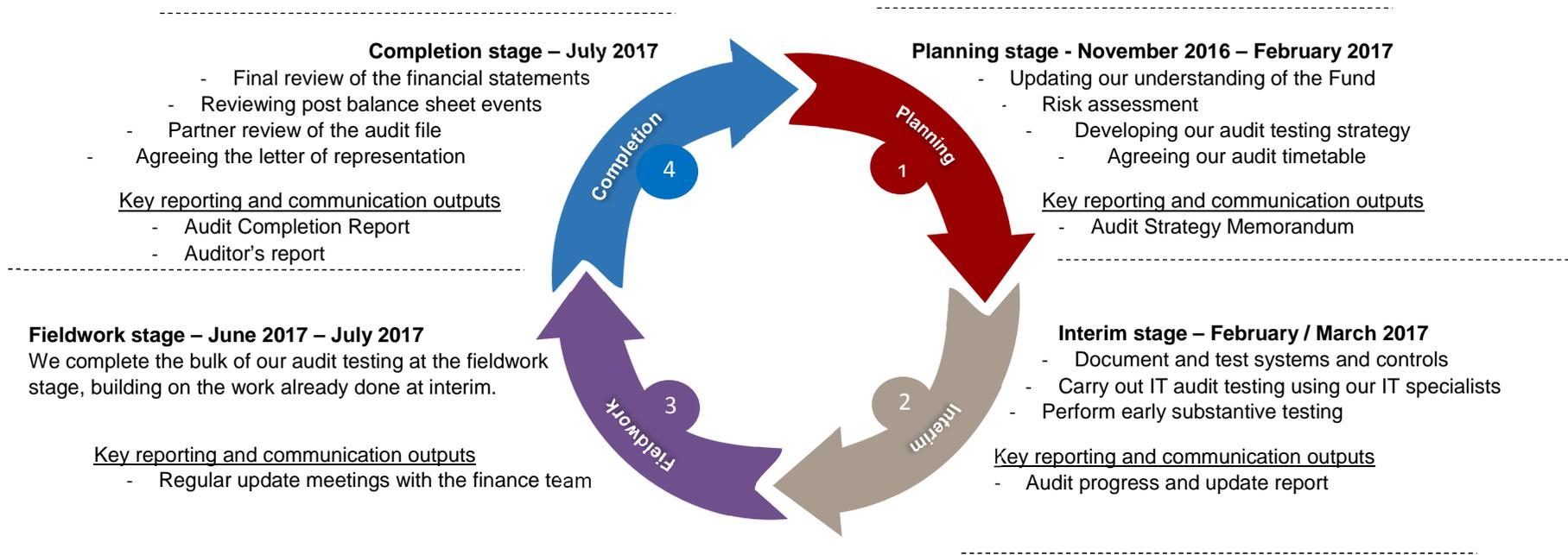
Our approach to communication

International Standards on Auditing require us to communicate a number of matters with you at various points during the audit cycle. Later in this section we outline exactly how we will communicate with the Audit Committee as those charged with governance. As well as being an integral part of our responsibilities under auditing standards, we see two-way communication with the Audit Committee and officers as being critical to building a robust knowledge of your operations, the risks and challenges you face and the plans you have in place to meet those challenges.

Audit timetable

The diagram below outlines the main phases of your audit, when each will be carried out and the outputs that you will receive at each stage. This is underpinned by a 'no surprises' approach to communication that ensures management and the Audit Committee are kept aware of significant issues on a timely basis. We intend to issue our Audit Strategy Memorandum in February 2017, our Audit Completion Report in July 2017 and our Annual Audit Letter in September 2017.

The timetable is based on the Fund providing a complete statement of accounts and supporting working papers by the end of May 2017. Where this is not the case we will communicate to the Audit Committee.



Key communication points

ISA 260 'Communication with those charged with governance' and ISA 265 'Communicating deficiencies in internal control to those charged with governance and management', require us to communicate a number of matters to you. These matters are set out below.

Matter to be communicated	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Confirmation of our independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Conclusions on the significant audit risks and areas of management judgement		✓
Summary of unadjusted misstatements		✓
Management representation letter		✓
Our proposed audit report		✓

In addition to the matters outlined above which we are required to communicate under auditing standards, we also communicate regularly with the Audit Committee through our Audit Progress Reports, presented on a quarterly basis. We also report to the Council on an annual basis to summarise our work and main conclusions through our Annual Audit Letter.

Fees

Fees for work as the Fund's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments Ltd (PSAA) as communicated to you in our fee letter dated 15 April 2016.

Area of work	2016/17 proposed fee	2015/16 final fee
Code audit work	25,918	25,918

Fees for non-PSAA work

We do not currently plan to carry out any non-PSAA work.

Our team



Mark Kirkham – Engagement Lead

mark.kirkham@mazars.co.uk

0191 383 6350

This is Mark's first year as engagement lead at the Fund. Mark has been an external audit engagement lead since 2002.



Sharon Liddle – Engagement Manager

sharon.liddle@mazars.co.uk

0191 383 6311

Sharon has been manager at the Fund since 2015. Prior to this she was the team leader on the audit. Sharon will manage and coordinate the different parts of the audit. She will be the key point of contact for the finance team



Chris Kneale – Team Leader

chris.kneale@mazars.co.uk

0191 383 6337

Chris has been team leader on the audit since 2015. Chris will be a key contact for the finance team, leading the day-to-day audit, reviewing the work of more junior members of the team and performing the audit work in more specialised areas.

In accordance with our internal policies for audit quality and risk management, we consider the audit of the Fund to be a 'major audit'. As a result, and in line with the requirements of International Standards on Quality Control (ISQC) 1, the firm's Risk Management Partner has appointed an Engagement Quality Control Reviewer to the Fund's audit who will bring an additional level of quality control to the engagement team.

Appendix A – Service organisations and experts

Service organisations

As we outline in the main body of this report, the Fund makes use of service organisations. ISA 402 defines a service organisation as one that provides services to another entity that form part of that entity's information systems relevant to financial reporting. The table below sets out the service organisations that we have identified as part of our planning work together with a description of how we intend to obtain assurance over the entries in your financial statements that are derived from them.

Service organisation	Services provided	Planned audit approach
AB BlackRock CBRE Royal London Asset Management Mondrian Investment Partners Aberdeen Asset Management BNY Mellon Water Scott	Investment managers	We will substantively test transactions undertaken by the service organisations during the year and the valuations applied to investments at the year end.
JP Morgan	Custodian	

Experts

The Fund also uses experts to provide entries in its financial statements. The table below outlines the areas of the financial statements where we expect the Fund to use experts and an explanation of the approach we will take to obtaining assurance over those entries.

Financial statement area	Management's expert	Planned audit approach
Disclosure notes on the funding arrangements and actuarial present value of promised retirement benefits.	Actuary Aon Hewitt	Review and consideration of work undertaken by the NAO's consulting actuary (PWC).
Disclosure notes on the nature and extent of risk arising from financial instruments	Mercer Limited	Consider the reasonableness of Mercer's output and assess expertise and experience of expert.

Appendix B – Independence

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

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

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

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

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

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

Appendix C - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

We consider materiality whilst planning and performing our audit.

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

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

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

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

Appendix D – Our added value

Our primary responsibilities as the Fund's external auditor are outlined in the main body of this report. As your external auditor we are ideally placed to provide added value in delivering those responsibilities and the diagram below provides a summary of how we do this.



Audit Committee



24 February 2017

External Audit - Progress Report – February 2017

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
 - Request for information
 - National Publications and other updates

Summary of Audit Progress

3. Planning for the 2016/17 audit has commenced and the Audit Strategy Memorandum is included on the agenda for this meeting.

Request for information

4. International Auditing Standards require auditors to enquire about arrangements the entity has put in place over a number of matters such as fraud, laws and regulations and going concern. The report includes a request for information on these matters.

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.

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

Audit Progress Report

Durham County Council



February 2017



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Audit progress

Certification of claims and returns

Work on the 2015/16 Housing Benefits Subsidy Claim is complete, and we certified the claim before the Department of Work and Pensions deadline of 30 November 2016.

This is now the only claim remaining part of the national arrangements managed by Public Sector Audit Appointments Ltd (PSAA), successor to the Audit Commission. As the Council's appointed auditor, we acted as an agent of PSAA. Each year auditors must report the results of our certification work to those charged with governance. For 2015/16 the only claim or return within this regime was the Housing benefit subsidy return.

Included on the agenda for this meeting is a letter which gives further details of the findings from our housing benefit subsidy claim certification work.

2016/17 audit planning

Planning of the 2016/17 audit will be the focus for the audit team in the first quarter of 2017. We have commenced our walkthrough testing of the Council's key financial systems. This work updates our understanding of systems obtained in previous years.

We will also look to complete early substantive testing of income, expenditure and journals. Where possible we will commence our work on property, plant and equipment.

North East Governance Forum

A Governance Forum, targeted at Chairs and Vice Chairs of Audit Committees and officers, was held on the 8 February 2017 at Durham County Cricket Club. The agenda for this meeting covered the following topics:

- Commercialisation, local authority trading companies and alternative models of service delivery.
- Developing an Assurance Framework

Final accounts workshop

As in previous years, we ran an annual final accounts workshop for local authorities, designed to help ensure the final accounts process goes as smoothly as possible. This workshop was held in February 2017; officers from the Council attended this event, which is free of charge.

Request for information

International Auditing Standards require auditors to enquire about arrangements the entity has put in place. We list a number of questions below and would be grateful if the Committee could provide a response for the next Audit Committee.

The auditor's responsibility to consider fraud in an audit of financial statements

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

1) How does the Audit Committee oversee management's processes to identify and respond to the risk of fraud and possible breaches of internal control? In particular how the Committee oversees managements:

- Assessment of the risk that the financial statements may be materially misstated due to fraud or error;
- Processes for identifying and responding to risks of fraud in the organisation. This includes any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- Processes for communicating to employees the views on business practice and ethical behaviour. For example updating, communicating and monitoring against the Council's code of conduct; and
- Processes for communicating to those charged with governance the arrangements for identifying and responding to fraud or error

2) Has the Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2015 – 31 March 2016?

3) Has the Audit Committee identified any specific fraud risks within the organisation? For example does it have any concerns that specific areas within the organisation are at greater risk of fraud?

4) Is the Audit Committee aware of any significant breaches of internal control during 2015/16?

5) Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively? If 'yes', please provide details of these controls. If not:

- Where are the risk areas?
- What other controls are in place to prevent, deter or detect fraud?

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

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

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

- Are there particular balances where fraud is more likely to occur?
- Is the Audit Committee aware of any assets, liabilities or transactions that it believes were improperly included or omitted from the accounts of the organisation?
- Are there any external fraud risk factors which create a high risk of fraud?

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

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

Consideration of laws and regulations in an audit of financial statements

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

- 1) How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with. In particular:
- Is the Committee aware of the process management has in place for identifying and responding to changes in laws and regulations? Please provide details.
 - What arrangements are in place for the Committee to oversee this process?
 - Is the Committee aware of the arrangements management have in place, for communicating with employees, non-executive directors, partners and stakeholders regarding the relevant laws and regulations that need to be followed?

Does the Committee have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with? If it is, what actions are management taking to address non-compliance?

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

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

- 1) Is the Audit Committee aware of any actual or potential litigation and claims involving the Council that would impact on the financial statements?

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

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

- 1) How has the Audit Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?
- 2) Has the Audit Committee identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?

Consideration of related parties

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

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

- 1) What controls are in place to: identify, authorise, approve, account for and disclose related party transactions and relationships?
- 2) Confirmation that the Audit Committee have:
- disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and

- appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework

National publications and other updates

National publications and other updates

1	Report on the results of auditors' work 2015/16: Local government bodies, PSAA, December 2016
2	NAO Report – Housing in England: overview, January 2017

1. Report on the results of auditors' work 2015/16: Local government bodies, PSAA, December 2016

Auditors of 96% of councils were able to issue the opinion on the accounts by the statutory deadline of 30 September 2016.

PSAA's conclusions in relation to local authorities included that "The timeliness and quality of financial reporting for 2015/16, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. The number of principal bodies that received an early unqualified audit opinion (by 31 July) doubled compared with 2014/15. In spite of the challenges they are facing, principal local government bodies are working hard to maintain high standards of financial reporting. The latest results of auditors' work on the financial year to 31 March 2016 show a good position for the majority of organisations."

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

2. National Audit Office (NAO) Report – Housing in England: overview

The NAO has recently published an overview of the housing market in England, the Department for Communities and Local Government's (DCLG) housing strategy and the overall housing policy landscape. Total estimated government spending on housing in England was approximately £28 billion in 2015-16. The most significant element of this is housing benefit. In 2015-16 there were 4.1 million claimants in England, costing around £20.9 billion. Two of DCLG's four strategic objectives for this Parliament are focused on housing: increasing home ownership, and increasing the supply of homes, with an ambition of delivering a million new homes in England by 2020.

The report finds that housebuilding has not kept pace with need (particularly in London) and notes the DCLG is reliant on the market to achieve its housing objectives. The report also finds that housing has become more affordable for existing homeowners, whereas by contrast housing has become less affordable for first-time buyers, and social housing rents have been increasing faster than earnings since 2001-02. Homelessness has also increased over the past five years. At the end of March 2016, 71,500 homeless households in England were in temporary accommodation, up from around 48,000 in 2010-11.

The full report is available on the NAO website <https://www.nao.org.uk/report/housing-in-england-overview/>

Contact details

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

www.mazars.co.uk

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Audit Committee



24 February 2017

External Audit – Certification of claims and returns – February 2017

Report of the External Auditor

Purpose of the Report

1. Mazars, as the Council's appointed auditor, act as an agent of Public Sector Audit Appointments (PSAA) who have responsibilities to make certification arrangements for specified claims and returns. For 2015/16 the only claim or return within this regime was the Housing benefit subsidy return. This letter reports the findings from this work.

Recommendation

2. 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

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

24 February 2017

Dear Members

Results of certification work 2015-16

As the Council's appointed auditor, we acted as an agent of Public Sector Audit Appointments (PSAA) who have responsibilities to make certification arrangements for specified claims and returns. For 2015/16 the only claim or return within this regime was the Housing benefit subsidy return. This letter reports the findings from this work.

In 2015/16 the prescribed tests for our Housing benefits work were set out in the HBCOUNT module and BEN01 Certification Instructions issued by PSAA. For the Housing benefit subsidy return, on completion of the specified work we issue a certificate. The certificate states whether the claim has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter. Where we issue a qualification letter or the claim or return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

The 2015/16 Housing benefits return was subject to a qualification letter. Detailed findings, including the extrapolation of errors identified, were reported in our qualification letter to the Department for Work and Pensions dated 28 November 2016. The table below details our findings.

Claim or return	Value of claim or return	Amended	Qualified (1)
Housing benefit subsidy	£178,546,580	No	Yes

(1) Qualification matters

Where an error was identified in sample testing and it was not possible to quantify the error the matter was reported as an extrapolated error in a qualification letter to the Department.

Our sample testing is split between initial testing and additional testing. Initial testing tests a random sample of 20 cases from each headline cell on the subsidy claim form for each of the three benefit types (non-HRA rent rebates, rent rebates and rent allowances). One error was identified in our 2015/16 initial testing. This error was due to the incorrect earning indicator being applied to a claimants earnings. Additional testing was completed and further errors identified which have been corrected in the 2016-17 system. We reported this error to the Department.

Certification Instruction BEN01 and the associated HBCOUNT approach instructs where initial testing does not match with cumulative audit knowledge and experience (CAKE) then additional testing must be completed. As in previous years, additional testing was completed by the Authority testing a further 40 cases looking at specific issues which arose in the prior year. We then carried out our own re-performance of a sample of these cases. This additional testing identified errors in 2015/16 relating to:

- Incorrect claimant income being used in the calculation of rent rebate. This resulted in one case of benefit overpayments. We reported in our qualification letter the extrapolated impact of this errors resulting in an overpayment. Five other cases with similar errors were identified as having no impact on subsidy.
- The charge being applied to non-dependent income was incorrect in the calculation of rent rebate. The impact of these errors was an underpayment of benefit. We are not required to extrapolate errors which result in the underpayment of benefits.
- Incorrect self-employed client information used in the calculation of rent allowance. Errors resulted in both under and over payment of benefit. We reported in our qualification letter the extrapolated impact of errors resulting in overpayments. We are not required to extrapolate errors which result in the underpayment of benefits.
- Errors in recording claimant's capital in rent allowance calculations. These errors had no impact on the subsidy claimed.
- Incorrect housing association rent used in a rent allowance calculation. The error identified resulted in an underpayment. We are not required to extrapolate on errors which result in the underpayment of benefit.

Where underpayments were identified the authority ensured those claims affected were amended and the entitled benefit was awarded to the claimant. A total of nine claims with a value of £834.68 were identified as being underpaid. Remedial actions have been taken by officers to prevent similar errors occurring in the future.

This year, in several areas, the additional work carried out on the prior year issues has resulted in no fails at all being identified for 2015/16.

As with previous years the number and severity of the issues identified and reported continues to decrease for the Housing Benefit return. This reflects the ongoing improvements in practices and arrangements for administering this complex scheme. I would like to express my thanks for the assistance of the Council's housing benefits team during the certification work.

Fees

PSAA set an indicative fee for our work on the Council's Housing benefit subsidy return. This indicative fee, and the final fee charged for 2015/16, is detailed in the table below:

Claim or return	2015/16 indicative fee	2015/16 final fee	2014/15 final fee
Housing benefit subsidy	£20,062	£20,062	£32,210

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INVESTOR IN PEOPLE



Yours faithfully



Cameron Waddell

Partner

Mazars LLP

This letter is prepared in the context of the 'Statement of responsibilities of auditors and audited bodies 2015-16' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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Audit Committee

24 February 2017

Corporate Governance Review 2016/17 – Key Dates



Report of John Hewitt, Corporate Director Resources

Purpose of the Report

1. To inform Audit Committee of the key dates for the corporate governance review for the 2016/17 financial year.

Background

2. The Accounts and Audit Regulations 2015 require that, on or before the 30 September, approval is given to the Council's Statement of Accounts (SoA) by resolution of a committee, which for Durham County Council is the Audit Committee.
3. The Regulations also require the Council to prepare an Annual Governance Statement (AGS), which is to accompany the Statement of Accounts (SoA). For this reason, the approval processes for the two statements needs to be aligned.

Key Dates

4. The key dates for the 2016/17 corporate governance review are in Appendix 2 of this report. These dates reflect the decision to bring forward, on a trial basis, the final accounts timetable for the 2016/17 financial year.

Recommendations and reasons

5. Audit Committee is requested to note the contents of this report.

Contact: Kevin Roberts Tel: 03000 269657

Appendix 1: Implications

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

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

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

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

Accommodation – There are no accommodation implications, but asset management is a key component of effective corporate governance

Crime and Disorder – None.

Human Rights - None.

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

Procurement – None.

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

Legal Implications – None.

Appendix 2: Corporate Governance Review 2016/17 Key Dates

<u>Action</u>	<u>Date</u>
Develop Directors Assurance Statements, approved by Directors.	13/4/17
Develop a draft Annual Governance Statement.	7/4/17
Corporate Director, Resources to approve draft Annual Governance Statement.	12/4/17
Draft Annual Governance Statement to Improvement & Planning Group for consultation.	11/5/17
Draft Annual Governance Statement to Resources Management Team for approval.	24/5/17
Draft Annual Governance Statement to CMT for approval.	14/6/17
Draft Annual Governance Statement to Audit Committee for approval, along with the annual audit opinion, as part of the final accounts process.	28/6/17
Final Annual Governance Statement to Audit Committee for approval and adoption.	31/7/17

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Audit Committee

24 February 2017

Revised Risk Management Policy and Strategy



Report of John Hewitt, Corporate Director Resources

Purpose of the Report

- 1 For Audit Committee to approve the revised Risk Management Policy & Strategy.

Background

- 2 The Risk Management Policy and Strategy contains a requirement that it should be reviewed annually. The document has been updated to bring it into line with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016), and is included at appendix 2. Proposed changes are indicated with grey highlighter.

Recommendation

- 3 Audit Committee is requested to approve the revised Risk Management Policy & Strategy.

Contact: Kevin Roberts Tel: 03000 269657

Appendix 1: Implications

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

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

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

Appendix 2: Risk Management Policy and Strategy

Version Date	Version Ref.	Revision History	Reviser	Approved By	Review Date
28 February 2017	7.0	Revision of the previous County Council risk management strategy and policy to meet the demands of the new Authority	Dave Marshall	Audit Committee	Jan 2018

Risk Management Policy Statement

As a modern local authority, Durham County Council is committed to delivering quality services to its communities and is aware that some risks are inherent in innovative service delivery.

The County Council needs to operate within the statutory framework and it recognizes that ~~its ability to achieve its objectives and successfully execute its strategies will be enhanced by ensuring that risk management is an integral part of its business philosophy, service planning and delivery arrangements. It is essential that the Council's approach is holistic, recognizing the concept of risk in its widest sense, embracing broader strategic, political, legal, social, environmental, technical and economic risks.~~ risk management is an integral part of all activities and decision making as set out in the Risk Management Strategy, which defines key roles and responsibilities and is reviewed annually, to maintain robust, integrated and effective risk management arrangements.

The Council also needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

In managing hazards and risks, the Council supports a structured and focused approach facilitated through its Risk Management Strategy.

In line with the Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives guidance ~~'A keystone for Community Governance'~~ 'Delivering Good Governance in Local Government Framework', the Council's key purpose in relation to risk management is to establish and maintain a systematic strategy, framework and process for managing risk. This will be delivered by following the principles of:

- Behaving with integrity
- Demonstrating strong commitment to ethical values
- Respecting the rule of law
- Openness
- Engaging comprehensively with institutional stakeholders
- Engaging with individual citizens and service users effectively
- ~~Accountability.~~
- ~~Effectiveness.~~
- ~~Integrity.~~
- ~~Openness and Inclusivity.~~
- Relevance.

Risk Management Strategy

Aim

The aim of the risk management policy and strategy is to embed risk management into the culture, ethos, policies and practices of the Council.

Strategic Objectives

In achieving this aim, we will meet the following strategic objectives:

- Effectively support the Council's Corporate Governance Framework;
- Enable informed, transparent and risk-managed decision making;
- Demonstrate improved outcomes as a result of risk management, including the successful delivery of innovative and challenging projects;
- Inform local communities and other stakeholders of the key risks faced by the Council, and, where appropriate, how it will manage those risks;
- Raise awareness of the need for risk management by all those connected with the delivery of services, including partners;
- Enable the Council to anticipate and effectively respond to changing conditions;
- Ensure that the approach to managing risk is proportionate to the risk involved and provides value for money;
- Meet statutory and best practice requirements in relation to risk management;
- Ensure that all parties understand their roles and responsibilities, and are adequately skilled to perform these roles;
- Consider risks relating to significant partnerships and collaborative working arrangements, including working with partners to mitigate joint risks.

To deliver these objectives

- A systematic approach to the identification, prioritising and mitigation of risk according to the likelihood of occurrence and potential impact on the Council's services will be undertaken. The systematic approach will adopt the following cycle:



- Processes, procedures, roles and responsibilities to support this strategy will be documented in the Risk Management Manual.

- A Member Risk Champion will act as risk management sponsor among elected Members.
- An Officer Risk Champion will act as risk management sponsor among Council officers.
- The Corporate Risk Management Group will oversee the direction and progress of business risk management across the Council.
- Risk management training will be undertaken to ensure that all staff and Members:
 - involved in the council's risk management arrangements receive relevant training and guidance;
 - whether new or promoted, receive risk management awareness training in their induction;
 - effectively undertake their roles and responsibilities for risk management.
- Arrangements will be in place for identifying and managing new and emerging risks.
- Reports supporting a Key Decision will disclose details of the significant risks associated with that Decision.
- The Council will work closely with **lead** partners to mitigate joint risks.
- For partnerships and **collaborative working**, Services will identify, assess and manage the risk to the Council, using guidance set out in the Partnership Governance Framework. Key areas of concern will be reported to Service Management Teams and where applicable to the Corporate Management Team.
- Named owners will be assigned to each risk, and will be accountable for ensuring that adequate mitigation of that risk is in place.
- The Council will determine the risk appetite, which represents the maximum exposure to risk that it is prepared to tolerate.
- Based on the appetite for risk, management will either tolerate, treat or transfer the risk, or where appropriate, terminate the activity which causes the risk to occur.
- Corporate and Service strategic risk registers will be compiled with each risk linked to the relevant strategic objective and analysed in terms of likelihood and impact, with a prioritised action plan to direct its risk management activity.
- Strategic risks will be recorded on Magique, the Council's Risk Management Software.
- Risk management will be embedded in the Council's corporate business processes, including:
 - strategic and service planning;
 - financial planning ;
 - policy making and review;
 - performance management;
 - project management;
 - decision making;
 - procurement;
 - bids for external funding;
 - managing partnerships.
- Services consider risks as part of the service planning process and whether any actions resulting from these should be included in the Service Plan. Where these risks are assessed as significant enough to be managed by Corporate Management

Team or Service Management Teams, they will be recorded in the Corporate and Service strategic risk registers.

- Service Management Teams will review their service risks each quarter.
- Corporate Management Team and Cabinet will review the strategic risks of the Council at least quarterly.
- Reports outlining the status of strategic risks will be produced each quarter to the Cabinet, Corporate Management Team and the Audit Committee.
- The Audit Committee will take appropriate action to ensure that corporate and service strategic risks are being actively managed.
- Internal Audit will ensure that the Audit Plan includes a review of control systems for operational and strategic risk.
- The Council will measure the performance of risk management against measurable outcomes, including finance, service performance, reputation, good governance and lessons learnt, and will benchmark risk management performance against other organisations.
- Risk management will contribute to the overall corporate governance framework of the Council, including the Annual Governance Statement and the Code of Corporate Governance.
- Resources will be allocated to embed risk management across the Authority.
- The Risk Management Policy and Strategy will be reviewed at least annually.

Audit Committee**24 February 2017****Strategic Risk Management
Progress Report for the Quarter Ended
December 2016**

**Report of Corporate Management Team
John Hewitt, Corporate Director Resources**

Purpose of the Report

- 1 The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period October to December 2016.

Background

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

Current status of the risks to the Council

- 4 As at 31 December 2016, there were 21 strategic risks, one less than as at 30 September 2016.
- 5 In summary, the key risks to the Council remain as being:
 - (a) If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses;
 - (b) Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services;
 - (c) If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria and PCI criteria for our computer applications, this would put some of our core business processes at

- risk, such as Revenues and Benefits, which rely on secure transfer of personal data;
- (d) Failure to protect child from death or serious harm (where service failure is a factor or issue);
 - (e) A service failure of Adult Safeguarding leads to death or serious harm to a service user;
 - (f) Major Interruption to IT Service Delivery.

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

- 6 Appendix 4 of this report lists all of the Council's strategic risks as at 31 December 2016.
- 7 Management has identified and assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.

Recommendations and reasons

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

Contact: Kevin Roberts Tel: 03000 269657

Appendix 1: Implications

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

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

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

Equality and Diversity/Public Sector Equality Duty – None

Accommodation - None

Crime and disorder - None

Human rights - None

Consultation – None

Procurement – None.

Disability issues – None.

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

Appendix 2: How the Council manages the Risk Management Framework

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

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

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

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

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

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

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

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

Risks are assessed at two levels:

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

As at 31 December 2016, there were 21 strategic risks, one less than as at 30 September 2016.

The following matrix profiles the strategic risks according to their Net risk evaluation as at 31 December 2016. To highlight changes in each category during the last quarter, the number of risks as at 30 September 2016 is shown in brackets.

Overall number of Strategic Risks as at 31 December 2016

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

In the above matrix, the risk assessed as Critical/Highly Probable is, "Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services."

The key risks are reported in more detail below.

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

New Risks

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

Increased Risks

- 2 No significant risks have increased during the quarter.

Removed Risks

- 3 The risk, '*Additional burden as a result of recent change to the deprivation of liberty threshold*' has been downgraded from a Moderate impact with a Probable likelihood to Minor/Unlikely. Consequently, it is now below the corporate risk appetite and has been removed from the strategic risk register. Since the risk was initially identified, CMT have agreed to finance extra resource for the front-line service, but there is some residual risk while the backlog of cases is tackled. Management will continue to monitor the risk.

Reduced Risks

- 4 Other than the risk referred to in paragraph 3, no significant risks have reduced during the quarter

Emerging Risks

- 5 To enable Audit Committee to gain an appropriate level of assurance that emerging risks are being managed effectively, the arrangements for selecting and reporting emerging risks are being reviewed by CMT. An update will be provided in the quarter 4 report prior to the refresh of the Audit Committee in June.

Key Risks

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

Key Risks Matrix

Net Impact					
Critical			Risk 1 MTFP Slippage Risk 3 PSN Code of Connection Risk 4 Child Safeguarding Risk 5 Adult Safeguarding		Risk 2 Ongoing Government funding cuts
Major				Risk 6 Major Interruption to IT Service Delivery	
Moderate					
Minor					
Insignificant					
Net Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

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

Key Risks Schedule

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

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

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
4	CYPS Risk Owner: Carole Payne	Altogether Better for Children and Young People	Failure to protect child from death or serious harm (where service failure is a factor or issue)	Critical	Possible	Actions are taken forward from Serious Case Reviews and reported to the Local Safeguarding Children Board. Lessons learned are fed into training for front line staff and regular staff supervision takes place. Procedures are reviewed on a regular basis.		Nationally there has been a statutory change to when Serious Case Reviews are undertaken. This risk is long term.
5	AHS Risk Owner: Lee Alexander	Altogether Safer	A service failure of Adult Safeguarding leads to death or serious harm to a service user.	Critical	Possible	As the statutory body, the multi-agency Safeguarding Adults Board has a Business Plan in place for taking forward actions to safeguard vulnerable adults including a comprehensive training programme for staff and regular supervision takes place. Procedures are reviewed on a regular basis.		Nationally there has been an increased awareness of potential vulnerabilities relating to adults with care and support needs and concern about the pressure to discharge some service users under the Transforming Care programme without agreement on necessary resourcing to meet their multiple complex needs. This risk is long term.
6	RES Risk Owner: Phil Jackman	Altogether Better Council	Major Interruption to IT Service Delivery	Major	Probable	Draft programme for an electrical upgrade has been developed		A timeline is being finalised to reflect the complexity of the project aligned to the need to mitigate the risk. It is anticipated that works will be completed by 22 nd December 2017

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

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

Corporate Theme – Altogether Better Council

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

Altogether Better for Children and Young People

Ref	Service	Risk
13	CYPS	Failure to protect child from death or serious harm (where service failure is a factor or issue)

Altogether Greener

No significant strategic risks have been identified under this theme.

Altogether Healthier

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

Altogether Safer

	Service	Risk
15	AHS	A service failure of Adult Safeguarding leads to death or serious harm to a service user.
16	TAP	Breach of duty under Civil Contingencies Act by failing to prepare for, respond to and recover from a major incident
17	REAL	Damage to Highways assets as a result of a severe weather event.
18	REAL	Serious injury or loss of life due to Safeguarding failure (Transport Service)

Altogether Wealthier

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

Appendix 5: Performance of Risk Management

Performance Indicators - Tangible Measures

Objective: To demonstrate that risks are being effectively managed				
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Last Quarter	This Quarter
All risks are reviewed on a continual cycle	Service Risk Review completed each quarter	100% (Quarterly)	100%	100%
Risk mitigation is being implemented as planned	Risk actions on high-scoring risks implemented within target date	Target N/A (Quarterly)	No outstanding actions	No outstanding actions
Risks are being effectively managed	Number of current risks where Net risk scores have reduced over the quarter	Target N/A (Quarterly)	None	None
To provide informed decision making	Key decisions reports with a risk assessment	100% (Quarterly)	100%	100%
The delivery of Council services via Significant partnerships is effectively risk managed	Significant partnerships with joint risk management arrangements in place within 6 months of being established	90% (Quarterly)	N/A	N/A
Contributing to effective corporate governance	Meeting CIPFA governance principles and objectives on risk management	Confirmed in the annual review of the effectiveness of corporate governance (Annual)	The revised Local Code of Corporate Governance was approved by Audit Committee on 28 November 2016.	The Constitution Working Group recommended that Council approve the updated Local Code of Corporate Governance to replace the existing version in the Council's Constitution.
Objective: To ensure that Officers and Members are appropriately skilled in risk management				
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Last Quarter	This Quarter
Appropriate staff are adequately skilled in risk management	Tier 4 managers attending risk management training course	Target N/A (Quarterly)	No training provided in this quarter.	No training provided in this quarter.
Appropriate staff are adequately skilled in risk management	Tier 5 managers attending risk management training course	Target N/A (Quarterly)	No training provided in this quarter.	No training provided in this quarter.
Members are adequately skilled in risk management	New Members attending risk management training course within 6 months of being elected (for co-opted members, within 6 months of being appointed)	75% (Quarterly)	Risk management training provided to Audit Committee.	14 members attended a risk management briefing session in November 2016.

Intangible Measures

Objective: To demonstrate that risks are being effectively managed and adding value			
KPI	Measure of Assessment	Frequency of Measurement	Evidence
Good governance maintained	Gather information on risk management successes, and beneficial outcomes the Council achieve in managing risks	Reported quarterly	Through a carefully managed response to a recent supreme court judgement relating to the deprivation of liberty threshold, financial pressure has been mitigated and operational disruption minimised.
Successfully delivered projects	As above	As above	
Reputation protected	As above	As above	
Innovative decisions that were risk managed	As above	As above	
Financial return for the Council	As above	As above	

Audit Committee

24 February 2017

**Emergent Internal Audit Plan 2017/2018**

Report of Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. This report provides the Committee with details of the emergent Internal Audit Plan for 2017/2018 (attached as Appendix A).
2. The purpose of this report is to update and engage Members of the Audit Committee in the development of the 2017/2018 Internal Audit Plan.

Background

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

Basis for the Plan

5. The PSIAS (section 2000) states that the 'Chief Audit Executive' must 'establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisations goals'. They refer to the need for the plan to reflect the assurance framework, risk management arrangements and input from management. These principles have been applied in the development of the 2016/2017 Internal Audit plan as follows:

A. Annual Internal Audit Opinion (PSIAS 2010)

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

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

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

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

C. Informed by Expectations (PSIAS 2010.A2)

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

Annual Planning

6. The approach to audit planning in the Council for 2017/2018 has been based largely, but not exclusively, on the following:
 - Review of the Strategic Risk Register
 - Review of all Service Groupings Service Plans and savings proposals
 - Review of the Community Strategy and other key strategy documents
 - Review of the assurance map compiled during the year taking into account the work of other assurance providers.
 - Cumulative audit knowledge and experience.
 - Findings and outcomes from audit and investigation work in 2016/2017 and earlier years.
 - Engagement with Heads of Service and their management teams.
 - Engagement with audit colleagues across the North East and County Chief Auditor Network.
 - Engagement with the Risk, Insurance and Governance teams within the Audit and Risk Management Division.
7. On this basis, an emergent plan of areas for audit coverage has been developed. Areas have been considered on a risk basis and a plan for consultation has been produced. This has initially been presented to Corporate Directorate management teams for comment, to ensure that the risks identified are consistent with their understanding and assessment.

Key Characteristics of the Annual Plan

Scale and Pace of Change

8. The Council continues to go through a period of continuous change as a result of the financial settlement. There has been a significant reduction in the workforce and this will continue for the foreseeable future. Changes are taking place in the design, commissioning and delivery of services, with ongoing activity to deliver savings across all areas of the Council. The implementation of changes and public service reform, with a reduced workforce whilst delivering business as usual and achieving key priorities remains a key challenge for the Council during 2017/2018 and must be reflected in the Internal Audit Plan.
9. The Internal Audit Plan must continue to be sufficiently flexible to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified. This is particularly relevant for 2017/2018 as changes are agreed with more detailed work ongoing to confirm how these will be delivered. As such there are areas where Internal Audit work cannot be fully defined at this stage but where allocation of resource are required to help support good governance, risk management and control. Whilst Internal Audit adds value and provides assurance in these areas the detailed areas for focus are the subject of ongoing discussions with the business. Rather than define specific audits and then change them, the plan includes allocations of work which will be applied to specific aspects of audit activity throughout the year. There will be similar allocations in other areas with details of specific audit activities reported to Corporate Directors, Heads of Service and the Audit Committee throughout the year.

10. Periods of change inevitably increase the potential for risks, both positive a (opportunities) and negative (hazards). The reduction in workforce for example provides opportunity for breakdown in control as well as an opportunity to consider new, more efficient ways of organising people, systems and processes without impacting adversely on internal control. The PSIAS have recently been amended to reflect more the need for a modern, professional Internal Audit Service to actively engage with the organisation and be seen to add value. To reflect this risk the audit plan will continue to allocate time for advice and consultancy and developing systems support to officers to support and challenge them in the establishment and development of their systems of governance, risk management and internal control. We will also deliver work on the core financial systems and a number of pro-active counter fraud, irregularity and probity audits to provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error.
11. The continued pace of change across the Council requires assurance that is prioritised and timely. The Internal Audit Plan must provide for this assurance, to enable remedial actions or controls to be implemented on a timely basis. Based on experience and feedback from Service Grouping Management Teams there is a continued need for shorter, more focused and practical audits in areas of emerging risk.
12. The characteristics of the plan: flexible, supportive, challenging, prioritised and timely are not new however, it remains critical that these principals are maintained if Internal Audit is to help the Council to continue to respond effectively to the scale of change during 2017/2018 and beyond.
13. Based on the above the Chief Internal Auditor and Corporate Fraud Manager considers that assurance is best obtained through a combination of different audits and other sources of assurance. This is not an uncommon approach but it has been tailored to reflect the specific needs of the Council. It is consistent with the approach taken in the development and delivery of the 2016/2017 Internal Audit Plan. With the greater need to add value it is the intention for the service to increase its advice and consultancy work whilst still balancing the need for assurance.

Plan Structure

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

Plan Content

16. In summary, there is focus on risk based audits and providing assurance over key systems. This reflects the need to focus on the management of emerging risks and ensure the continued operations of controls within the Council's overall governance arrangements, its systems and its processes.
17. There is time allocated to developing systems and supporting service groupings with new initiatives and any changes in service delivery.
18. The need for continued investment of time in anti-fraud, irregularity and probity work continues.
19. The emergent plan has been compiled to reflect the Corporate Management Team and Service Grouping structure in the Council as follows:
 - Adult and Health Services (AHS)
 - Children and Young People Service (CYPS)
 - Regeneration and Local Services (REAL)
 - Resources (RES)
 - Transformation and Partnerships (TAP)
20. The emergent plan is based on the current service plans for the Council which we acknowledge will be subject to ongoing change throughout the year. To help ensure that the plan is flexible and the service is able to respond to key risks in the year, the emergent plan includes a block of contingency time from which specific audits can be delivered in the year. Further details will be provided to the Audit Committee in the finalised plan in June and throughout the year.

Scale of the Plan

21. The annual internal audit plan needs to be deliverable within available resources. The Internal Audit Team has an approved establishment of 19 employees equivalent to 17.35 FTE. The Corporate Fraud Team which consists of 6 employees (5.5 FTE) will deliver a range of proactive and reactive counter fraud work across the year, however one member of the team will be on maternity leave during 2017/18.
22. As a result of this planning, the latest forecast of available resources to be allocated to the management and delivery of the audit plan is 4,318 days. 344 days of this relate to work for external clients. The detail of this allocation is shown on the table over the page.

Estimated Gross Days Available (22.85) FTE	5,914
Non – Productive Time (Annual Leave, Sickness, Office Duties etc.)	1,596
Productive Time – not allocable to services, e.g. Audit Planning, Supporting Audit Committee, Quality Assurance, Fraud Investigation and Contingency	2,059
Audit days required to complete and close audit reports relating to 2016/2017	186
Productive Days 2017 / 2018	
Adult and Health Services (AHS)	157
Children and Young People Service (CYPS)	208
Regeneration and Local Services (REAL)	271
Resources (RES)	650
Transformation and Partnerships (TAP)	117
Durham Police and Crime Commissioner / Durham Constabulary	160
Durham and Darlington Fire & Rescue Authority	72
Peterlee Town Council	23
Pension Fund	45
Durham City Charter	6
Durham Joint Crematorium	19
Mountsett Joint Crematorium	19
Schools (Service Level Agreements and Private School Funds)	326
TOTAL GROSS DAYS REQUIRED	5,914

Emergent Plan Content

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

Recommendations

25. Members are requested to comment on the proposed direction and process for the development of the emergent Internal Audit Plan attached at Appendix A which will be brought back for formal approval on 28 June 2017.

Service Grouping	Service	Audit Title	Estimated Day
Adult and Health Services	Adult Care	Shared Lives - Follow Up	8
Adult and Health Services	Adult Care	Direct Payments - Direct Payment Cards	10
Adult and Health Services	Adult Care	Notification of Service – Impact of Financial Assessment on Income Collection	10
Adult and Health Services	Adult Care	Debt Management - Collection of Social Care Fees for Domiciliary and Residential Care and Learning Disabilities	15
Adult and Health Services	Adult Care	County Durham Care & Support Review	2
Adult and Health Services	Adult Care / Commissioning	Transition Arrangements between Childrens and Adult Services	10
Adult and Health Services	Commissioning	Payments to Independent Residential Homes (Quality Band Assessment etc)	15
Adult and Health Services	Commissioning	Approval and Payment of Commissioned Services - Panel arrangements for payments to providers	15
Adult and Health Services	Commissioning	Supplier masterfile - SSID Independent Sector Suppliers follow up	5
Adult and Health Services	Environmental Health and Consumer Protection	Pollution Control - Planning Consultation Arrangements	5
Adult and Health Services	Environmental Health and Consumer Protection	Contaminated Land - Planning Consultation	5
Adult and Health Services	Environmental Health and Consumer Protection	Licensing Arrangements for Houses in Multiple Occupation	10
Adult and Health Services	Environmental Health and Consumer Protection	Intelligence Handling within EHCP	8
Adult and Health Services	Environmental Health and Consumer Protection	Trading Standards Grant	4
Adult and Health Services	Planning and Service Strategy	Information Security - Caldicott Compliance	5
Adult and Health Services	Public Health / Commissioning	Contracting and Payment Arrangements for Sexual Health	15
Adult and Health Services	Public Health	Medical Examiners Service	15
TOTAL ESTIMATED DAYS FOR ADULTS AND HEALTH SERVICES			157
Children and Young People's Services	Children's Services	Aycliffe Locality Office, Residential and Secure Services - Follow Up	10
Children and Young People's Services	Children's Services	Children's Homes (Establishment Audit)	5
Children and Young People's Services	Children's Services	Children's Centres (Establishment Audit)	5
Children and Young People's Services	Children's Services	Troubled Families Programme	5
Children and Young People's Services	Children's Services	Adoption Services (Joint Review with Quality Improvement Team)	15
Children and Young People's Services	Children's Services	Special Guardianship and Child Arrangement Orders (Joint Review with Quality Improvement Team)	10
Children and Young People's Services	Education Services	Schools - Safe Recruitment and Selection	15
Children and Young People's Services	Education Services	Youth Employment Initiative - Durham Works	10
Children and Young People's Services	Education Services	Youth Employment Initiative	8
Children and Young People's Services	Education Services	Arrangements for the allocation of SEN funding and its application in schools	15
Children and Young People's Services	Education Services	Schools Organisations and Capital Programme	15
Children and Young People's Services	Education Services	Children Missing from Education	8
Children and Young People's Services	Education Services	Arrangements for the allocation of Pupil Premium funding and its application in schools	15
Children and Young People's Services	Education Services	Award of additional pay in Schools	10
Children and Young People's Services	Education Services	Schools Financial Value Standard (SFVS)	10
Children and Young People's Services	Education Services	Governor Training	6
Children and Young People's Services	Education Services	School Business Manager Training	4
Children and Young People's Services	Education Services	Head Teacher induction to Finance and Budgeting	1
Children and Young People's Services	Education Services	Schools User Provider Group	1
Children and Young People's Services	Planning and Service Strategy	Petty Cash Arrangements - One Point Hubs	15
Children and Young People's Services	Planning and Service Strategy	Petty Cash Arrangements - Locality Offices	10
Children and Young People's Services	Planning and Service Strategy	Information Security - Caldicott Compliance	5
Children and Young People's Services	Planning and Service Strategy	SSID Replacement	10
TOTAL ESTIMATED DAYS FOR CHILDREN AND YOUNG PEOPLE'S SERVICE			208

Service Grouping	Service	Audit Title	Estimated Day
Regeneration and Local Services	Planning and Assets	Low Carbo 1	4
Regeneration and Local Services	Planning and Assets	Low Carbo 2	4
Regeneration and Local Services	Planning and Assets	Rebus 1	4
Regeneration and Local Services	Planning and Assets	Rebus 2	4
Regeneration and Local Services	Planning and Assets	Planning Applications	15
Regeneration and Local Services	Economic Development and Housing	Accommodation	10
Regeneration and Local Services	Economic Development and Housing	Stephanie	4
Regeneration and Local Services	Economic Development and Housing	Choice Based Letting Scheme	10
Regeneration and Local Services	Economic Development and Housing	Disabled Facilities Grant	3
Regeneration and Local Services	Transport and Contract Services	Local Transport Capital Block Funding	4
Regeneration and Local Services	Transport and Contract Services	Bus Subsidy Ring Fenced Grant	2
Regeneration and Local Services	Transport and Contract Services	Local Growth Fund - Station Cycle Links	3
Regeneration and Local Services	Transport and Contract Services	Local Growth Fund - Forest Park	3
Regeneration and Local Services	Transport and Contract Services	Local Growth Fund - Bishop Auckland Market Place	3
Regeneration and Local Services	Transport and Contract Services	On Street and Off Street Parking (Follow Up)	5
Regeneration and Local Services	Direct Services	Bereavement Services	15
Regeneration and Local Services	Direct Services	ASB Powers / Training in relation to Crime Policing Bill	15
Regeneration and Local Services	Direct Services	Fleet Management	15
Regeneration and Local Services	Direct Services	Hire of Vehicles and Skips	10
Regeneration and Local Services	Direct Services	QMS Quarterly Visit	6
Regeneration and Local Services	Direct Services	Bulky Goods Collections Service	8
Regeneration and Local Services	Direct Services	Allotments - Follow Up	3
Regeneration and Local Services	Direct Services	Flytipping	2
Regeneration and Local Services	Direct Services	Effectiveness of MAIS and CSE arrangements	10
Regeneration and Local Services	Culture and Sport	Rolling Programme of Leisure Centres	30
Regeneration and Local Services	Culture and Sport	Leisureworks	10
Regeneration and Local Services	Culture and Sport	CLUK Income Share Agreement	6
Regeneration and Local Services	Culture and Sport	Stanley Bowls	5
Regeneration and Local Services	Culture and Sport	Library System	5
Regeneration and Local Services	Culture and Sport	Locomotion	10
Regeneration and Local Services	Culture and Sport	Gala - Box Office Ticketing System	10
Regeneration and Local Services	Culture and Sport	Gala - Cinema and Catering	5
Regeneration and Local Services	Culture and Sport	Catering	5
Regeneration and Local Services	Projects and Business Services	CRM System	10
Regeneration and Local Services	Technical Services	Local Highways Maintenance Funding - Incentive Element	10
Regeneration and Local Services	Technical Services	Local Transport Capital Block Funding for NECA	3
TOTAL ESTIMATED DAYS FOR REGENERATION AND LOCAL SERVICES			271

Service Grouping	Service	Audit Title	Estimated Day
Resources	Corporate Finance and HR	General Ledger	5
Resources	Corporate Finance and HR	VAT	6
Resources	Corporate Finance and HR	Bank Reconciliation	8
Resources	Corporate Finance and HR	Treasury Management	10
Resources	Corporate Finance and HR	Contract Register	10
Resources	Corporate Finance and HR	Contract Management	15
Resources	Corporate Finance and HR	Specifications	10
Resources	Corporate Finance and HR	Off Contract Spend	15
Resources	Corporate Finance and HR	Procurement Cards (Follow Up)	3
Resources	Corporate Finance and HR	Oracle Programme Board	2
Resources	Corporate Finance and HR	Transactional Purchasing Improvement Group	1
Resources	Corporate Finance and HR	Petty Cash and Payment Cards	3
Resources	Corporate Finance and HR	ER/VR arrangements	10
Resources	Corporate Finance and HR	Health and Safety Training Requirments (Follow Up)	4
Resources	Corporate Finance and HR	Flexible Working - Variations to Contracts	10
Resources	Financial and HR Services	SLAs	10
Resources	Financial and HR Services	Section 256	5
Resources	Financial and HR Services	Shared Lives Service - Financial Inspections (Follow Up)	5
Resources	Financial and HR Services	FST Debit Card Account (Follow Up)	4
Resources	Financial and HR Services	Financial Deputies	10
Resources	Financial and HR Services	Financial Assessments and Reassessments	5
Resources	Financial and HR Services	Supporting People with Oxford Computer Consultants (SPOCC)	7
Resources	Financial and HR Services	Creditor Payments	50
Resources	Financial and HR Services	IPIG	3
Resources	Financial and HR Services	Better Care Fund (Sn 75)	5
Resources	Financial and HR Services	Payroll	50
Resources	Financial and HR Services	Payroll - Implementation/Upgrade	10
Resources	Financial and HR Services	Agency (Follow Up)	5
Resources	Financial and HR Services	Business Rates	50
Resources	Financial and HR Services	HB and CTR	50
Resources	Financial and HR Services	Welfare Assistance Scheme and Discretionary Housing Payments	10
Resources	Financial and HR Services	Council Tax	50
Resources	Financial and HR Services	Cash Management	50
Resources	Financial and HR Services	Debtors	50
Resources	Financial and HR Services	Debtors Working Group	3
Resources	Information and Communication Technology	Mobile Computing (Follow Up)	3
Resources	Information and Communication Technology	Information Security - PSN	6
Resources	Information and Communication Technology	Information Security - Procurement	6
Resources	Information and Communication Technology	Business Continuity for ICT	10
Resources	Information and Communication Technology	Software Licenses	7
Resources	Information and Communication Technology	Asset Register (Follow Up)	3
Resources	Information and Communication Technology	Business Travel and Accommodation	10
Resources	Information and Communication Technology	Coroner	10
Resources	Information and Communication Technology	Active Directory (Deferred from 2016/17)	10
Resources	Internal Audit, Risk and Fraud	Risk Management	10

Service Grouping	Service	Audit Title	Estimated Day
Resources	Legal and Democratic Services	Electoral Services	10
Resources	Legal and Democratic Services	Registrars	10
Resources	Legal and Democratic Services	RIPA Officers Group	11
TOTAL ESTIMATED DAYS FOR RESOURCES			650
Transformation and Partnerships	All	Transformation Programme	30
Transformation and Partnerships	Policy and Communications	Business Continuity	10
Transformation and Partnerships	Planning and Performance	Data Quality Framework	10
Transformation and Partnerships	Planning and Performance	Data Protection - General Data Protection Regulation (GDPR)	10
Transformation and Partnerships	Planning and Performance	Data Protection - Potentially EDMS	10
Transformation and Partnerships	Planning and Performance	Data Protection - Potentially use of privacy notices	10
Transformation and Partnerships	Planning and Performance	Environmental Information Requests	8
Transformation and Partnerships	Planning and Performance	Information Governance Group	4
Transformation and Partnerships	Partnerships and Community Engagement	Community Buildings - Health & Safety Compliance	15
Transformation and Partnerships	Partnerships and Community Engagement	Community Grants	10
TOTAL ESTIMATED DAYS FOR TRANSFORMATION AND PARTNERSHIPS			117

Audit Committee

24 February 2017

**Internal Audit Progress Report
Period Ended 31 December 2016**

Report of the Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. To inform Members of the work that has been carried out by Internal Audit during the period 1 April 2016 to 31 December 2016 as part of the 2016/2017 Internal Audit Plan.
2. The report aims to:
 - Provide a high level of assurance, or otherwise, on internal controls operating across the Council that have been subject to an Internal Audit of systems and processes.
 - Advise of issues where controls need to be improved in order to effectively manage risks.
 - Advise of other types of audit work carried out such as grant certification or consultancy reviews where an assurance opinion on the control environment may not be applicable.
 - Advise of amendments to the Internal Audit Plan.
 - Track the progress of responses to Internal Audit reports and the implementation of agreed audit recommendations.
 - Advise of any changes to the audit process.
 - Provide an update on the performance indicators comparing actual performance against planned.
 - Update on the outcome of the lessons learned following an internal audit review of an Employment Tribunal case.
3. The appendices attached to this report are summarised below. Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3).

Appendix 2	Progress against the Internal Audit Plan
Appendix 3	Final Reports issued in the quarter ending 30 June 2016
Appendix 4	The number of high and medium priority actions raised and implemented
Appendix 5	Internal Audit Performance Indicators

Background

4. As an independent consultancy service, the Council's Internal Audit Team strives to continue to add value and improve the organisation's operations as well as providing objective assurance to service managers and the Council.
5. The Internal Audit Strategy and Annual Internal Audit Plan, covering the period 1 April 2016 to 31 March 2017, was approved by the Audit Committee on 17 May 2016.

Progress against the Internal Audit Plan

6. A summary of the approved Internal Audit Plan for each Service Grouping, updated to include work in progress and any audits brought forward from last year's plan, is attached at Appendix 2. The appendix illustrates the current status of each audit as at 31 December 2016 and, where applicable, also gives the resultant assurance opinion. Note that the Council's Service Grouping structure has been amended. Appendix 2 aligns each audit to the new structure, with the previous alignment also shown for information.
7. A summary of the status of audits in 2016/17 is illustrated in the table below:

Service Grouping	Not Started	Planning and Preparation	In Progress	Draft Report	Final Report / Complete
Transformation and Partnerships (TaP)	1	4	3	1	7
Adult & Health Services (AHS)	1	3	7	0	24
Children and Young People's Services (CYPS) – Excluding Schools	3	3	7	1	13
Children and Young People's Services (CYPS) - Schools	1	15	14	0	28
Regeneration and Local Services (ReaL)	4	9	10	5	39
Resources (RES)	18	27	16	5	42
TOTAL	28	61	57	12	153

8. A summary of the final audit reports issued in this quarter is presented in Appendix 3.
9. The total number of productive Internal Audit days required to deliver the plan is 4,748. As at 31 December, the service delivered 3,597 productive days, representing 76% of the total plan. The target at the end of the quarter was for 68% to be delivered, therefore performance is exceeding the target.

Audit Activity in the Quarter

Amendments to the Approved 2016/2017 Internal Audit Plan

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

Service Grouping	Audit	Audit Type	Reason
Adult & Health Services (AHS)	Petty Cash Arrangements – Locality Offices	Advice and Consultancy	Review deferred to 2017/18 to enable revised financial processes to be embedded across teams.
Adult & Health Services (AHS)	Pollution Control - Planning Consultation Arrangements	Assurance	Review deferred to 2017/18 to enable new procedure to be implemented / embedded across teams.
Adult & Health Services (AHS)	Contaminated Land - Planning Consultation	Assurance	Review deferred to 2017/18 as it is to be undertaken on completion of the Pollution Control - Planning Consultation Arrangements review.
Children and Young People's Services (CYPS)	Aycliffe Locality Office, Residential and Secure Services - Follow Up	Assurance	Follow Up review deferred to 2017/18 to enable revised financial processes to be implemented / embedded across teams.
Children and Young People's Services (CYPS)	Children's Homes - Establishment Audit	Assurance	Review deferred to 2017/18 to allow time for all Homes to receive/comply with the procedures.
Children and Young People's Services (CYPS)	One Point Hubs - Establishment Audit	Advice and Consultancy	Review deferred to 2017/18 to enable revised financial processes to be embedded across teams.
Children and Young People's Services (CYPS)	Schools - Safe Recruitment and Selection	Assurance	Review deferred to 2017/18 to allow for general feedback on expected practices to be provided to Head Teachers and for them to have an opportunity to act upon it as may be required.
Regeneration and Local Services (ReaL)	Allotment Management – Follow Up	Assurance	Assurance review deferred to 2017/18 to allow draft policy to be reviewed by Scrutiny first.
Regeneration and Local Services (ReaL)	Netpark Phase 3	Grant	Grant certification not required.
Regeneration and Local Services (ReaL)	Leisureworks management arrangements	Assurance	Review cancelled as to be carried out as separate piece of advice and consultancy work in 2017/18.

Service Grouping	Audit	Audit Type	Reason
Regeneration and Local Services (ReaL)	1Life management arrangements	Assurance	Review cancelled as to be carried out as separate piece of advice and consultancy work in 2017/18.
Resources (RES)	Learning and Development	Advice and Consultancy	Review cancelled as no longer required by service.
Resources (RES)	Housing Benefit Sundry Debtor Overpayments	Key System	Review cancelled as scope is to be included within another Housing Benefit key system review.
Resources (RES)	Better Care Fund	Grant	Grant certification deferred to 2017/18, as not required until April 2017.

11. Eight unplanned reviews were added to the Internal Audit Plan in the quarter. Of these, seven are potential fraud or irregularity investigations.
12. The one other review, which was sourced from the service contingency provision within the Internal Audit Plan, is detailed below:

Service Grouping	Audit	Audit Type	Reason
Regeneration and Local Services (ReaL)	Stores – Budgetary Control Arrangements	Advice and consultancy	Service request

Outstanding Management Responses to Draft Internal Audit Reports

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

Survey Response Rate

14. The table below sets out the response rate and average score, by Service Grouping, for the customer satisfaction surveys issued during the period up to the end of December 2016.

Service Grouping	Surveys issued	Surveys returned	% returned	Av. score
Transformation and Partnerships (TaP)	7	7	100	4.5
Adult & Health Services (AHS)	19	16	84	4.8
Children and Young People's Services (CYPS)	5	5	100	4.6
Schools	24	14	58	4.8
Regeneration and Local Services (ReaL)	30	26	87	4.4
Resources (RES)	40	38	95	4.4
TOTAL	125	106	85	4.5

Responses to Audit Findings and Recommendations

15. Details of the numbers of High and Medium priority ranked recommendations that have been raised and those that are overdue, by Service Grouping, are presented in Appendix 4.
16. A summary of progress on the actions due, implemented and overdue, as at 31 December 2016, is given in the table below:

Service Grouping	Number of Actions Due to be Implemented	Number of Actions Actually Implemented	Actions Overdue by Agreed Original Target Date	Actions with an Agreed Revised Target Date	Actions Overdue by Revised Target Date
Transformation and Partnerships (TaP)	16	16	0	0	0
Adult & Health Services (AHS)	158	156*	2	2	0
Children and Young People's Services (CYPS) – Excluding Schools	79	77	2	2	0
Regeneration and Local Services (Real)	388	351	37	37	6
Resources (RES)	327	308	19	19	0
TOTAL	968	908	60	60	6

* Includes four high priority actions, implementation of which is to be confirmed as part of a follow up audit.

17. It is encouraging to note that, of the 968 actions due to be implemented, 908 (94%) have been implemented. The Chartered Institute of Public Finance and Accountancy (CIPFA), benchmarking exercise indicates that average performance in this area to be between 70% to 80%. At present the Council is delivering in excess of this target.
18. Details of the actions that are overdue, following their agreed original target dates, are included at Appendix 6.

Limited Assurance Audit Opinions

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

Service Grouping	Service Area	Audit
Adult and Health Services	Adult Services	Shared Lives
Regeneration and Local Services	Transport and Contract Services	On and Off Street Parking
Resources	Corporate Finance and HR	Procurement Cards
Resources	Corporate Finance and HR	Health and Safety Training
Resources	Financial and HR Services	Debit Card Cash Account
Resources	Financial and HR Services	Shared Lives – Financial Inspections

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

Employment Tribunal Outcome Review

21. Internal Audit, together with officers from Children and Young People's Services and Resources met with the former Teacher in accordance with the terms of a settlement agreement, to share the outcome and action points of the Council's internal inquiry. It was agreed that Internal Audit would provide a written response to the questions the former Teacher had raised relating to the inquiry report that had been presented to Members of the County Council at their meeting on 20 July 2016.

Performance Indicators

22. A summary of our actual performance, at the end of December 2016, compared with our agreed targets is illustrated in Appendix 5.

Recommendations

23. Members are asked to note:
- The amendments made to the 2016/2017 Annual Audit Plan.
 - Work undertaken by Internal Audit during the period ending 31 December 2016 and the assurance on the control environment provided.
 - The performance of the Internal Audit Service during the period.
 - Progress made by service managers in responding to the work of Internal Audit.

Contact: Paul Bradley

Tel: 03000 269645

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

All Corporate Directors and Heads of Service.

Procurement

None

Disability Issues

None

Legal Implications

None

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INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2016

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
2015 / 2016 Internal Audit Plan - Audits Brought Forward					
Transformation and Partnerships (TaP)	Planning and Performance	Data Quality Framework	Assurance	Final	Moderate
Transformation and Partnerships (TaP)	Planning and Performance	DP - Data Breach arrangements	Assurance	Planning and Preparation	
Transformation and Partnerships (TaP)	Planning and Performance	Freedom of Information	Assurance	Final	Moderate
Transformation and Partnerships (TaP)	Partnerships and Community Engagement	AAPs: Performance Management Framework	Assurance	Final	Substantial
Transformation and Partnerships (TaP)	Partnerships and Community Engagement	Partnership Governance Framework	Key System	Final	Moderate
Adult & Health Services	Adult Services	Section 117 Process	Advice & Consultancy	In Progress	
Adult & Health Services	Adult Services	Extra Care Housing - Prepaid Card Roll Out	Advice & Consultancy	Final	N/A
Adult & Health Services	Adult Services	Reablement Car Mileages	Advice & Consultancy	Final	N/A
Adult & Health Services	EHCP	Inspection of Licensing - Body Art Licences	Assurance	Final	Substantial
Adult & Health Services	EHCP	Licensing Enforcement - Safeguarding Complaints	Assurance	Final	Substantial
Adult & Health Services	EHCP	Accumulations	Assurance	Final	N/A
Adult & Health Services	EHCP	Works in Default	Assurance	Final	Substantial
Adult & Health Services	EHCP	Consumer Services - Weights and Measures Approved Body Status	Assurance	Cancelled	N/A
Adult & Health Services	Planning & Service Strategy	E Market Place	Advice & Consultancy	Defer to 2017/18	N/A
Adult & Health Services	Planning & Service Strategy	SSID System Review	Assurance	Final	Substantial
Adult & Health Services	Planning & Service Strategy	POPPIE Systems Review	Assurance	Final	Substantial
Adult & Health Services	Planning & Service Strategy	County Durham Well Being for Life Service - DCRS	Assurance	Final	Moderate
Adult & Health Services	Public Health	Drug and Alcohol Treatment Services - Contract Management Arrangements	Assurance	Final	Moderate
Adult & Health Services	Public Health	Review of Lifeline Contract	Assurance	Final	Moderate
Adult & Health Services	Public Health	Delivery of 0-19 Services - Due Diligence	Advice & Consultancy	In Progress	
Children and Young People's (CYPS)	Children's Services	Foster Carer Payments	Assurance	In Progress	
Children and Young People's (CYPS)	Children's Services	Children's Homes - High Etherley	Assurance	Final	Limited
Children and Young People's (CYPS)	Children's Services	Children's Homes - Framwellgate Moor	Assurance	Final	Moderate
Children and Young People's (CYPS)	Children's Services	Children Safeguarding Governance Arrangements	Assurance	Planning and Preparation	
Children and Young People's (CYPS)	Children's Services	Supervised Spend - Leaving Care	Assurance	Final	Limited
Children and Young People's (CYPS)	Planning & Service Strategy	SSID System Review	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Transport and Contract Services	Telecare Services & Care Connect	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Transport and Contract Services	Supported Housing - CCTV	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Transport and Contract Services	Transport - Contractual arrangements	Assurance	Final	Limited
Regeneration and Local Services (ReaL)	Economic Development and Housing	Gypsy Roma Traveller Sites	Assurance	Final	Moderate
Regeneration and Local Services (ReaL)	Economic Development and Housing	Business Durham	Assurance	Final	Moderate
Regeneration and Local Services (ReaL)	Economic Development and Housing	Financial Assistance Programme	Assurance	Final	Moderate
Regeneration and Local Services (ReaL)	Economic Development and Housing	Durham Employment and Skills	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Economic Development and Housing	International Relations	Assurance	Final	Moderate
Regeneration and Local Services (ReaL)	Economic Development and Housing	Durham Villages Regeneration Company	Advice & Consultancy	Final	N/A
Regeneration and Local Services (ReaL)	Direct Services	Contract Audit - Direct Services	Assurance	Final	Moderate
Regeneration and Local Services (ReaL)	Direct Services	Effectiveness of MAIS and CSE Arrangements	Assurance	Planning and Preparation	
Regeneration and Local Services (ReaL)	Direct Services	Fly Tipping	Assurance	Planning and Preparation	
Regeneration and Local Services (ReaL)	Direct Services	Fleet Management - Development of Fleet Management System	Advice & Consultancy	In Progress	
Regeneration and Local Services (ReaL)	Projects and Business Services	Compensation Payments	Advice & Consultancy	Final	N/A
Regeneration and Local Services (ReaL)	Projects and Business Services	Environmental Compliance	Advice & Consultancy	Final	N/A
Regeneration and Local Services (ReaL)	Technical Services	Compliance with Construction, Design and Maintenance Procedures	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Technical Services	Stores Management - Disposal of Waste Materials	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Technical Services	Capital Project Review	Assurance	Final	Moderate
Resources	Legal and Democntratic Services	Land Charges	Assurance	Final	Moderate
Resources	Corporate Finance and HR	Procurement - Off Contract Spend	Assurance	Final	Moderate
Resources	Corporate Finance and HR	Procurement - CPRs	Assurance	Final	Substantial
Resources	Corporate Finance and HR	Procurement cards	Assurance	Final	Limited
Resources	Corporate Finance and HR	Journals	Key System	Final	Substantial

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2016

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Corporate Finance and HR	Recruitment and Selection	Assurance	Final	Substantial
Resources	Corporate Finance and HR	Appraisals	Assurance	Final	Moderate
Resources	Corporate Finance and HR	Violent Persons Register	Assurance	TOR	
Resources	Corporate Finance and HR / CAS	Employee tribunal arrangements	Advice & Consultancy	Final	N/A
Resources	Financial and HR Services	Council Tax	Key System	Final	Substantial
Resources	Financial and HR Services	Business Rates	Key System	Final	Substantial
Resources	Financial and HR Services	Housing Benefits	Key System	Final	Moderate
Resources	Financial and HR Services	Creditors	Key System	Final	Moderate
Resources	Financial and HR Services	Creditors - Invoices with no PO	Key System	Final	Moderate
Resources	Financial and HR Services	Creditors - Masterfile	Key System	Final	Moderate
Resources	Financial and HR Services	Cash Collection	Key System	Final	Moderate
Resources	Financial and HR Services	Debtors	Key System	Final	Moderate
Resources	Financial and HR Services	Payroll	Key System	Final	Substantial
Resources	Financial and HR Services	Budgetary Control	Key System	Final	Substantial
Resources	Financial and HR Services	Better Care Fund	Assurance	Final	Substantial
Resources	Information and Communication Technology	ICT Service Level Agreements	Assurance	In Progress	
Resources	Information and Communication Technology	ISP - Security Incident Management	Assurance	In Progress	
Resources	Information and Communication Technology	ISP - PSN Remedial Action	Assurance	TOR	
Resources	Information and Communication Technology	ISP - Systems Development & Maintenance	Assurance	Final	Substantial
Resources	Information and Communication Technology	Active Directory	Advice & Consultancy	Defer to 2017/18	
Resources	Information and Communication Technology	Design and Print Service	Assurance	Final	Moderate
Resources	Internal Audit, Risk and Fraud	Counter Fraud arrangements	Key System	In Progress	
2016 / 2017 Internal Audit Plan					
Transformation and Partnerships (TaP)	Policy and Communications	Business Continuity	Key System	In Progress	
Transformation and Partnerships (TaP)	Planning and Performance	Data Quality	Assurance	TOR	
Transformation and Partnerships (TaP)	Planning and Performance	Equality Impact Assessment process for MTFP	Assurance	Final	Substantial
Transformation and Partnerships (TaP)	Planning and Performance	Data Protection - Accessing External Databases	Assurance	Not Yet Started	
Transformation and Partnerships (TaP)	Planning and Performance	Data Protection - Neighbourhood Services Healthchecks	Assurance	Cancelled	
Transformation and Partnerships (TaP)	Planning and Performance	County Records Office	Assurance	Final	Substantial
Transformation and Partnerships (TaP)	Planning and Performance	Information Governance Group	Advice & Consultancy	In Progress	
Transformation and Partnerships (TaP)	Partnerships and Community Engagement	Community Grants	Assurance	Draft	
Transformation and Partnerships (TaP)	Partnerships and Community Engagement	Community Leisure Accounts	Advice & Consultancy	Complete	N/A
Transformation and Partnerships (TaP)	Partnerships and Community Engagement	Community Buildings - Health and Safety Compliance	Advice & Consultancy	In Progress	
Adult & Health Services	Adult Services	Direct Payment Cards	Advice & Consultancy	In Progress	
Adult & Health Services	Adult Services	Continuing Health Care	Assurance	Planning and Preparation	
Adult & Health Services	Adult Services	Shared Lives	Assurance	Final	Limited
Adult & Health Services	Adult Services	Adaptations Service Follow Up	Assurance	Final	Moderate
Adult & Health Services	Adult Services	Implementation of the Care Act	Advice & Consultancy	In Progress	
Adult & Health Services	Adult Services	Pathways - Establishment Audit	Assurance	Planning and Preparation	
Adult & Health Services	Adult Services	Pathways - Establishment Closure Audit - Consett	Assurance	Final	Substantial
Adult & Health Services	Adult Services	Pathways - Establishment Closure Audit - Chester Le Street	Assurance	Final	Substantial
Adult & Health Services	Adult Services	Pathways - Establishment Closure Audit - Bishop Auckland	Assurance	Final	Substantial
Adult & Health Services	Adult Services	Reablement Services	Assurance	Final	Moderate
Adult & Health Services	Commissioning	Transport Group - Outcomes of People 2 review	Advice & Consultancy	In Progress	
Adult & Health Services	Commissioning	Procurement - Arrangements for contract management and monitoring	Advice & Consultancy	In Progress	
Adult & Health Services	Commissioning/Resources	Creditors Supplier Masterfile	Assurance	Final	Limited
Adult & Health Services	EHCP	Control of Infectious Diseases (Third Party Assurance)	Assurance	Planning and Preparation	
Adult & Health Services	EHCP	Pollution Control - Planning Consultation Arrangements	Assurance	Defer to 2017/18	N/A
Adult & Health Services	EHCP	Contaminated Land	Assurance	Defer to 2017/18	N/A

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2016

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Adult & Health Services	EHCP	Trading Standards Grant	Grant	Final	N/A
Adult & Health Services	Planning & Service Strategy	Information Security - Caldicott compliance (attendance at Caldicott Group meetings)	Advice & Consultancy	In Progress	
Adult & Health Services	Planning & Service Strategy	Petty Cash Arrangements - Locality Offices	Advice & Consultancy	Defer to 2017/18	N/A
Adult & Health Services	Public Health	DCRS - Data Quality	Advice & Consultancy	Final	N/A
Adult & Health Services	Public Health	Stop Smoking Service (Nicotine Replacement Vouchers) Revisit	Advice & Consultancy	Final	N/A
Adult & Health Services	Public Health	Stop Smoking Service (Nicotine Replacement Vouchers) Revisit following Advice	Assurance	Not Started	
Adult & Health Services	Public Health	Alcohol Brief Interventions Service (PharmOutcomes)	Advice & Consultancy	Final	N/A
Adult & Health Services	Public Health	Supervised Consumption (Pharmoutcomes)	Advice & Consultancy	Final	N/A
Adult & Health Services	EHCP	Taxi Licensing - Driver Licence Verification	Advice & Consultancy	Final	N/A
Children and Young People's (CYPS)	Children's Services	Troubled Families Programme - Milestone 1 of 4	Advice & Consultancy	Complete	N/A
Children and Young People's (CYPS)	Children's Services	Troubled Families Programme - Milestone 2 of 4	Advice & Consultancy	Complete	N/A
Children and Young People's (CYPS)	Children's Services	Troubled Families Programme - Milestone 3 of 4	Advice & Consultancy	Planning and Preparation	
Children and Young People's (CYPS)	Children's Services	Troubled Families Programme - Milestone 4 of 4	Advice & Consultancy	Planning and Preparation	
Children and Young People's (CYPS)	Children's Services	Children's Homes - Establishment Audit	Assurance	Defer to 2017/18	
Children and Young People's (CYPS)	Children's Services	Supervised Spend - Leaving Care Service: Follow Up	Assurance	Not Started	
Children and Young People's (CYPS)	Children's Services	One Point Hubs - Establishment Audit	Advice & Consultancy	Defer to 2017/18	
Children and Young People's (CYPS)	Children's Services	Aycliffe Locality Office, Residential and Secure Services - Follow Up	Assurance	Defer to 2017/18	
Children and Young People's (CYPS)	Education	School Programme provided through SLA	Assurance	Various	14S, 12M, 2L
Children and Young People's (CYPS)	Education	National College for Teaching and Leadership (NCTL) Grant Certification Work - Direct Salaried Grants	Advice & Consultancy	Not Started	
Children and Young People's (CYPS)	Education	National College for Teaching and Leadership (NCTL) Grant Certification Work - Collaborative Fund Grant	Advice & Consultancy	In Progress	
Children and Young People's (CYPS)	Education	Youth Employment Initiative - ESF Interim Claim Process	Advice & Consultancy	Final	N/A
Children and Young People's (CYPS)	Education	Youth Employment Initiative - Training Provided to YEI Staff	Advice & Consultancy	Complete	N/A
Children and Young People's (CYPS)	Education	Youth Employment Initiative - Grant Claim Stage 2 Review	Advice & Consultancy	In Progress	
Children and Young People's (CYPS)	Education	Youth Employment Initiative - Detailed instructions for claim procedure - DurhamWorks	Advice & Consultancy	In Progress	
Children and Young People's (CYPS)	Education	Schools Financial Value Standard (SFVS)	Advice & Consultancy	In Progress	
Children and Young People's (CYPS)	Education	Schools - Safe Recruitment and Selection	Assurance	Defer to 2017/18	
Children and Young People's (CYPS)	Education	The Woodlands Pupil Referral Unit - (Finance and Governance)	Assurance	Not Started	
Children and Young People's (CYPS)	Education	Careers Service	Assurance	Cancelled	
Children and Young People's (CYPS)	Education	Education & Business Learning Organisation	Assurance	Cancelled	
Children and Young People's (CYPS)	Education	Governor Training: • Internal Audit Role in Supporting Schools • Schools Financial Value Standard – The Governors Role	Advice & Consultancy	Complete Complete	
Children and Young People's (CYPS)	Education	School Business Manager Training	Advice & Consultancy	Complete	N/A
Children and Young People's (CYPS)	Education	Head Teacher Group Attendance	Advice & Consultancy	Complete	N/A
Children and Young People's (CYPS)	Education	Schools User Provider Group	Advice & Consultancy	Complete	N/A
Children and Young People's (CYPS)	Planning & Service Strategy	Information Security - Caldicott compliance - Data Sharing Procedures - Foster Carers	Assurance	In Progress	
Children and Young People's (CYPS)	Planning & Service Strategy	Information Security - Caldicott compliance (attendance at Caldicott Group meetings)	Advice & Consultancy	In Progress	
Children and Young People's (CYPS)	Children's Services	Children's Homes - High Etherley Follow Up	Assurance	Final	Substantial
Children and Young People's (CYPS)	Education - Schools	Schools - Safe Recruitment and Selection	Assurance	Draft	
Regeneration and Local Services (ReaL)	Planning and Assets	Utility Bills	Assurance	Draft	
Regeneration and Local Services (ReaL)	Planning and Assets	Section 106 arrangements	Advice & Consultancy	Draft	
Regeneration and Local Services (ReaL)	Planning and Assets	Building Control - Systems Review	Assurance	Final	Moderate
Regeneration and Local Services (ReaL)	Planning and Assets	Asset Management	Assurance	Final	Limited
Regeneration and Local Services (ReaL)	Planning and Assets	Land Sales - Quality and Price	Advice & Consultancy	Draft	
Regeneration and Local Services (ReaL)	Planning and Assets	Low Carbo	Grant	Final	N/A
Regeneration and Local Services (ReaL)	Planning and Assets	Rebus	Grant	Final	N/A
Transformation and Partnerships (TaP)	Strategy, Programmes and Performance	EU Structural Funds Programme	Assurance	TOR	
Transformation and Partnerships (TaP)	Strategy, Programmes and Performance	Project Management arrangements	Advice & Consultancy	Planning and Preparation	
Regeneration and Local Services (ReaL)	Transport and Contract Services	Public Right of Way	Assurance	Not yet Started	
Regeneration and Local Services (ReaL)	Transport and Contract Services	On Street and Off Street Parking	Assurance	Final	Limited
Regeneration and Local Services (ReaL)	Transport and Contract Services	Concessionary Fares	Assurance	In Progress	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2016

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Regeneration and Local Services (ReaL)	Transport and Contract Services	Transport Contractual Arrangements (follow up)	Assurance	Draft	
Regeneration and Local Services (ReaL)	Transport and Contract Services	Local Transport Capital Block Funding	Grant	Final	N/A
Regeneration and Local Services (ReaL)	Transport and Contract Services	Local Pinch Point Fund	Grant	Cancelled	
Regeneration and Local Services (ReaL)	Transport and Contract Services	Bus Subsidy Ring Fenced Grant	Grant	Final	N/A
Regeneration and Local Services (ReaL)	Economic Development and Housing	Seaham Marina Grant (Capital)	Grant	In Progress	
Regeneration and Local Services (ReaL)	Economic Development and Housing	Accommodation Project	Advice & Consultancy	In Progress	
Regeneration and Local Services (ReaL)	Economic Development and Housing	Disabled Facilities Grant	Grant	Final	N/A
Regeneration and Local Services (ReaL)	Economic Development and Housing	Netpark Phase 3	Grant	Cancelled	
Regeneration and Local Services (ReaL)	Direct Services	Bulky Goods Collections Service	Advice & Consultancy	Defer to 2017/18	
Regeneration and Local Services (ReaL)	Direct Services	Bereavement Services - Public Health Funeral Arrangements	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Direct Services	Allotment Management - Follow Up	Assurance	Defer to 2017/18	
Regeneration and Local Services (ReaL)	Direct Services	Durham Crematorium	Assurance (Joint Ctte)	Planning and Preparation	
Regeneration and Local Services (ReaL)	Direct Services	Mounsett Crematorium	Assurance (Joint Ctte)	Planning and Preparation	
Regeneration and Local Services (ReaL)	Direct Services	Woodland Burial Trust – Follow Up	Advice & Consultancy	Final	N/A
Regeneration and Local Services (ReaL)	Direct Services	Fuel Stocks & Stores	Assurance	In Progress	
Regeneration and Local Services (ReaL)	Direct Services	Building Services, Repairs & Maintenance works billing processes	Assurance	In Progress	
Regeneration and Local Services (ReaL)	Direct Services	QMS (Quarterly Visit)	Advice & Consultancy	Final	N/A
Regeneration and Local Services (ReaL)	Direct Services	Facilities Management	Assurance	Planning and Preparation	
Regeneration and Local Services (ReaL)	Direct Services	Electrical Components - Procurement Card Expenditure (Follow Up)	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Direct Services	Play Areas - Inspection Mechanisms and Charges to Parish & Town Councils	Assurance	Planning and Preparation	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2016

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Regeneration and Local Services (ReaL)	Projects and Business Services	Garden Waste Collection	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Projects and Business Services	Environmental Compliance	Advice & Consultancy	Not yet Started	
Regeneration and Local Services (ReaL)	Projects and Business Services	CRM System Implementation	Advice & Consultancy	Defer to 2017/18	
Regeneration and Local Services (ReaL)	Projects and Business Services	Customer Services Complaints	Assurance	Draft	
Regeneration and Local Services (ReaL)	Culture and Sport	Leisure Centre - Core Financial Systems (Teesdale)	Assurance	In Progress	
Regeneration and Local Services (ReaL)	Culture and Sport	Leisure Works Governance Arrangements (Consett Leisure Centre)	Assurance	Cancelled	
Regeneration and Local Services (ReaL)	Culture and Sport	1Life Governance arrangements (Peterlee and Seaham Leisure Centres)	Assurance	Cancelled	
Regeneration and Local Services (ReaL)	Culture and Sport	Review of Leisure Centre Timesheet authorisation procedures (10 DCC centres)	Assurance	In Progress	
Regeneration and Local Services (ReaL)	Culture and Sport	Shildon Leisure Centre - Follow Up	Assurance	In Progress	
Regeneration and Local Services (ReaL)	Culture and Sport	CLUK Income Share Agreement	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Culture and Sport	County Durham Sport - Trust Arrangements	Advice & Consultancy	Final	N/A
Regeneration and Local Services (ReaL)	Culture and Sport	Stanley Bowls	Advice & Consultancy	Planning and Preparation	
Regeneration and Local Services (ReaL)	Culture and Sport	Integrated Leisure Management System	Assurance	In Progress	
Regeneration and Local Services (ReaL)	Culture and Sport	DLI Museum	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Culture and Sport	Gala Stage School	Assurance	Planning and Preparation	
Regeneration and Local Services (ReaL)	Culture and Sport	Picture House & Gala ticketing system arrangements	Advice & Consultancy	Not yet Started	
Regeneration and Local Services (ReaL)	Culture and Sport	Locomotion - Follow Up	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Technical Services	Civil Engineering Framework Sub £50K - Follow Up	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Technical Services	Stores (Buildings & Highways)	Assurance	Final	Substantial
Regeneration and Local Services (ReaL)	Technical Services	Local Highways Maintenance Fund - Incentive Element	Grant	Not yet Started	
Regeneration and Local Services (ReaL)	Planning and Assets	Carbon Reduction Commitment	Advice & Consultancy	Final	N/A
Regeneration and Local Services (ReaL)	Economic Development and Housing	West Rainton and Leamside CA	Advice & Consultancy	Final	N/A
Regeneration and Local Services (ReaL)	Technical Services	Local Transport Capital Block Funding for NECA	Grant	Final	N/A
Regeneration and Local Services (ReaL)	Transport and Contract Services	LSTF Capital Block UTMC	Grant	Final	N/A
Regeneration and Local Services (ReaL)	Transport and Contract Services	Local Growth Fund - Durham Station Gateway Scheme	Grant	Final	N/A
Regeneration and Local Services (ReaL)	Technical Services	Stores - Budgetary Control Arrangements	Advice & Consultancy	TOR	
Resources	Legal and Democratic Services	RIPA Officers Group	Advice & Consultancy	In Progress	
Resources	Legal and Democratic Services	Newco Trading Arrangements - Follow Up	Assurance	TOR	
Resources	Corporate Finance and HR	Medium Term Financial Plan	Key System	Not yet Started	
Resources	Corporate Finance and HR	Capital Accounting	Key System	Not yet Started	
Resources	Corporate Finance and HR	General Ledger	Key System	Not yet Started	
Resources	Corporate Finance and HR	Bank Reconciliation	Key System	Not yet Started	
Resources	Corporate Finance and HR	Short Term Investments	Key System	Not yet Started	
Resources	Corporate Finance and HR	Banking Arrangements	Assurance	Not yet Started	
Resources	Corporate Finance and HR	Tendering/Quotation arrangements	Assurance	Final	Substantial
Resources	Corporate Finance and HR	Contract Management	Assurance	Final	Moderate
Resources	Corporate Finance and HR	Off Contract Spend	Assurance	TOR	
Resources	Corporate Finance and HR	Procurement - Schools Commercial Focus	Advice & Consultancy	Not yet Started	
Resources	Corporate Finance and HR	Oracle Programme Board	Advice & Consultancy	In Progress	
Resources	Corporate Finance and HR	Oracle Project - Transactional Purchasing Improvement Group	Advice & Consultancy	In Progress	
Resources	Corporate Finance and HR	Oracle Project - Petty Cash and Payment Cards	Advice & Consultancy	In Progress	
Resources	Corporate Finance and HR	Service Reviews	Advice & Consultancy	Not yet Started	
Resources	Corporate Finance and HR	Attendance Management Framework	Assurance	Final	Moderate
Resources	Corporate Finance and HR	Flexible Working Pilot arrangements	Advice & Consultancy	In Progress	
Resources	Corporate Finance and HR	Learning & Development	Advice & Consultancy	Cancelled	
Resources	Corporate Finance and HR	Health & Safety training requirements	Assurance	Final	Limited
Resources	Corporate Finance and HR	Employee Car Leasing Scheme	Advice & Consultancy	Complete	N/A
Resources	Corporate Finance and HR	SLAs with schools working group	Advice & Consultancy	In Progress	
Resources	Corporate Finance and HR	Flexible Working - Variations to Contracts	Assurance	Defer to 2017/18	
Resources	Financial and HR Services	Agency	Assurance	Final	Limited

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2016

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Financial and HR Services	Learning Disability Shared Lives Service - Financial Inspections	Assurance	Final	Limited
Resources	Financial and HR Services	Creditors	Key System	In Progress	
Resources	Financial and HR Services	Creditors - Feeder Systems	Key System	Final	Substantial
Resources	Financial and HR Services	Creditors - AHS	Key System	TOR	
Resources	Financial and HR Services	Creditors - CYPs	Key System	TOR	
Resources	Financial and HR Services	Creditors - Res, ReaL and TaP	Key System	TOR	
Resources	Financial and HR Services	P2P Performance Improvement Project	Advice & Consultancy	In Progress	
Resources	Financial and HR Services	Payroll	Key System	TOR	
Resources	Financial and HR Services	Payroll - General Ledger Uploads	Key System	Draft	
Resources	Financial and HR Services	Payroll - Establishment and Core Data	Key System	Not yet Started	
Resources	Financial and HR Services	Payroll - Adjustments and System Access	Key System	Not yet Started	
Resources	Financial and HR Services	Payroll - Processing, Payments and System Parameters	Key System	Not yet Started	
Resources	Financial and HR Services	Business Rates	Key System	Planning and Preparation	
Resources	Financial and HR Services	Business Rates - Reconciliations	Key System	Final	Substantial
Resources	Financial and HR Services	Business Rates - Recovery	Key System	Not yet Started	
Resources	Financial and HR Services	Business Rates - Maintenance of Debt, Annual Updates and Pls	Key System	Not yet Started	
Resources	Financial and HR Services	Business Rates - Discounts and Exemptions, System Access and Declarations of Interest	Key System	Not yet Started	
Resources	Financial and HR Services	HB, CTR, DHP and Welfare Assistance	Key System	Planning and Preparation	
Resources	Financial and HR Services	HB - Reconciliations	Key System	Final	Substantial
Resources	Financial and HR Services	HB - Welfare Assistance Scheme	Key System	Final	Substantial
Resources	Financial and HR Services	HB - Discretionary Housing Payments	Key System	Final	Substantial
Resources	Financial and HR Services	HB - New Claims and Change of Circumstances	Key System	TOR	
Resources	Financial and HR Services	HB - Annual Updates and Pis	Key System	TOR	
Resources	Financial and HR Services	HB - System Access and Declarations of Interest	Key System	TOR	
Resources	Financial and HR Services	HB Sundry Debtor Overpayments	Key System	Cancelled	
Resources	Financial and HR Services	Enforcement, including bailiff arrangements	Assurance	Not yet Started	
Resources	Financial and HR Services	Council Tax	Key System	Planning and Preparation	
Resources	Financial and HR Services	Council Tax - Reconciliations	Key System	Final	Substantial
Resources	Financial and HR Services	Council Tax - Recovery	Key System	Not yet Started	
Resources	Financial and HR Services	Council Tax - Maintenance of Debt, Annual Updates and Pls	Key System	Not yet Started	
Resources	Financial and HR Services	Council Tax - Discounts and Exemptions, System Access and Declarations of Interest	Key System	Not yet Started	
Resources	Financial and HR Services	Cash Collection	Key System	Planning and Preparation	
Resources	Financial and HR Services	Cash Collection - Wharton Park and Weighbridges	Key System	In Progress	
Resources	Financial and HR Services	Debtors	Key System	Planning and Preparation	
Resources	Financial and HR Services	Debtors Working Group	Advice & Consultancy	In Progress	
Resources	Financial and HR Services	Chapter Homes arrangements	Advice & Consultancy	In Progress	
Resources	Financial and HR Services	Financial Services Team - Support for CAS	Assurance	TOR	
Resources	Financial and HR Services	FST - Caspar system	Advice & Consultancy	Final	N/A
Resources	Financial and HR Services	FST - Debit Card Cash Account	Assurance	Final	Limited
Resources	Financial and HR Services	FST - Court of Protection Bank Account	Assurance	Draft	
Resources	Financial and HR Services	FST - Petty Cash and Imprests	Advice & Consultancy	TOR	
Resources	Financial and HR Services	FST - Monitoring Visits	Advice & Consultancy	TOR	
Resources	Financial and HR Services	FST - Service Users Property	Advice & Consultancy	TOR	
Resources	Financial and HR Services	FST - Creditor Payments to Providers	Advice & Consultancy	TOR	
Resources	Financial and HR Services	FST - Invoicing of clients and debt management	Advice & Consultancy	TOR	
Resources	Financial and HR Services	ResourceLink Migration Group	Advice & Consultancy	Complete	N/A
Resources	Financial and HR Services	Section 256 agreements	Grant	Final	N/A
Resources	Financial and HR Services	Better Care Fund (Section 75)	Grant	Defer to 2017/18	
Resources	Information and Communication Technology	Information Security - Backup Procedures	Assurance	Planning and Preparation	
Resources	Information and Communication Technology	Information Security - Information Sharing	Assurance	Planning and Preparation	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2016

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Information and Communication Technology	Mobile Computing	Assurance	Draft	
Resources	Information and Communication Technology	SQL Server	Assurance	Planning and Preparation	
Resources	Information and Communication Technology	ICT Purchasing	Assurance	In Progress	
Resources	Information and Communication Technology	ICT Strategy	Assurance	Final	Substantial
Resources	Information and Communication Technology	Windows	Assurance	Draft	
Resources	Information and Communication Technology	Asset Register	Assurance	Draft	
Resources	Corporate Finance and HR	Teachers Pension Fund	Advice & Consultancy	TOR	
Resources	Financial and HR Services	Teaching Assistants	Advice & Consultancy	Final	N/A
Resources	Financial and HR Services	Prepaid cards	Advice & Consultancy	TOR	
Resources	Financial and HR Services	Equal Pay Claims	Advice & Consultancy	Final	N/A
Resources	Internal Audit, Risk & Fraud	Insurance - Employers Liability Process	Advice & Consultancy	In Progress	
Resources	Financial and HR Services	Teaching Assistants (2)	Advice & Consultancy	Final	N/A

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FINAL REPORTS ISSUED IN PERIOD ENDING 31 DECEMBER 2016

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
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ADULT AND HEALTH SERVICES (AHS)		
Shared Lives	<p>An Assurance review that considered the following risks:</p> <ul style="list-style-type: none"> • Unsuitable Shared Lives Provider applications are received, reviewed and referred to the Shared Lives Panel for decision making • The Shared Lives Panel is effective • Shared Lives Providers are unaware of their roles and responsibilities • There is insufficient monitoring of the Shared Lives Provider placements. • The Service User referral and assessment processes are inadequate • Inadequate safeguarding measures are in place • The ending of a placement is not effectively managed • Shared Lives Providers are not paid/incorrectly paid for services provided • The Shared Lives Team is ineffective • Ineffective budgetary control • The Authority does not comply with the Data Protection Act. 	Limited
Reablement Services	<p>An Assurance review that considered the following risks:</p> <ul style="list-style-type: none"> • The referral and assessment processes are inadequate • The arrangements in place for handling Service Users monies are inadequate • Information and data are not protected from loss, damage or unauthorised disclosure • The Discharge process is inadequate • The arrangements in place for effectively utilising staffing resources is inadequate. • Failure to carry out DBS checks on relevant employees • Reablement Workers are incorrectly paid. • That there is ineffective budgetary control • Staff are unaware of their responsibilities and there is an inconsistent approach resulting in the service being challenged • Failure to report accurate and relevant performance indicators 	Moderate
Adaptations Service Follow Up	Assurance review that followed up on actions taken by the Service in responding to recommendations made within the report action plan. As a result the initial Limited Assurance opinion was adjusted to Moderate.	Moderate
Holiday Averages Calculation and Payment Arrangements	A review of arrangements in place for the calculation, and payment of holiday averages for part time workers within the Adult Care - County Durham Care and Support (CDCS) Service. An Interim report has been prepared recommending further action to be undertaken.	N/A

CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS)		
Children's Homes - High Etherley - Follow Up	Assurance review that followed up on actions taken by the Service in responding to recommendations made within the report action plan. As a result the initial Assurance opinion of Limited was adjusted to Substantial.	Substantial
Yohden Primary School	Assurance review that followed up on actions taken by the School in responding to recommendations made within the report action plan.	Substantial
Shotton Hall Primary School	Assurance reviews that followed up on actions taken by the School in responding to recommendations made within the report action plan.	Substantial
Silver Tree Primary School	Assurance reviews that followed up on actions taken by the School in responding to recommendations made within the report action plan.	Moderate

REGENERATION AND LOCAL SERVICES (ReaL)		
Competition Line Income Share Agreement	Assurance review of the arrangements in place to mitigate against the risk of errors being made in the calculation of payments and that all payments are in accordance with the contract. The following Leisure Centres were included in the review; <ul style="list-style-type: none"> • Freeman's Quay • Newton Aycliffe • Spennymoor • Shildon • Teesdale 	Substantial
Locomotion – Follow Up	Assurance review to determine whether or not the actions raised in the audit report, dated November 2015, which reviewed the stock management, income collection and visitor recording arrangements, have been implemented.	Substantial
Gypsy, Roma, Traveller sites	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> • The sites are not in demand, that is they are unattractive to tenants, difficult to access and income is not generated • Income is not collected • Property, land and equipment is damaged or stolen 	Moderate
On and Off Street Parking	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> • Loss of income through fraud or error • Parking charge notices are not issued in accordance with DCC policy, legislation and industry standards • There are inadequate arrangements in place to deal with altercations or complaints from members of the public • Service is not delivered in accordance with agreed contracts • Failure to report accurate and relevant performance indicators • IT system inaccessibility or failure 	Limited
Rebus	Grant Certification	N/A
LoCarbo	Grant Certification	N/A

RESOURCES.		
Creditor Payments – Feeder Systems (Interim report for Creditor Payments)	Assurance review of the arrangements in place to mitigate against the risk of payments being inaccurate or not being made on a timely basis.	Substantial
Council Tax – Reconciliations (Interim report for Council Tax)	Assurance review of the arrangements in place to mitigate against the risk of inaccuracies in the systems not being identified on a timely basis.	Substantial
Business Rates – Reconciliations (Interim report for Business Rates)	Assurance review of the arrangements in place to mitigate against the risk of inaccuracies in the systems not being identified on a timely basis.	Substantial
Housing Benefits – Reconciliations (Interim report for HB and CTR admin)	Assurance review of the arrangements in place to mitigate against the risk of inaccuracies in the systems not being identified on a timely basis.	Substantial
Housing Benefits – Welfare Assistance Scheme (Interim report for HB and CTR admin)	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> • Awards are not made to the people who need them most • Inaccurate or delayed payments • Budget is not properly managed/monitored • Performance is not properly managed/monitored • Contractor/third party suppliers fail to meet required terms and conditions 	Substantial
Housing Benefits – Discretionary Housing Payments (Interim report for HB and CTR admin)	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> • Discretionary awards are not made to the people who need them most • Discretionary funding budgets are not properly managed / monitored 	Substantial
Information Security – Systems Development & Maintenance	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> • The policy is not fit for purpose • The policy is not adhered to 	Substantial
Payroll – Key controls	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> • Payments are not in accordance with the authorised establishment • The identity of the employee and appropriateness for the post has not been confirmed • Ex-employees continue to receive payments or final payments are incorrectly calculated • Deductions are made which are not authorised or are incorrect • System Parameters / Legislation relevant to the service is not known or is not incorporated into the system • Payments are made which are not authorised, have been incorrectly calculated or incorrectly input • Salary payments are not made • Incorrect / invalid financial data recorded in the General Ledger • Inaccurate reporting of performance 	Substantial

RESOURCES (contd.)		
Tendering and Quotation arrangements	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • The procurement system and processes do not adhere to legislative requirements or best practice • Those responsible for carrying out procurement exercises do not adhere to Contract Procedure Rules, legal requirements, best practice, Financial Regulations or Financial Management Standards • Procurement exercises do not result in fit for purpose solutions • Contracts are awarded where a county / regional / collaborative contract is already in place • Competition is restricted • Contracts are split to not exceed procurement thresholds • The most favourable offer as regards Council objectives, price and quality is not chosen • Collusion between candidates in order to share contracts and / or inflate prices • Preference is given to a favoured candidate • Documentation is incomplete, lost, destroyed, tampered with, or inappropriately disclosed 	Substantial
Cash Collection	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Non-compliance with financial regulations • Theft / Misappropriation • Inappropriate recovery action taken • Postal remittances are not recorded / are misappropriated • Inadequate physical security of cash • Mispostings / fraudulent activity go undetected • Information and data are not protected from loss, damage or unauthorised disclosure • Non-compliance with PCI requirements 	Moderate
Debtors	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Difficulty / Inability to take appropriate recovery action against unpaid debts • Invoices are raised incorrectly • Theft/Loss of income • Inappropriate recovery action • Financial penalties • Information and data are not protected from loss, damage or unauthorised disclosure • Mispostings / fraudulent activity go undetected • Policies and procedures are inadequate / are not understood by relevant staff 	Moderate
Attendance Management Framework	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • The attendance management framework does not include the appropriate interventions or actions • The correct interventions and action are not applied at the correct time or in the appropriate circumstances • Actual levels of attendance are not known or are not actively managed • Failure to report accurate and relevant performance indicators 	Moderate

RESOURCES (contd.)		
Procurement Cards	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Procurement card holders misuse cards • Procurement Cards are assigned to staff where there is limited business benefit • Overspend on budgets • Value for money is not achieved in purchases made with procurement cards 	Limited
Financial Services Team – Debit Card Cash Account	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Service User's income is not received or their payments are not made correctly • Unauthorised payments are made 	Limited
Health and Safety Training Requirements	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Operative injury or accident at work • Training procured is not cost effective 	Limited
Shared Lives – Financial Inspections	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> • Shared Lives Service Users are at risk of financial abuse • Employees are unaware of their responsibilities and there is an inconsistent approach • Shared Lives Providers are unaware of their responsibilities and there is an inconsistent approach 	Limited
Section 256 Agreements	Grant certification	N/A

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Progress on the Implementation of Audit Recommendations

	Number of Actions Raised	Actions Due	Actions Implemented			Overdue Actions by original target date	Number of Actions where the original target has been revised	Overdue Actions following a revised target date	Total Revised Actions Due	Revised Total Recommendations Overdue
			Due	Not Yet Due	Total					
TRANSFORMATION AND PARTNERSHIPS (TAP)										
2015/16										
High	0	0	0	0	0	0	0	0	0	0
Medium	8	8	8	0	8	0	0	0	8	0
Total	8	8	8	0	8	0	0	0	8	0
2016/17										
High	0	0	0	0	0	0	0	0	0	0
Medium	12	8	8	0	8	0	0	0	8	0
Total	12	8	8	0	8	0	0	0	8	0
Overall Total	20	16	16	0	16	0	0	0	16	0
ADULT AND HEALTH SERVICES (AHS)										
2015 / 2016										
High	1	1	1	0	1	0	0	0	1	0
Medium	112	112	111	0	111	1	1	0	111	0
Total	113	113	112	0	112	1	1	0	112	0
2016/17										
High	7	5	5	0	5	0	0	0	5	0
Medium	47	40	39	0	39	1	1	0	39	0
Total	54	45	44	0	44	1	1	0	44	0
Overall Total	167	158	156	0	156	2	2	0	156	0
CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS)										
2015 / 2016										
High	0	0	0	0	0	0	0	0	0	0
Medium	39	39	38	0	38	1	1	0	38	0
Total	39	39	38	0	38	1	1	0	38	0
2016/17										
High	0	0	0	0	0	0	0	0	0	0
Medium	41	40	39	0	39	1	1	0	39	0
Total	41	40	39	0	39	1	1	0	39	0
Overall Total	80	79	77	0	77	2	2	0	77	0
REGENERATION AND LOCAL SERVICES (REAL)										
2013/2014										
High	14	14	14	0	14	0	0	0	14	0
Medium	78	78	75	0	75	3	3	0	75	0
Total	92	92	89	0	89	3	3	0	89	0
2014 / 2015										
High	4	4	3	0	3	1	1	0	3	0
Medium	60	60	60	0	60	0	0	0	60	0
Total	64	64	63	0	63	1	1	0	63	0
2015/2016										
High	7	7	6	0	6	1	1	1	7	1
Medium	116	114	102	0	102	12	12	5	107	5
Total	123	121	108	0	108	13	13	6	114	6
2016/17										
High	8	7	6	0	6	1	1	0	6	0
Medium	131	104	85	0	85	19	19	0	85	0
Total	139	111	91	0	91	20	20	0	91	0
Overall Total	418	388	351	0	351	37	37	6	357	6
RESOURCES										
2014 / 2015										
High	7	7	7	0	7	0	0	0	7	0
Medium	134	134	131	0	131	3	3	0	131	0
Total	141	141	138	0	138	3	3	0	138	0
2015 / 2016										
High	3	3	3	0	3	0	0	0	3	0
Medium	123	121	115	0	115	6	6	0	117	2
Total	126	124	118	0	118	6	6	0	120	2
2016 / 2017										
High	16	6	2	0	2	4	4	0	2	0
Medium	90	56	50	0	50	6	6	0	50	0
Total	106	62	52	0	52	10	10	0	52	0
Overall Total	373	327	308	0	308	19	19	0	310	2
TOTAL COUNCIL										
2013 / 2014										
High	14	14	14	0	14	0	0	0	14	0
Medium	78	78	75	0	75	3	3	0	75	0
Total	92	92	89	0	89	3	3	0	89	0
2014 / 2015										
High	11	11	10	0	10	1	1	0	10	0
Medium	194	194	191	0	191	3	3	0	191	0
Total	205	205	201	0	201	4	4	0	201	0
2015 / 2016										
High	11	11	10	0	10	1	1	1	11	1
Medium	398	394	374	0	374	20	20	5	381	7
Total	409	405	384	0	384	21	21	6	392	8
2016 / 2017										
High	31	18	13	0	13	5	5	0	13	0
Medium	321	248	221	0	221	27	27	0	221	0
Total	352	266	234	0	234	32	32	0	234	0
OVERALL TOTAL	1058	968	908	0	908	60	60	6	916	8

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Performance Indicators as at 31 December 2016

Efficiency Objective: To provide maximum assurance to inform the annual audit opinion			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Actual
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% Annually	76% at 31 December 2016 (on target)
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview	90% (Quarterly)	99% (113 out of 114)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response	95% (Quarterly)	98% (129 out of 132)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100%
Quality Objective: To ensure that the service is effective and adding value			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Annually)	100%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service satisfactory or above (3 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	100% - Av score 4.5
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	85%
Cost Objective: To ensure that the service is cost effective			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	Yes (2015/16 exercise) £226 cost per chargeable audit day

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