



Audit Committee

Date **Tuesday 13 March 2018**
Time **11.00 am**
Venue **Committee Room 1B, County Hall, Durham**

Business

Part A

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

1. Apologies for absence
2. Minutes of the meeting held on 30 November 2017 (Pages 5 - 10)
3. Declarations of interest, if any
4. General Data Protection Regulations - Presentation from Head of Communications and Information Management
5. Agreement of Accounting Policies for Application in the 2017-18 Financial Statements - Report of Corporate Director of Resources (Pages 11 - 40)
6. Final Accounts Timetable for the Year Ended 31 March 2018 - Report of Corporate Director of Resources (Pages 41 - 46)
7. Changes to the Code of Practice for Local Authority Accounting in the UK 2017-18 - Report of the Corporate Director of Resources (Pages 47 - 52)
8. External Audit - Durham County Council Audit Strategy Memorandum Year Ended 31 March 2017 - Report of the External Auditor (Pages 53 - 72)
9. External Audit - Durham Pension Fund Audit Strategy Memorandum Year Ended 31 March 2017 - Report of the External Auditor (Pages 73 - 90)
10. External Audit Progress Report - February 2018 - Report of the External Auditor (Pages 91 - 102)
11. Corporate Governance Review 2017/2018 - Key Dates - Report of Corporate Director of Resources (Pages 103 - 106)
12. Revised Risk Management Policy and Strategy - Report of Corporate Director of Resources (Pages 107 - 112)

13. Strategic Risk Management Progress Report for the Quarter Ended 31 December 2017 - Report of Corporate Director of Resources (Pages 113 - 124)
14. Emergent Internal Audit Plan 2018/2019 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 125 - 136)
15. Internal Audit Progress Report for the quarter ended 31 December 2017 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 137 - 154)
16. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
17. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

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

18. Internal Audit Progress Report for the quarter ended 31 December 2017 - Report of Chief Internal Auditor and Corporate Fraud Manager (Pages 155 - 176)
19. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration

Helen Lynch

Head of Legal and Democratic Services

County Hall
Durham
5 March 2018

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, S Robinson,
J Shuttleworth and O Temple

Co-opted Member:

Mr C Robinson

Contact: Jackie Graham

Tel: 03000269704

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1B, County Hall, Durham on **Thursday 30 November 2017 at 10.00 am**

Present:

Councillor J Rowlandson (Chairman)

Members of the Committee:

Councillors M Davinson and O Temple

Co-opted Member:

Mr C Robinson

1 Apologies for absence

Apologies for absence were received from Councillors E Bell, C Carr, J Carr, J Robinson, S Robinson and J Shuttleworth

2 Minutes

The Minutes of the meeting held on 29 September 2017 were agreed as a correct record and were signed by the Chairman.

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.

4 Cyber Security

The Committee received a presentation from the Strategic Manager, Customer and Digital Services that gave an update on Cyber Security (for copy see file of Minutes).

The presentation highlighted the following:-

- The team who dealt with cyber security
- Recent developments -
 - Incidents – 1.3m attacks per week and 80k SPAM emails per week
 - Our stance – including regional and internal exercises
 - Business continuity – plan reviewed annually
 - ICT Architecture

- Compliance and standards
- Working with others
 - National and Regional Bodies
 - Cybercrime Task and Finish Group
 - DCC Business Continuity Board
- Ongoing and Future Work

The Strategic Manager advised of a phishing exercise sent to all members of staff. Councillor Davinson was advised that the service were aware of who had responded to the e-mail and members were assured that this was followed up.

With regards to school cyber security, members were informed by the Strategic Manager that a lot of work was carried out with the schools and that there were firewalls between us and them. They could access certain systems but required authentication details in order to use them. They would also receive copies of the phishing flyer to ensure they were fully aware of the dangers of e-mails.

Mr Robinson was assured that all standards were being complied with and that as standards changed so did the responses. He was advised that all of the checklists were of things that the authority should be doing and that constantly tested us.

The Corporate Director of Resources commented that there was a continuing need around culture and staff training to ensure that managers and their staff understood their responsibilities. He assured the Committee that there was loads of work being undertaken to improve the way we worked.

5 Co-opted Members to the Audit Committee

The Committee considered a report of the Corporate Director of Resources that advised of the recruitment process to be undertaken to fill the vacancy that had recently arisen (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager advised that the Committee had received the resignation of Mr David Beavis, co-opted member. It was proposed to fill the vacant post for the remaining period of the three year term due to expire on 30 April 2019, by means of a recruitment process.

Resolved:

- (i) That the recruitment process to be undertaken to fill the vacant co-opted member position be noted.
- (ii) That the Committee place on record the contribution of David Beavis for his service as co-opted members to the Audit Committee.

6 Annual Audit Letter 2016/2017

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).

Resolved:

That the contents of the letter are noted.

7 External Audit Progress Report - November 2017

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, Mazars informed the Committee that planning of the 2017/18 audit had commenced and that any emerging issues were being discussed with the finance team.

With regards to the Housing Benefit Subsidy Mr Collins informed the Committee that the work was complete and that the grant certification would be presented to the next meeting. He added that he was not aware of any significant changes.

Resolved:-

That the report be noted.

8 Update on 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 and advised that in order to make the document more reader friendly and accessible it was proposed to summarise the key points. He went on to explain that in order to provide continuous assurance senior management had agreed to provide feedback on governance issues during quarterly risk reviews rather than through an intense period between March and April each year.

Further to a discussion about making more information available to the public the committee were assured that the wording in the AGS would be clearer in terms of when this information would be available. The Chief Internal Auditor and Corporate Fraud Manager assured the committee that the information was gathered in a secure environment and feedback was received on when inspections and quality reviews took place. A level of judgement was then made about the level of reliance and a combined assurance opinion given.

Resolved:

That the revised Local Code of Corporate Governance be approved.

9 Strategic Risk Management - Progress Report for the quarter ended 30 September 2017

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 the period July to September 2017 (for copy see file of Minutes).

The Risk, Insurance and Governance Manager informed the Committee that there were 23 strategic risks and highlighted the key changes during this quarter. The new risk was the 'potential breach of the EU General Data Protection Regulations' which meant that the Council would be tightening data protection.

The Committee were advised that following the new risk last quarter of Cyber-crime a lot of work was taking place around the risk from third party providers as the Council did not know how affective these systems were.

Resolved:

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

10 Risk Management Process Review

The Committee considered a report of the Corporate Director of Resources that shared the findings of a review into the strategic risk management process to determine whether it was fit for purpose and to recommend options for the future reporting of risk (for copy see file of Minutes).

The Risk, Insurance and Governance Manager reported that currently risks were reported to the Committee four times per year however as it was not possible to evenly spread them due to the committee dates and recess periods it was proposed to move to three review reports per year. Members were assured that risks would continue to be managed and the Chairman and Vice-Chairman of the Committee would be appraised of any emerging risks in between meetings.

Resolved:

That Option 2 be approved and risks reported to Audit Committee three times per year.

11 Internal Audit Progress Report for the quarter ended 30 September 2017

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed Members of the work that had been carried out by Internal Audit during the period 1 April 2017 to 30 June 2017 as part of the 2017/2018 Internal Audit Plan (for copy see file of Minutes).

The Audit and Fraud Manager highlighted progress against the Plan for each Service Grouping, and informed Members of the amendments to the plan and the unplanned audit reviews in the quarter. The report also provided a summary of progress on actions due, implemented and overdue, and finalised audits that had been issued with a limited assurance opinion.

Resolved:

- (i) That the amendments made to the 2017/2018 Annual Internal Audit Plan be noted;

- (ii) That the work undertaken by Internal Audit during the period ending 30 September 2017 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;

12 Exclusion of the public

Resolved:

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 1 of Part 1 of Schedule 12A of the Act.

13 Internal Audit Progress Report for the quarter ended 30 September 2017

The Committee considered the report of the Chief Internal Auditor and Corporate Fraud Manager which presented the appendices in the Internal Audit Progress Report referred to in Part A of the Agenda (for copy see file of Minutes).

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

Following concerns raised at the last meeting the Committee received updates and assurances on outstanding actions from the Head of Commissioning, the Sustainable Transport Manager, the Parking and Transport Infrastructure Team Leader, the ICT Services Support Manager, the Senior Project Manager and the Finance Manager for Resources.

Resolved:

That the content of Appendices 6 and 7 be noted, and the proposed actions in respect of the overdue areas as outlined, be agreed.

14 Protecting the Public Purse - Activity Update as at 30 September 2017

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 2017 (for copy see file of Minutes).

Resolved:

That the recommendation contained within the report be approved.

15 Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration

The Chairman of the meeting read out a statement from the Chairman of the Audit Committee in relation to an investigation carried out by the Corporate Director of Resources and the Chief Internal Auditor and Corporate Fraud Manager.

The Corporate Director of Resources presented details of the investigation together with the outcome.

Resolved:

That the outcome of the investigation be noted.

Audit Committee

28 February 2018



Agreement of Accounting Policies for Application in the 2017/18 Financial Statements

Report of John Hewitt, Corporate Director of 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 2017/18 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 2017/18 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 2016/17 accounts.
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 2017/18 financial statements.
 - authorise the Corporate Director of Resources to review the accounting policies as necessary, and report changes to the Audit Committee.

Contact: Anita Hawkins Tel: 03000 266242

Appendix 1: Implications

Finance -

The report considers the Accounting Policies for the County Council's Statement of Accounts for 2017/18.

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 2017/18

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 2017/18 financial year and its position at the year-end of 31 March 2018. 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 2017/18 (the Code) and the Service Reporting Code of Practice 2017/18 (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 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 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 and Young People's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Adult and Health Services 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 % [rate tbc] (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 Corporate 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 Corporate 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 2017/18 (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. These are 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.

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 current 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 current value. The difference between current 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 current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current 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 current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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. All valuations undertaken in 2017/18 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 on-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 (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 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 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

28 February 2018

Final Accounts Timetable for the year ended 31 March 2018



Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

- 1 The purpose of the report is to provide Members with information regarding the Final Accounts Timetable for 2017/18. This timetable details the target dates for key actions in order 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 included in the detailed Final Accounts Timetable are attached at Appendix 2 for your information.

Background

- 4 The statutory deadlines have been brought forward for local authority accounts produced from 2017/18 onwards.
- 5 The 'Accounts and Audit Regulations 2015 require that the responsible financial officer, by no later than 31 May (previously 30 June), signs and certifies that the Statement of Accounts presents a true and fair view of the financial position of the County Council for the year to 31 March previous, subject to the views of the External Auditor.
- 6 The Regulations then require that on or before 31 July (previously 30 September), approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take into account the views of the External Auditor.
- 7 In order to adequately prepare for the revised deadlines applicable from 2017/18, the Council undertook a dry run of preparing the 2016/17 Accounts in accordance with the earlier deadlines. The first deadline of 31 May, by which the draft accounts were to be authorised, was achieved successfully.

- 8 The final audited accounts were approved by Committee by the statutory deadline of 30 September 2017, however members may recall that the dry run target to have the accounts approved by 31 July was not achieved. This was due to additional audit testing required in relation to asset valuations, causing the review period to extend beyond 31 July. At the meeting held 29 September 2017 it was minuted that “an assurance for the Committee was the work that had been completed to prevent future errors and the internal controls put in place to ensure that correct data was used in current and future valuations”.
- 9 In order to address this issue regular meetings have been taking place between the Finance and Valuation teams to discuss processes and procedures, Internal Audit have planned a series of audits to review the valuation process and check a large sample of valuations and external auditors now have direct access to the valuation database which should reduce the time taken to carry out their tests.

The Timetable

- 10 The Final Accounts timetable is a tool for the effective management and monitoring of the process of closing the accounts.
- 11 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 (the responsible financial 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.
- 12 Strategic Finance closely monitors the achievement of the dates in the timetable throughout the final accounts period, sending prompts for upcoming deadlines and following up delays and missed deadlines. This helps to ensure that the overall timetable will be achieved, and to identify improvements that can be made to the next year end process.
- 13 Final Accounts monitoring meetings are also held to ensure that practitioners apply accounting procedures consistently; best practice is shared; there is a shared understanding of any difficulties or delays being encountered, and to disseminate updated information quickly and consistently.

Recommendations and reasons

- 14 Members are asked to note the key dates in the Final Accounts Timetable for 2017/18 detailed in Appendix 2.

Contact: Anita Hawkins Tel: 03000 266242

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 2016/17	Proposed completion date 2017/18
Sending out of Related Party Declarations for Members and Senior Officers	Resources – Democratic Services	Wed 1 Mar 2017	Thu 1 Mar 2018
Details of Related Party Declarations for Members and Senior Officers to be returned to Democratic Services	Members / Senior Officers	Fri 17 Mar 2017	Fri 16 Mar 2018
Final Postings by Benefits Section	Financial Services – Revenues and Benefits	Fri 31 Mar 2017	Thu 29 Mar 2018
Last creditors paysheet for 2017/18	Financial Services – Revenues and Benefits (Creditors)	Fri 31 Mar 2017	Thu 29 Mar 2018
All stock checks completed at 31 March	Services	Fri 31 Mar 2017	Sat 31 Mar 2018
All cash posted up to and including 31 March	Financial Services – Revenues and Benefits	Sat 1 Apr 2017	Sun 1 Apr 2018
Last Monthly Salaries and Wages information for 2017/18 processed into ledger	Payroll / Strategic Finance	Mon 3 Apr 2017	Tue 3 Apr 2018
All Bank Reconciliations to 31 March completed	Strategic Finance	Tue 25 Apr 2017	Tue 24 Apr 2018
Service Ledgers finalised and final reports produced and net revenue outturn for each Service Grouping notified to Strategic Finance	Financial Services / Strategic Finance	Wed 26 Apr 2017	Wed 25 Apr 2018
Draft Statement of Accounts to External Audit for Technical Review	Strategic Finance	Fri 26 May 2017	Fri 25 May 2018

Task	Responsibility	Timetabled date 2016/17	Proposed completion date 2017/18
Chief Financial Officer to sign the Statement of Accounts	Strategic Finance / Corporate Director of Resources	Wed 31 May 2017	Thu 31 May 2018
Statement of Accounts to External Audit	Strategic Finance	Thu 1 Jun 2017	Fri 1 Jun 2018
Start of Statement of Accounts Audit	External Audit	Thu 1 Jun 2017	Fri 1 Jun 2018
Start of Inspection Period (provisional)	Strategic Finance	Mon 5 Jun 2017	Fri 1 Jun 2018
Unaudited Whole of Government Accounts (WGA) return to External Audit and HM Treasury (provisional)	Strategic Finance	Fri 7 Jul 2017	Fri 6 Jul 2018
Cabinet – Overall Outturn Report considered (provisional)	Strategic Finance	Wed 12 Jul 2017	Wed 11 Jul 2018
End of Inspection Period (provisional)	Strategic Finance	Fri 14 Jul 2017	Thu 12 Jul 2018
Audit Committee meeting – approval of Statement of Accounts	Strategic Finance	Mon 31 Jul 2017	Tue 31 Jul 2018
Publication of Accounts	Strategic Finance	Mon 31 Jul 2017	Tue 31 Jul 2018
Audited WGA return to HM Treasury (provisional)	Strategic Finance	Fri 29 Sep 2017	Fri 28 Sep 2018

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Audit Committee

28 February 2018

Changes to the Code of Practice for Local Authority Accounting in the UK for 2017/18



Report of John Hewitt, Corporate Director of 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 2017/18 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 2017. It supersedes the 2016/17 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: Anita Hawkins Tel: 03000 266242

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 2017/18

The table below provides a summary of the changes in the 2017/18 CIPFA Code and their applicability to Durham County Council.

	Change	Relevant to Durham County Council
1	A restructure of chapter one (Introduction) of the Code to separately present the requirements of each of the administrations across the UK for that chapter	Yes
2	Amendments to section 2.2 (Business Improvement District Schemes (England, Wales and Scotland), Business Rate Supplements (England), and Community Infrastructure Levy (England and Wales)) for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date	Yes
3	Amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report	Yes
4	Updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting	Yes
5	Following the amendments in the update to the 2016/17 Code, changes to section 3.5 (Housing Revenue Account) to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities	No, DCC no longer has an HRA
6	Following the amendments in the update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements) and Appendix B (Sources and Legislation) for the Local Authority (Capital Finance and Accounting) Scotland Regulations 2016 and the review of statutory reporting requirements for Scottish local authorities	No, relevant to Scotland only

	Change	Relevant to Durham County Council
7	Amendments to section 6.5 (Accounting and Reporting by Pension Funds) to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.	Yes

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Audit Committee

28 February 2018



External Audit – Audit Strategy Memorandum – February 2018

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 2018.

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 2018.
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. Section 7 details the auditor's consideration of independence. The auditor's consideration of the threats and safeguards to its independence are detailed in Section 7.

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

Year ending 31 March 2018





CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Value for Money
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

This document is to be regarded as confidential to Durham County Council. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance by the Council. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit Committee
Durham County Council
County Hall
Durham
DH1 5UQ

February 2018

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2018

We are pleased to present our Audit Strategy Memorandum for Durham County Council for the year ending 31 March 2018.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

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

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6300.

Yours faithfully



MJ Kirkham (Feb 15, 2018)

Mark Kirkham

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Durham County Council for the year to 31 March 2018. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: www.psa.co.uk/audit-quality/terms-of-appointment/

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

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.

Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

Value for Money

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 approach to Value for Money work further in section 5 of this report.

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

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

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

2. YOUR AUDIT ENGAGEMENT TEAM



- Mark Kirkham, Partner
- mark.Kirkham@mazars.co.uk
- 0191 383 6300



- James Collins, Senior Manager
- james.collins@mazars.co.uk
- 0191 383 6331



- Joanne Greener, Team Leader
- joanne.greener@mazars.co.uk
- 0191 383 6300

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 (EQCR) to the Council's audit who will bring an additional level of quality control to the engagement team.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

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

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

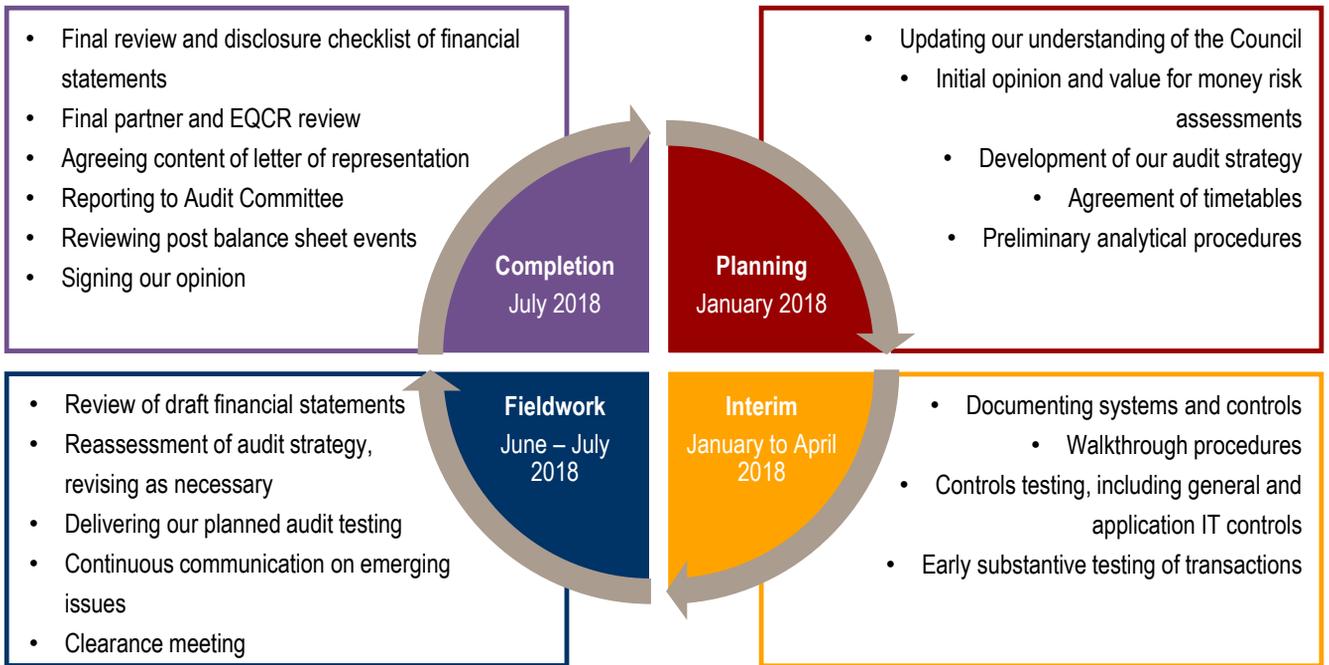
Audit approach

Our audit approach is risk-based and primarily driven by issues that lead to a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to the identified risks.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

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



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

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

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

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Actuary (Aon Hewitt)	NAO's consulting partner (PWC)
Property, plant and equipment	Internal Valuer	NAO's consulting Valuer (Gerald Eve)
Financial instrument disclosures	Link Asset Services (formerly Capita)	Link Asset Services (assurance commissioned by the NAO)
Business rates appeals provision	Analyse Local	

Service organisations

International Auditing Standards define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. We have not identified any relevant service organisations.

Reporting deadlines

As we have previously discussed with the Audit Committee, the statutory timetable for the production and audit of the Council's financial statements changes for 2017/18. The Council is now required to produce accounts by 31 May 2018 (1 month earlier) and to publish audited accounts by 31 July 2018 (2 months earlier). For the year ended the 31 March 2017 the Council successfully met the accounts production deadline of 31 May. Whilst the audit opinion was not given until September 2017 the 2016/17 the audit was substantially completed by 31 July 2017. The delay was associated with a specific error in the accounts.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

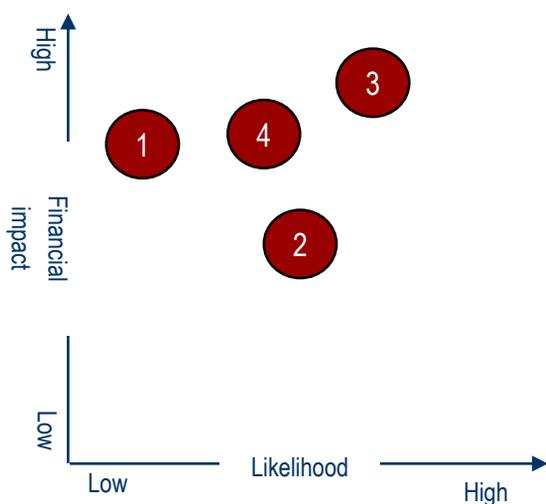
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement (‘RMM’) at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the audit risk continuum below, highlights those risks which we deem to be significant.. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Revenue recognition
3	Property, plant and equipment valuation
4	Defined benefit liability valuation

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud 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 selection and application of accounting policies; and journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
2	<p>Revenue recognition</p> <p>In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal in 2017/18. We have identified income from fees and charges as the key areas for audit testing. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>We will undertake a range of substantive procedures including:</p> <ul style="list-style-type: none"> testing revenue items recorded around year end to ensure they have been recognised in the appropriate year; testing year end receivables; testing adjustment journals; and obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.
3	<p>Property, plant and equipment valuation</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>Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> consider the Council's arrangements for ensuring that PPE values are reasonable; consider the data provided by our consulting Valuer, Gerald Eve, as part of our assessment of the reasonableness of the valuations provided by the Council's Valuer; 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 the basis of valuations is appropriate
4	<p>Defined benefit liability valuation</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.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
1	Depreciation of Property, Plant and Equipment Property, Plant and Equipment is depreciated over its useful life in the financial statements.	We will test the underlying calculation of depreciation to ensure it is reasonable.

5. VALUE FOR MONEY WORK

Our approach to value for money work

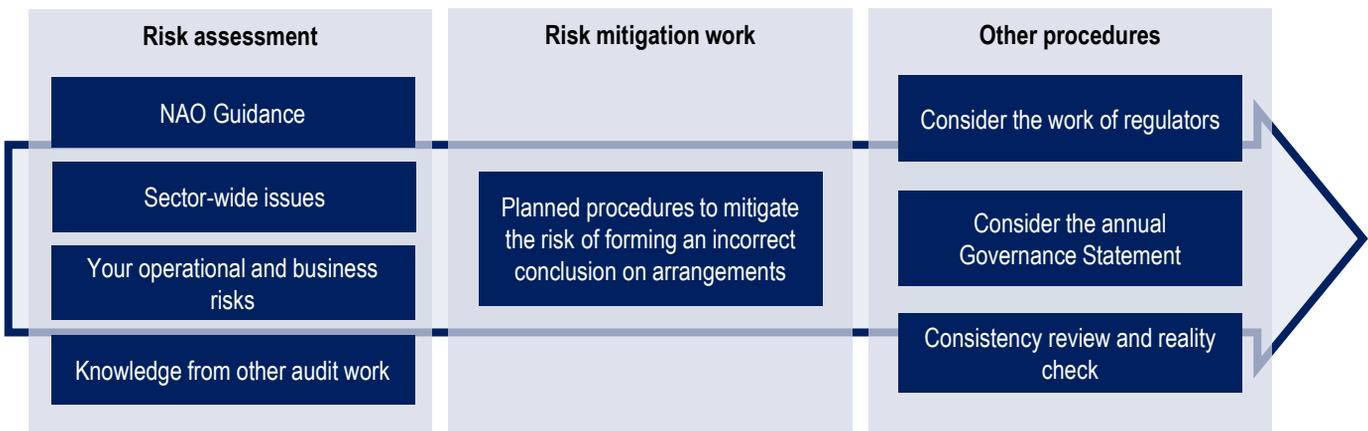
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the criterion and sub-criteria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



Significant value for money risks

Audit 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, our risk assessment draws on our deep understanding of the Council and its partners, the local and national economy, and wider knowledge of the public sector.

At this stage we have identified a significant audit risk for our VFM work which reflects the challenge of making sure services are delivered within tightening financial constraints.

Significant audit risk	Planned response
<p>Our audit procedures in previous years has concluded that the Council has 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 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>We will:</p> <ul style="list-style-type: none"> • review arrangements for developing the MTFP; • consider the delivery of 2017/18 savings against plans; • review the arrangements for future savings, including review of robustness of identified plans for 2018/19 and beyond; and • review the arrangements for the Transformation Programme.



6. FEES FOR AUDIT AND OTHER SERVICES

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 PSAA as communicated in our fee letter of 20 April 2017.

Service	2016/17 fee	2017/18 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 set out 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 section 7.

Service	2016/17 fee	2017/18 fee
Teachers' Pensions assurance	£5,500	To be agreed
Skills Funding Agency external assurance on subcontracting controls	£2,000	To be agreed

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. 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;
- 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 confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Kirkham in the first instance.

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

Principal threats to our independence and identified associated safeguards are set out below:

Area	Perceived threat	Safeguards and procedures
Mazars renting office space at Salvus House, Durham	Self Review	The transaction does not result in the auditor providing accounting services to the Council. The transaction does not have a material impact on the financial statements
	Self interest	<p>The amount paid to the Council in rent is neither significant to Mazars LLP or the Council. Other office space is available to the auditor were they required to move from the premises.</p> <p>Safeguards to mitigate the risk include:</p> <ul style="list-style-type: none"> • None of the audit team, including the Engagement Lead, were involved in the negotiation of the office lease. The overall decision to rent space in the property was taken by the firm's UK Executive. • The lease is managed by the firm's estates team who are independent of the audit team. • The lease was 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 includes 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	<p>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.</p> <p>Safeguards to mitigate the risk include:</p> <ul style="list-style-type: none"> • Mazars will refrain from any marketing activities on behalf of the Council.

7. OUR COMMITMENT TO INDEPENDENCE (CONTINUED)

Area	Perceived threat	Safeguards and procedures
Mazars renting office space at Salvus House, Durham <i>(continued)</i>	Familiarity	<p>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> <p>Safeguards to mitigate the risk would include:</p> <ul style="list-style-type: none"> • The negotiation and management of the lease is independent of the audit team. • The final decision to rent the office was 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.</p> <p>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.

No other threats to our independence have been identified.

8. MATERIALITY AND MISSTATEMENTS

Definitions

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.

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s)
Overall materiality	£24,277
Specific materiality*:	
Members Allowances	100
Officer Remuneration	150
Exit packages and termination benefits	250
Related Party Transactions	50
Trivial threshold for errors to be reported to the Audit Committee	£728

Materiality

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 based on quantitative and qualitative factors.

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

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

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

Our provisional materiality is set based on a benchmark of gross revenue expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that gross revenue expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based last year's audited accounts we anticipate the overall materiality for the year ending 31 March 2018 to be in the region of 24.277m (24.277m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £728,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Kirkham.

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	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	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2017/18

There are no significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2017/18. Minor changes to the Code include:

- introduction of key reporting principles for the preparation and publication of the Narrative Report;
- clarification of reporting requirements on accounting policies and going concern; and
- updating the accounting requirements for the Housing Revenue Account to align these with changes to underlying regulations and directions.

None of the above are anticipated to have a significant impact on the [Council].

Changes in future years

Accounting standard	Year of application	Implications
IFRS 9 – Financial Instruments	2018/19	<p>The standard will replace IAS 39 and will introduce significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets.</p> <p>Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised costs.</p> <p>For Councils that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. At this stage it is unclear whether statutory provisions, over and above those already in place, will be put in place to mitigate the impact of these fair value movements on the Council's general fund balance.</p>
IFRS 16 – Leases	2019/20	<p>We anticipate that the new leasing standard will be adopted by the Code for the 2019/20 financial year.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council (and its schools) are party to.</p>

The 2018/19 Code will also apply the requirements of IFRS 15 Revenue from Contracts with Customers, but it is unlikely that this will have significant implications for most local authorities.

Audit Committee

28 February 2018



External Audit – Pension Fund Audit Strategy Memorandum – February 2018

Report of the External Auditor

Purpose of the Report

1. This report requests that the Committee note the external auditor's strategy for Durham County Council Pension Fund for the year ended 31 March 2018.

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 2018.
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. Section 6 details the auditor's consideration of the threats and safeguards to its independence.

Recommendation

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

Contact: Sharon Liddle

Tel: 07881 283343

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

Year ending 31 March 2018





CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Fees for audit and other services
6. Our commitment to independence
7. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

This document is to be regarded as confidential to Durham County Council Pension Fund. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance by the Council. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit Committee
Durham County Council
County Hall
Durham
DH1 5UQ

February 2018

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2018

We are pleased to present our Audit Strategy Memorandum for Durham County Council Pension Fund (the Fund) for the year ending 31 March 2018.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 6 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

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

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6300.

Yours faithfully

{_{es_}:signer1:signature }

Mark Kirkham

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Durham County Council Pension Fund for the year to 31 March 2018. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: www.psa.co.uk/audit-quality/terms-of-appointment/

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

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.

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. This would include an objection made to the accounts of the Fund included in the administering authority's financial statements. 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 audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

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

The Fund is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

2. YOUR AUDIT ENGAGEMENT TEAM



- Mark Kirkham, Engagement Partner
- mark.kirkham@mazars.co.uk
- 0191 383 6300



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



- Daniel Reay, Engagement Team Leader
- daniel.reay@mazars.co.uk
- 0191 383 6346

In addition as outlined in our engagement pack an engagement quality control reviewer has been appointed for this engagement.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

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

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

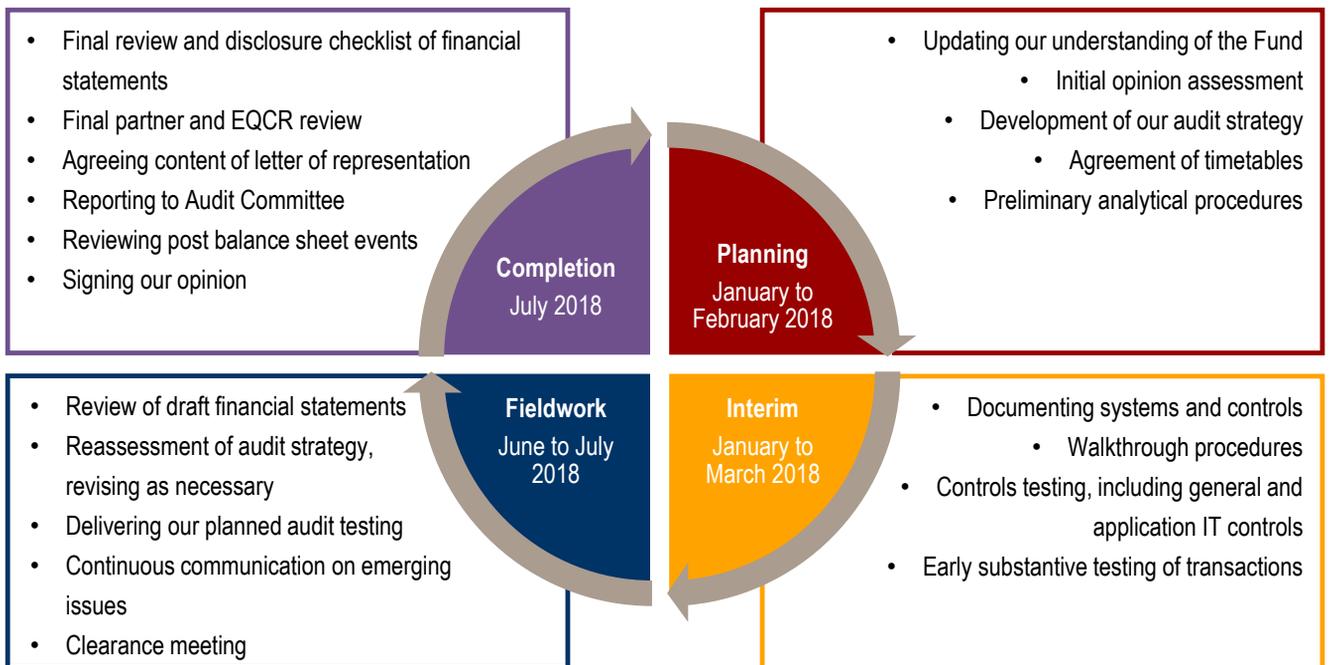
Audit approach

Our audit approach is a risk-based and primarily driven by the matters we consider could result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 7.

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



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

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

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

Management's and our experts

Management makes use of experts in specific areas when preparing the Fund's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Disclosure notes on the funding arrangements and actuarial present value of promised retirement benefits.	Aon Hewitt	NAO Consulting actuary PWC
Financial instrument disclosures	Mercer Limited	None.

Service organisations

International Auditing Standards define service organisations as third party organisations that provide services to the Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Fund and our planned audit approach.

Items of account	Service organisation	Audit approach
Investment valuations and related disclosures	Investment managers	Substantive testing of in year transactions and valuations applied to investments at the year end.
Investment income and related disclosures	Custodian	

Reporting deadlines

As we have previously discussed with the Audit Committee, the statutory timetable for the production and audit of the Fund's financial statements changes for 2017/18. The Fund is now required to produce accounts by 31 May 2018 (1 month earlier) and to publish audited accounts by 31 July 2018 (2 months earlier). For the year ended the 31 March 2017 the Fund successfully met the accounts production deadline of 31 May and the audit was substantially completed by 31 July 2017.



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

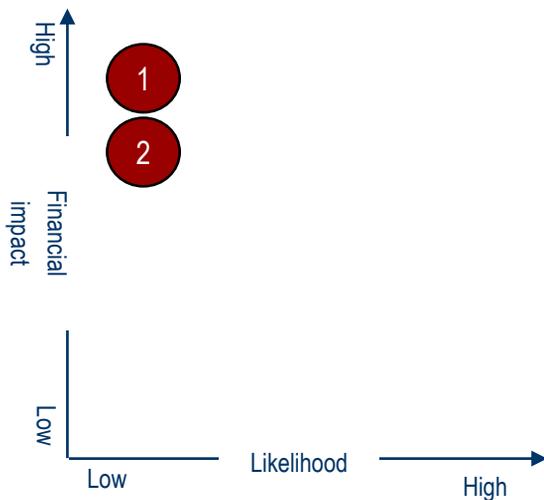
Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

- Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

- Enhanced risk** An enhanced risk is an area of higher assessed risk of material misstatement (‘RMM’) at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:
 - key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
 - other audit assertion risks arising from significant events or transactions that occurred during the period.

- Standard risk** This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the audit risk continuum below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Valuation of unquoted investments

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>
2	<p>Valuation of unquoted investments for which a market price is not readily available</p> <p>As at 31 March 2017 the fair value of investments which were not quoted on an active market was £165.5m, which accounted for 6.2 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"> • 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.

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. We have not identified any such judgements.

5. FEES FOR AUDIT AND OTHER SERVICES

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 PSAA as communicated in our fee letter of 24 April 2017.

Service	2016/17 fee	2017/18 fee
Code audit work	£25,918	£25,918

Fees for non-PSAA work

We have not been engaged by the Fund to carry out additional work.

6. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. 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;
- 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 confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Kirkham in the first instance.

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.

7. MATERIALITY AND MISSTATEMENTS

Definitions

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.

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s)
Overall materiality	27,690
Specific materiality: Fund Account	15,750
Trivial threshold for errors to be reported to the Audit Committee	831

Materiality

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 based on quantitative and qualitative factors.

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

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

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

Our provisional materiality is set based on a benchmark of net assets. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that net assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 1% of net assets.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on investments reported to the Pension Fund Committee as at 30 September 2017, we anticipate the overall materiality for the year ending 31 March 2018 to be in the region of £27.69m. The materiality for the year ended 31 March 2017 was £11,415m, as a result of the application of a different materiality methodology as detailed below.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £831,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Kirkham.

Change in materiality methodology

During 2017-18 we have reviewed and revised the materiality methodology for public sector pension funds. In prior years we applied one materiality figure to the financial statements which considered net assets, contributions receivable and benefits payable. The revised methodology calculates a financial statement materiality, but calculates a specific materiality for the fund accounts.

The impact of the revision is that the materiality applied to the net assets statement will be higher than in previous years. This is considered to be an appropriate level to give a reasonable assurance opinion that the financial statements are materially fairly stated. The table below compares the initial materiality for 2017-18 calculated using the revised methodology and what it would have been using then methodology applied in 2016-17.

Threshold	Revised 2018 methodology £'000s	2017 methodology £'000s
Net assets statement materiality	27,690	15,750
Fund account materiality	15,750	15,750
Trivial threshold for errors to be reported to the Audit Committee	831	473

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	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	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2017/18

There are no significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2017/18 in relation to pension funds. Minor changes to the Code include the requirement for a disclosure note on investment management transaction costs and clarification on the investment concentration disclosure.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 9 – Financial Instruments	2018/19	<p>The standard will replace IAS 39 and will introduce significant changes to the recognition and measurement of the Fund's financial instruments, particularly its financial assets.</p> <p>Although the accounting changes are complex and may require the reclassification of some instruments, it is likely that the Fund will continue to measure the majority of its financial assets at fair value.</p>

The 2018/19 Code will apply the requirements of IFRS16 Leases and IFRS 15 Revenue from Contracts with Customers, but it is unlikely that this will have significant implications for most local government pension schemes.

Other issues - Pooling

As members are aware, pooling arrangements are required to be in place by 1 April 2018. Pooling will have a significant impact on the way that investments are managed and monitored. It is imperative that the Fund maintains strong governance arrangements both during and after the transition of investments.

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Audit Committee



28 February 2018

External Audit - Progress Report – February 2018

Report of the External Auditor

Purpose of the Report

1. This report requests that the Committee note the external auditor's progress report on the external audit of Durham County Council to date.

Background

2. The report sets out an update of the work completed by Mazars (external auditor) in respect of the following:
 - Summary of Audit Progress;
 - National Publications and other updates; and
 - 2016/17 Grants letter

Summary of Audit Progress

3. The report details the progress to date on the 2017/18 external audit.

National publications and other updates

4. This section provides an update on other areas that Members of the Audit Committee may find useful.

Grants letter 2016/17

5. 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 2016/17 the only claim or return within this regime was the Housing benefit subsidy return. This letter reports the findings from this work.

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 2018





CONTENTS

1. Audit progress
2. Request for information
3. National publications
4. Grants Letter
5. Contact details

This document is to be regarded as confidential to Durham County Council. It has been prepared for the sole use of the Audit Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

1. AUDIT PROGRESS

2016/17 Certification of claims and returns

Work on the 2016/17 housing benefits subsidy claim is complete. We certified the claim before the Department of Work and Pensions deadline of 30 November 2017. This is now the only claim remaining part of the national arrangements managed by Public Sector Audit Appointments Ltd (PSAA). As the Council's appointed auditor we are required to report the results of our certification work to those charged with governance. Section 3 of this report is our 2016/17 Grants Letter giving further details of the findings from our housing benefit subsidy certification work.

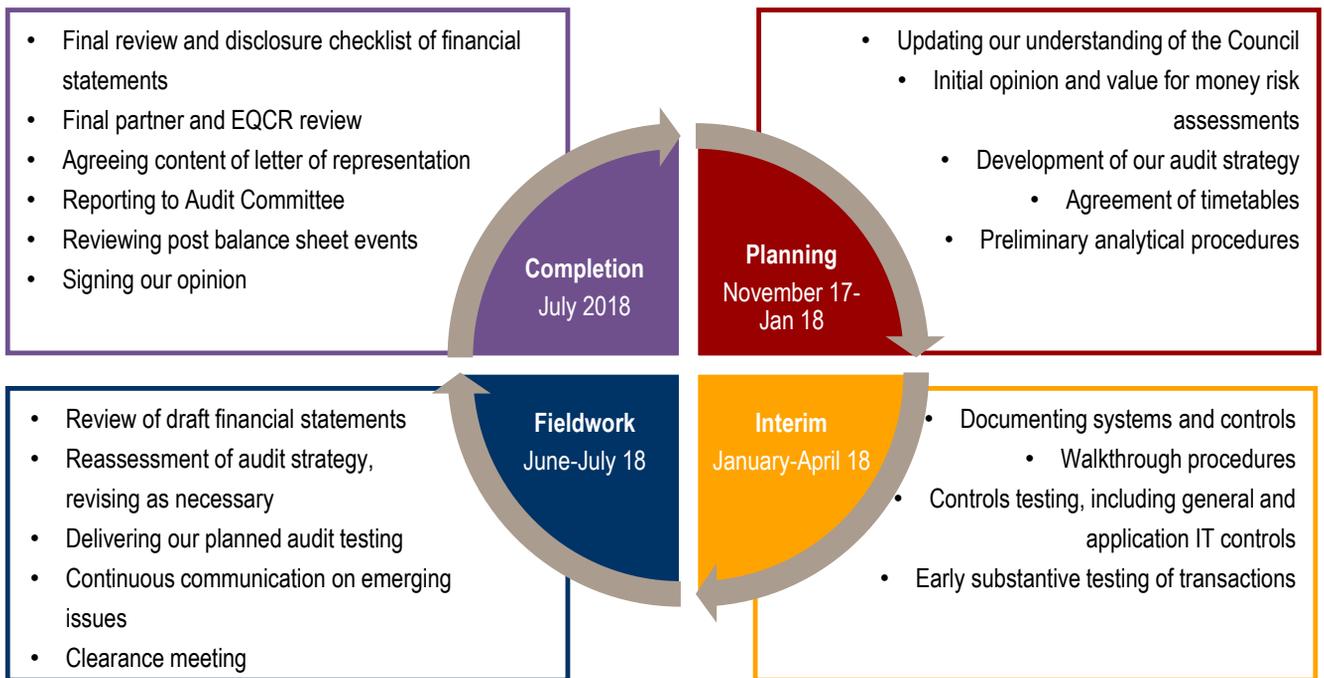
The 2017/18 certification work will remain part of the national arrangements managed by PSAA. It should be noted that the arrangements for the 2018/19 certification work will transfer from PSAA to DWP. Local authorities will be required to appoint a reporting accountant to complete this work.

2017/18 audit planning and interim

The table below details the audit process. We have commenced our planning and interim stages of the 2017/18 audit. To date we have:

- completed our system documentation and walkthroughs of the material financial systems;
- updated our planning documents including our understanding of the entity and value for money risk assessment;
- initiated early substantive testing of journals, income, expenditure and payroll;
- completed our understanding of the IT environment and commenced testing of general IT controls;
- continued to meet with officers; and
- continued to meet with Internal Audit.

Our 2017/18 Audit Strategy Memorandum is included on the agenda for this meeting.



2. 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 2017– 31 March 2018?
- 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 2017/18?
- 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?

2. REQUEST FOR INFORMATION

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?
- 2) 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:

- 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 ISA 570. 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.

3. NATIONAL PUBLICATIONS AND OTHER UPDATES

	Publication	
1	PSAA audit procurement and fee consultation , December 2017	For information
2	PSAA's Report on the results of auditors' work 2016/17: Local government bodies, December 2017	For information
3	Oversight of audit quality, quarterly compliance reports 2017/18 Public Sector Audit Appointments Ltd	For information
4	NAO report PFI and PF2, January 2018	For information
5	NAO report: Sustainability and transformation in the NHS, January 2018	For information
6	Technical updates	For information

1. PSAA audit procurement and fee consultation

The consultation sets out the proposed scale of fees for the work to be undertaken by appointed auditors in respect of the 2018/19 financial statement at bodies that have opted into PSAA's national auditor appointment scheme.

PSAA propose that scale audit fees for 2018/19 should reduce by 23 per cent, compared to the fees applicable for 2017/18. This reduction is possible as a result of the favourable prices secured from audit firms in the recent audit services procurement. It follows a period from 2012/13 to 2017/18 in which scale fees reduced significantly by an aggregate of 55 per cent.

The proposed audit fee for Durham County Council or the 2018/19 audit is £193,030 (compared to £250,688 for the 2017/18 audit).

<https://www.psa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/>

2. PSAA's Report on the results of auditors' work 2016/17: Local government bodies, December 2017

In December 2017 Public Sector Audit Appointments published its Report on the results of auditors' work 2016/17: Local government bodies. This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

3. Oversight of audit quality, quarterly compliance reports 2017/18 Public Sector Audit Appointments Ltd

The latest quarterly 2017/18 monitoring report highlights full compliance with the Regulator's standards for Mazars LLP.

<http://www.psa.co.uk/audit-quality/principal-audits/mazars-audit-quality/>

4. PFI and PF2 report

This report presents information on: the rationale, costs and benefits of the Private Finance Initiative (PFI); the use and impact of PFI, and ability to make savings from operational contracts; and the introduction of PF2.

There are currently over 700 operational PFI and PF2 deals, with a capital value of around £60 billion. Annual charges for these deals amounted to £10.3 billion in 2016-17. Even if no new deals are entered into, future charges which continue until the 2040s amount to £199 billion. Note this report was prepared prior to the construction from Carillion going into liquidation.

3. NATIONAL PUBLICATIONS AND OTHER UPDATES CONTINUED

5. NAO report: Sustainability and transformation in the NHS

The report notes that the NHS received an additional £1.8 billion Sustainability and Transformation Funding in 2016-17. Whilst this has helped the NHS improve its financial position from a £1,848 million deficit in 2015-16 to a £111 million surplus in 2016-17. However despite the overall financial position improving, the report found that the NHS is struggling to manage increased activity and demand within its budget and has not met NHS access targets. This has impacted the money available for longer-term transformation with a greater reliance on non recurrent savings.

The report notes that progress has been made in setting up 44 new partnership arrangements across health and local government, to support a more strategic approach to meeting the demand for health services within the resources available. However, the report also found that the effectiveness of these partnerships varies and their tight financial positions make it difficult for them to shift focus from short-term day-to-day pressures to longer-term service transformation.

<https://www.nao.org.uk/report/sustainability-and-transformation-in-the-nhs/>

Separately to this report NHS England (Sustainability and Transformation Partnerships Progress Dashboard) has released its first rankings of the 44 sustainability and transformation partnerships (STPs) across the country. The progress dashboard gives an initial baseline view of STPs' work and tracks the combined achievements of local services through 17 performance indicators across nine priority areas: emergency care; elective care; safety; general practice; mental health; cancer; prevention; finance and system leadership.

Each area falls into three core themes of hospital performance, patient-focused change and transformation. This forms an overall assessment of each STP on a scale of 1 to 4: 'outstanding' (1); 'advanced' (2); 'making progress' (3); and 'needs most improvement' (4). The results show that five STPs have been rated as 'outstanding', whilst five rated as 'needs most improvement'. Another 20 are rated as 'advanced', while the remaining 14 are 'making progress'. NHS England intends to update the dashboard annually to enable progress to be tracked. An extract from the summary is shown below of regional STPs.

<https://www.england.nhs.uk/publication/sustainability-and-transformation-partnerships-progress-dashboard-baseline-view/>

STP	Overall progress
Northumberland, Tyne and Wear	Category 2 – advanced
West, North and East Cumbria	Category 2 – advanced
DDT, Hambleton, Richmondshire and Whitby	Category 1 – outstanding
Lancashire and South Cumbria	Category 2 – advanced
West Yorkshire	Category 3 – making progress

6. Technical updates

On the 6 February 2018 members of the Council finance team attended our 2017/18 Local Government financial reporting update at Durham County Cricket Club, Chester-Le-Street. This update covered changes to the 2017/18 Code and other matters including;

- accounting for financial guarantees;
- changes to the Prudential Framework; and
- accounting for the apprenticeship levy;

It also had a forward look to 2018/19 and beyond and covered matters including:

- consideration of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts with customers) on 2018/19 financial year; and
- consideration of IFRS16 (Leases) on 2019/20 financial year.

Further detail on these new standards is provided in appendix B of the Audit Strategy Memorandum.

On the 7 February 2018 we held our Countdown to General Data Protection Regulation (GDPR) Workshop which was attended by members and officers of the Council. The event focused on the countdown to the introduction of GDPR and also included a session on balancing the use of IT as an enabler whilst also managing the risks it poses.

4. 2016/17 GRANTS LETTER



Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

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

28 February 2018

Dear Members

Results of certification work 2016-17

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 2016/17 the only claim or return within this regime was the Housing benefit subsidy return. This letter reports the findings from this work.

In 2016/17 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 2016/17 Housing benefits return was amended and 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 (DWP). The table below details our findings.

Claim or return	Value of claim or return	Amended (1)	Qualified (2)
Housing benefit subsidy	£180,823,563	Yes	Yes

1) Amendments

The final subsidy claim included £25,470 of granted benefit associated with rent rebates. We expected there to be no entries in the rent rebate cells due to the HRA properties being transferred from council ownership via LSVT in 2015. These entries relate to Real Time Information (RTI) changes notified to the Council in 2016-17 by the DWP. The Council has an obligation to investigate notified RTI changes. There were a total of 257 rent rebate claims affected by RTI changes and all entries were for previous years tenants of HRA properties. Council officers tested all 257 cases to ensure the correct changes had been made. Errors were identified resulting in total subsidy claimed reducing by £26,787. As auditors we re-performed 10% of the Councils testing (including all identified errors) to satisfy ourselves the adjustments made to the claim were appropriate.

4. 2016/17 GRANTS LETTER CONT.

Qualification issues

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 benefit types (non-HRA rent rebates and rent allowances). We identified no errors in our 2016/17 initial testing.

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 2016/17 relating to:

- 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 errors identified resulted in under and over payment. 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 seven claims with a value of £594.86 were identified as being underpaid. Remedial actions have been taken by officers to prevent similar errors occurring in the future.

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 2016/17, is detailed in the table below:

Claim or return	2016/17 indicative fee	2016/17 final fee	2015/16 final fee
Housing benefit subsidy	£24,158	£24,158	£20,062

Yours faithfully


MJ Kirkham (Feb 15, 2018)

Mark Kirkham

Partner

Mazars LLP

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1. Audit progress

2. Request for information

3. National publications

4. Grants Letter

5. Contact details

4. CONTACT DETAILS

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

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Audit Committee

28 February 2018

Corporate Governance Review 2017/18 – Key Dates



Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

- 1 To inform Audit Committee of the key dates for the corporate governance review for the 2017/18 financial year.

Background

- 2 The Accounts and Audit Regulations 2015 require the chief financial officer to have published, approved and audited accounts by 31 July (in previous years the deadline was 30 September). Prior to this, the pre-audited accounts must be made available for public inspection for a period of 30 working days. Effectively, the 2017/18 closure of accounts will need to be achieved by 31 May to achieve the necessary timetable for approval.
- 3 The Regulations also require the Council to prepare an Annual Governance Statement, which is to accompany the Statement of Accounts. For this reason, the approval processes for the two statements needs to be aligned.

Key Dates

- 4 The key dates for the 2017/18 corporate governance review are in Appendix 2 of this report. These dates reflect the new, earlier final accounts timetable for the 2017/18 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 2017/18 Key Dates

<u>Action</u>	<u>Date</u>
Produce a draft Annual Governance Statement.	16/3/18
Draft Annual Governance Statement to Resources Management Team for consultation.	27/3/18
Draft Annual Governance Statement to Transformation and Partnerships Management Team for consultation.	27/3/18
Produce Directors Assurance Statements, approved by Directors.	29/3/18
Corporate Director of Resources to approve draft Annual Governance Statement.	10/4/18
Draft Annual Governance Statement to CMT for approval.	2/5/18
Draft Annual Governance Statement to Audit Committee for approval, along with the annual audit opinion, as part of the final accounts process.	29/6/18
Final Annual Governance Statement to Audit Committee for approval and adoption.	30/7/18

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Audit Committee

28 February 2018

Revised Risk Management Policy and Strategy



Report of John Hewitt, Corporate Director of 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, which has been developed in line with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016, contains a requirement that it should be reviewed annually. The document has been updated to reflect the recent reduction in the number of risk reviews each year from four to three, 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 2018	7.0	Revision of the previous County Council risk management strategy and policy to reflect the reduction in the number of service reviews each year from four to three.	Dave Marshall	Audit Committee	February 2019

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 recognises 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 '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.

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.

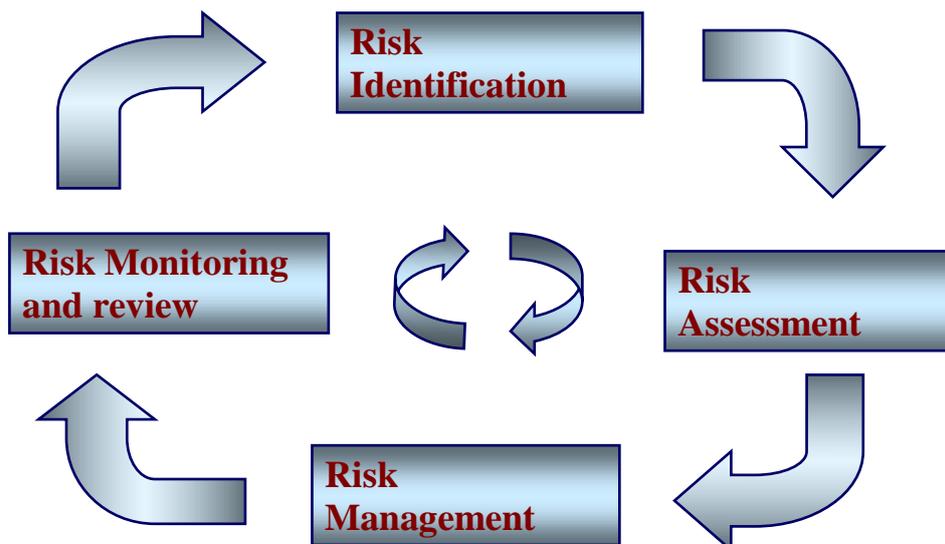
Strategic Objectives

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 partnerships and collaborative working arrangements 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 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 strategic risks three times each quarter year.
- Corporate Management Team and Cabinet will review the strategic risks of the Council at least quarterly three times each year.
- Reports outlining the status of strategic risks will be produced three times each quarter year to the Cabinet, Corporate Management Team and the Audit Committee.
- To supplement the reviews outlined above, the Audit Committee Chair and Vice-Chair will be given formal briefings by officers, as is necessary, on any risk issues arising between reviews. These briefings will be informed by consultation with Audit Committee members, heads of service and other risk owners.
- 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, stakeholder benefits and lessons learned, 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**28 February 2018****Strategic Risk Management
Progress Report for the Quarter period
October to December 2017**

Report of Corporate Management Team
John Hewitt, Corporate Director of 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 2017.

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 the Deputy Leader and Finance and the Corporate Director of 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 2017, there were 23 risks on the corporate strategic risk register, the same number as at 30 September 2017. During quarter 3, no risks were added and none were removed.
- 5 In summary, the key risks to the Council are:
 - (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) Failure to protect child from death or serious harm (where service failure is a factor or issue);
- (d) A service failure of Adult Safeguarding leads to death or serious harm to a service user;
- (e) Major Interruption to IT Service Delivery.

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

7 Appendix 4 of this report lists all of the Council's strategic risks as at 31 December 2017.

8 Management has identified and assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.

Recommendations and Reasons

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

Contact: Kevin Roberts Tel: 03000 269657

Appendix 1: Implications

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

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

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

Equality and Diversity/Public Sector Equality Duty – None

Accommodation - None

Crime and disorder - None

Human rights - None

Consultation – None

Procurement – None.

Disability issues – None.

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

Appendix 2: How the Council manages the Risk Management Framework

The Cabinet and the Corporate Management Team have designated the Cabinet Portfolio Holder for the Deputy Leader and Finance 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 and the Director of Transformation and Partnerships 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:

- (a) Gross impact and likelihood are based on an assessment of the risk without any controls in place;
- (b) 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 2017, there were 23 risks on the corporate strategic risk register, the same number as at 30 September 2017. During quarter 3, no risks were added and none were removed.

The following matrix profiles the strategic risks according to their net risk evaluation as at 31 December 2017. To highlight changes in each category during the last quarter, the number of risks as at 30 September 2017 is shown in brackets.

Overall number of Strategic Risks as at 31 December 2017

Impact					
Critical	1 (1)		4 (4)		1 (1)
Major		4 (4)	3 (3)		
Moderate			9 (9)	1 (1)	
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 corporate strategic risks were added during the quarter.

Increased Risks

- 2 No corporate strategic risks have increased during the quarter.

Removed Risks

- 3 No corporate strategic risks were removed during the quarter.

Reduced Risks

- 4 No corporate strategic risks have reduced during the quarter.

Key Risks

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

Key Risks Matrix

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

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

Key Risks Schedule

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

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	RES Risk Owner: Paul Darby	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: Paul Darby	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	CYPS Risk Owner: Helen Fergusson & 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.

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	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.
5	RES Risk Owner: Alan Patrickson	Altogether Better Council	Major Interruption to IT Service Delivery	Critical	Possible	A programme for an electrical upgrade has been developed		The risk primarily relates to an electrical infrastructure risk identified at Comeleon House. Design works to improve infrastructure and remove the risk have now been completed by Technical Services and the Direct Services team are now pricing the works. It is anticipated that work on site will commence in March 2018.

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

Based on the **Net** risk assessment as at 31 December 2017, 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	T&P	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
5	T&P	Risk that the Council does not respond to the Government's changes to Welfare Reform
6	T&P	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation
7	REAL	Potential adverse financial and operational impacts of the Homelessness Reduction Act 2017 on the Housing Solutions service.
8	RES	Serious breach of Health and Safety Legislation
9	T&P	The Council may be unable to effectively deliver essential services during the period of recovery following a cyber-attack. This risk focuses on the non-technical aspects of cyber risk.
10	T&P	Potential breach of the EU General Data Protection Regulations
11	T&P	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation
12	RES	Due to the current economic climate and amount of change occurring across the Council, there is potential for increases in fraud and corruption.
13	T&P	Failure to prepare for, respond to and recover from a disruptive event, leading to a major interruption to the provision of essential services by the Council.

Altogether Better for Children and Young People

Ref	Service	Risk
14	CYPS	Failure to protect child from death or serious harm (where service failure is a factor or issue)
15	CYPS	Inability to recruit and retain children's social workers and social work managers may seriously inhibit the delivery of services.
16	CYPS	Changes to the School Funding Formula threaten the viability of some schools

Altogether Greener

No significant strategic risks have been identified under this theme.

Altogether Healthier

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

Altogether Wealthier

	Service	Risk
22	REAL	Future strategic direction of the Council and the County will be adversely impacted if the County Durham Plan is not adopted.
23	REAL	Progressive land slippage near the A690 may develop to an extent where a major road closure is necessary for repairs to be undertaken.

Appendix 5: Performance Indicators

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
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 Annual Governance Statement was approved by Audit Committee on 29 September 2017.	The updated Local Code of Corporate Governance was approved by Audit Committee on 30 November 2017.
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	Number of officers 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)	Five DCC members attended a risk management briefing. Training was provided to officers and members from the town councils of Peterlee, Ferryhill and Sedgefield.	No training provided in this quarter.

Appendix 6: Emerging Strategic Risks

In this context, emerging risks are newly developing or changing risks which are difficult to quantify, but which may have a major impact on the Council if they materialise in the future.

Ref	Emerging Risk	Description	Risk Owner	Update and Actions
1	European Union	<p>Following the referendum in June 2016, in which the United Kingdom voted to leave the European Union, there will potentially be adverse effects on the economy, safety and welfare of the County.</p> <p>Potential economic impacts include loss of EU funding for DCC regeneration and employment programmes; valuable programmes such as Durham Works are vulnerable.</p>	Sarah Robson	<p>There is still uncertainty about the impacts and CMT is monitoring developments.</p> <p>Preliminary mitigations include:-</p> <ul style="list-style-type: none"> Tracking of visitor economy & perceptions Monitoring business concerns, which are being lobbied at national level Tracking the national legislative position Tracking the position on EU funding and applying for other sources of funding where possible.
2	Potential increase in equal pay claims	Increasing numbers of equal pay claims from staff using a specific group as a comparator.	John Hewitt	Officers are monitoring developments and there are ongoing negotiations and consultation with trade unions.
3	Terror Attack	Potential terror attack at a public event	Ian Thompson	Officers in REAL are working at a strategic level with the police and other agencies to agree an approach to managing this risk.

The following risks were identified as emerging risks in the last Audit Committee report, but have now been removed as they no longer pose a significant threat to the Council':

- Risk of fire in large, multi-storey buildings with cladding made from Aluminium Composite Material (similar to Grenfell Tower).
- The Council may be required to repay licence fees to the driver & vehicle trade following an ongoing legal case.

Audit Committee

28 February 2018

**Emergent Internal Audit Plan 2018/2019**

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 2018/2019 (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 2018/2019 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 2018/2019 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.

- J 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.
- J 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.
- J 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)

- J 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.
- J 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.
- J 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.
- J 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)

- J The Internal Audit Service is aligned to service and service grouping structures, ensuring teams engage positively with Corporate Directors and their teams.
- J 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.
- J 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 2018/2019 has been based largely, but not exclusively, on the following:
 -) Review of the Strategic Risk Register
 -) 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 2018/2019 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 2018/2019 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 2018/2019 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 2018/2019 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 2017/2018 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. To help ensure that the plan is flexible and the service is able to respond to key risks in the year, the emergent plan includes a block of contingency time from which specific audits can be delivered in the year. Further details will be provided to the Audit Committee in the finalised plan in May and throughout the year.

Scale of the Plan

21. The annual internal audit plan needs to be deliverable within available resources. The Internal Audit Team has an approved establishment of 18 employees, equivalent to 16.35 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.
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 4,422 days. 423 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 (21.85) FTE	5,652
Non – Productive Time (Annual Leave, Sickness, Office Duties etc.)	1,230
Productive Time – not allocable to services, e.g. Audit Planning, Supporting Audit Committee, Quality Assurance, Fraud Investigation and Contingency	1,920
Audit days required to complete and close audit reports relating to 2017/2018	272
Productive Days 2018 / 2019	
Adult and Health Services (AHS)	155
Children and Young People Service (CYPS)	222
Regeneration and Local Services (REAL)	299
Resources (RES)	695
Transformation and Partnerships (TAP)	73
Durham Police and Crime Commissioner / Durham Constabulary	158
Durham and Darlington Fire & Rescue Authority	71
Peterlee Town Council	23
Durham City Parish Council	2
Pension Fund	47
Durham City Charter	6
Durham Joint Crematorium	19
Mountsett Joint Crematorium	19
Living – Counter Fraud	39
County Durham Housing Group – Counter Fraud	39
Schools (Service Level Agreements and Private School Funds)	363
TOTAL GROSS DAYS REQUIRED	5,652

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 31 May 2018.

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

Appendix 1: Implications

Finance – No direct implications as a result of this report.

Staffing – None.

Risk – None.

Equality and Diversity / Public Sector Equality Duty – None.

Accommodation– None.

Crime and Disorder– None.

Human Rights– None.

Consultation – All Corporate Directors, the Director of Transformation and Partnerships and Heads of Service have been consulted.

Procurement– None.

Disability Issues– None.

Legal Implications – Compliance with the Accounts and Audit Regulations 2015 and revised Public Sector Internal Audit Standards (PSIAS) 2017.

EMERGENT INTERNAL AUDIT PLAN - SERVICE GROUPING BREAKDOWN

APPENDIX 2

Service Grouping	Service	Audit Title	Estimated Days
Adult and Health Services	All Services	Integration of Health and Care Plan for County Durham	10
Adult and Health Services	Adult Care	Adaptations	10
Adult and Health Services	Adult Care	Social Care Direct	10
Adult and Health Services	Adult Care	Direct Payments	15
Adult and Health Services	Adult Care	Direct Payment Cards	5
Adult and Health Services	Adult Care	SSID Replacement	20
Adult and Health Services	Adult Care	Review of Section 117 Process	15
Adult and Health Services	CDCS	Supported Housing - Household A/Cs	6
Adult and Health Services	CDCS	Hawthorn House (Establishment Review - Financial Systems)	5
Adult and Health Services	CDCS	County Durham Care and Support	5
Adult and Health Services	Commissioning	Commissioning of Learning Disability Services	15
Adult and Health Services	Commissioning	Commissioning of Learning Disability Services - Advice	5
Adult and Health Services	Commissioning	Personalisation – Delivery of Services via the use of virtual budgets and through traditionally commissioning services	10
Adult and Health Services	EHCP	Premises Requiring Alcohol License	5
Adult and Health Services	EHCP	Trading Standards	5
Adult and Health Services	Public Health	0-19 Health Visitor and School Nursing Service	10
Adult and Health Services	Public Health	Support to the DPH - Health Protection	4
TOTAL ESTIMATED DAYS FOR ADULTS AND HEALTH SERVICES			155
Children and Young People's Services	Early Help, Assessment and Safeguarding	Children Safeguarding Governance Arrangements	5
Children and Young People's Services	Early Help, Assessment and Safeguarding	Special Guardianship and Child Arrangement Orders (Deferred 17/18)	10
Children and Young People's Services	Early Help, Assessment and Safeguarding	LADO function	10
Children and Young People's Services	Early Help, Assessment and Safeguarding	Think Family Programme	10
Children and Young People's Services	Early Help, Assessment and Safeguarding	Section 17 Payments Follow Up	4
Children and Young People's Services	Early Help, Assessment and Safeguarding	Section 17 Payments	15
Children and Young People's Services	Early Help, Assessment and Safeguarding	Childrens Centres and Hubs Establishment Review	10
Children and Young People's Services	Early Help, Assessment and Safeguarding	Childrens Centres and Hubs Establishment Review - Follow Up	5
Children and Young People's Services	Early Help, Assessment and Safeguarding	Youth Offending Service	10
Children and Young People's Services	Education	School Catering	10
Children and Young People's Services	Education	Adult Learning Service	10
Children and Young People's Services	Education	Youth Employment Initiative - Durham Works	5
Children and Young People's Services	Education	Youth Employment Initiative - Durham Works	10
Children and Young People's Services	Education	SIMS	10
Children and Young People's Services	Education	Arrangements for the allocation of SEN funding and its application in schools	15
Children and Young People's Services	Education	Arrangements for the allocation of Pupil Premium Funding and its application in schools	15
Children and Young People's Services	Looked After Children and Care Leavers	Children's Homes	5
Children and Young People's Services	Looked After Children and Care Leavers	Looked After Placement Referral Process and Placement and Resource Panel (PRP) Guidance	10
Children and Young People's Services	Looked After Children and Care Leavers	SSID Replacement: SSID Board	20
Children and Young People's Services	Looked After Children and Care Leavers	SSID Replacement: Finance Workstream - processes linked to parallel run of data	15
Children and Young People's Services	Looked After Children and Care Leavers	Aycliffe Secure Services Centre - Follow Up	5
Children and Young People's Services	Locality and Operational Support	Caldicott Compliance	10

Service Grouping	Service	Audit Title	Estimated Days
Children and Young People's Services	Locality and Operational Support	Caldicott Group	3
TOTAL ESTIMATED DAYS FOR CHILDREN AND YOUNG PEOPLE'S SERVICE			222
Regeneration and Local Services	Planning & Assets	Carbon Reduction Commitment	4
Regeneration and Local Services	Planning & Assets	LoCarbo 4	5
Regeneration and Local Services	Planning & Assets	LoCarbo 5	5
Regeneration and Local Services	Planning & Assets	Rebus 4	5
Regeneration and Local Services	Planning & Assets	Rebus 5	5
Regeneration and Local Services	Planning & Assets	Atlantic Geoparks 2	5
Regeneration and Local Services	Planning & Assets	Safety at Sports Grounds	10
Regeneration and Local Services	Economic Development & Housing	Accommodation - Contract Management	15
Regeneration and Local Services	Economic Development & Housing	Business Durham	10
Regeneration and Local Services	Economic Development & Housing	Stephanie 3	5
Regeneration and Local Services	Economic Development & Housing	Stephanie 4	5
Regeneration and Local Services	Economic Development & Housing	Visit County Durham	10
Regeneration and Local Services	Economic Development & Housing	Financial Assistance Policy and Private Sector Housing	10
Regeneration and Local Services	Economic Development & Housing	Disabled Facilities Grant	6
Regeneration and Local Services	Transport and Contract Services	Local Transport Capital Block Funding	5
Regeneration and Local Services	Transport and Contract Services	Bus Subsidy Ring Fenced Grant	4
Regeneration and Local Services	Transport and Contract Services	Road Safety Capital Grant	5
Regeneration and Local Services	Transport and Contract Services	Transport - Safeguarding Arrangements	10
Regeneration and Local Services	Direct Services	Pest Control	7
Regeneration and Local Services	Direct Services	Facilities Management - Repairs and Maintenance	10
Regeneration and Local Services	Direct Services	Asbestos Management	15
Regeneration and Local Services	Direct Services	Allotments (Follow Up)	4
Regeneration and Local Services	Direct Services	Waste Management - Contaminated Land	10
Regeneration and Local Services	Culture and Sport	Leisure Management System - Online Booking	6
Regeneration and Local Services	Culture and Sport	Rolling Programme of Leisure Centres - Louisa Centre	15
Regeneration and Local Services	Culture and Sport	Rolling Programme of Leisure Centres - Consett	15
Regeneration and Local Services	Culture and Sport	Leisure Centre Timesheets (Follow Up)	3
Regeneration and Local Services	Culture and Sport	Leisure Centre Timesheets	10
Regeneration and Local Services	Culture and Sport	Management of Gym Memberships	15
Regeneration and Local Services	Culture and Sport	Library System	5
Regeneration and Local Services	Culture and Sport	Consett Empire Theatre	10
Regeneration and Local Services	Culture and Sport	Competition Line UK Income Share Agreement	5
Regeneration and Local Services	Culture and Sport	Stanley Bowls	2
Regeneration and Local Services	Culture and Sport	Events Management	10
Regeneration and Local Services	Culture and Sport	Car Parking (Riverside, Wharton Park and Hardwick Park)	10
Regeneration and Local Services	Technical Services	Local Highways Maintenance Funding - Incentive Element	8
Regeneration and Local Services	Technical Services	Local Transport Capital Block Funding for NECA	5
Regeneration and Local Services	Technical Services	Stores Management	10
TOTAL ESTIMATED DAYS FOR REGENERATION AND LOCAL SERVICES			299

EMERGENT INTERNAL AUDIT PLAN - SERVICE GROUPING BREAKDOWN

APPENDIX 2

Service Grouping	Service	Audit Title	Estimated Days
Resources	Legal & Democratic Services	RIPA Group	2
Resources	Legal & Democratic Services	iKAN System Review	6
Resources	Legal & Democratic Services	Coroner (Deferred from 2017/18)	10
Resources	Corporate Finance and Commercial Services	Journal Transfers	5
Resources	Corporate Finance and Commercial Services	Bank Reconciliation	5
Resources	Corporate Finance and Commercial Services	Treasury Management - Short Term Investments	10
Resources	Corporate Finance and Commercial Services	Collection Fund	10
Resources	Corporate Finance and Commercial Services	Review of Commercial Services	10
Resources	Corporate Finance and Commercial Services	Procurement - Variations	10
Resources	Corporate Finance and Commercial Services	Contract Management	15
Resources	Corporate Finance and Commercial Services	Off Contract Spend	15
Resources	Corporate Finance and Commercial Services	Contract Procedure Rules	15
Resources	Corporate Finance and Commercial Services	Oracle Programme Board	2
Resources	Corporate Finance and Commercial Services	Workstream on Petty Cash and Payment Cards	15
Resources	People and Talent Management	Appraisals	10
Resources	People and Talent Management	Attendance Management	10
Resources	People and Talent Management	Induction	10
Resources	People and Talent Management	Apprentices	10
Resources	Finance and Transactional Services	Budgetary Control and Financial Reporting	10
Resources	Finance and Transactional Services	Section 256 Agreements	5
Resources	Finance and Transactional Services	Caspar (Deferred from 2017/18)	10
Resources	Finance and Transactional Services	Financial Assessments (scope to include self funders and deferred payments)	20
Resources	Finance and Transactional Services	Financial Deputies	10
Resources	Finance and Transactional Services	Deputy and Appointee Team	10
Resources	Finance and Transactional Services	Revenues and Benefits Reconciliations	5
Resources	Finance and Transactional Services	Creditors	5
Resources	Finance and Transactional Services	Creditors - Invoices paid with no PO as an exception	15
Resources	Finance and Transactional Services	Creditors - Retrospective POs	5
Resources	Finance and Transactional Services	Creditors - Electronic Interface Invoices	5
Resources	Finance and Transactional Services	Creditors - Supplier Masterfile	10
Resources	Finance and Transactional Services	Creditors - System Access	5
Resources	Finance and Transactional Services	Creditors - Scanning of Invoices	5
Resources	Finance and Transactional Services	Creditors Working Group	5
Resources	Finance and Transactional Services	Better Care Fund and Improved Better Care Fund (Sn 75)	5
Resources	Finance and Transactional Services	Payroll	5
Resources	Finance and Transactional Services	Payroll Implementation	20
Resources	Finance and Transactional Services	Payroll - Taxation/PAYE	8
Resources	Finance and Transactional Services	Payroll - Access to Data and Records	8
Resources	Finance and Transactional Services	Payroll - Establishment Control	8
Resources	Finance and Transactional Services	Payroll - Preparation/Corrections	8
Resources	Finance and Transactional Services	Payroll - Processing	8
Resources	Finance and Transactional Services	Payroll - Deductions	8
Resources	Finance and Transactional Services	Agency	10
Resources	Finance and Transactional Services	Business Rates	5
Resources	Finance and Transactional Services	Business Rates - Liability	10
Resources	Finance and Transactional Services	Business Rates - Recovery	10

Service Grouping	Service	Audit Title	Estimated Days
Resources	Finance and Transactional Services	Business Rates - Quality Assurance and Appeals	10
Resources	Finance and Transactional Services	Business Rates - Enforcement	10
Resources	Finance and Transactional Services	Housing Benefit and Council Tax Reduction (HB and CTR)	5
Resources	Finance and Transactional Services	HB and CTR - Overpayment Recovery	10
Resources	Finance and Transactional Services	HB and CTR - New Claims and Change in Circumstance	10
Resources	Finance and Transactional Services	HB and CTR - Assessment and Review of Claims	10
Resources	Finance and Transactional Services	HB and CTR - Payments	5
Resources	Finance and Transactional Services	HB and CTR - Quality Assurance and Appeals	10
Resources	Finance and Transactional Services	Post Opening and Scanning	10
Resources	Finance and Transactional Services	Council Tax	5
Resources	Finance and Transactional Services	Council Tax - Valuation	10
Resources	Finance and Transactional Services	Council Tax - Liability	10
Resources	Finance and Transactional Services	Council Tax - Recovery	10
Resources	Finance and Transactional Services	Council Tax - Quality Assurance and Appeals	10
Resources	Finance and Transactional Services	Cash Management	50
Resources	Finance and Transactional Services	Debtors	30
Resources	Finance and Transactional Services	Debtors - Customer Masterfile (Deferred from 2017/18)	10
Resources	Finance and Transactional Services	Debtors - Standing Charges (Deferred from 2017/18)	10
Resources	Finance and Transactional Services	Debtors Working Group	3
Resources	Digital and Customer Services	UNIX / LINUX Security	10
Resources	Digital and Customer Services	Oracle Licencing	5
Resources	Digital and Customer Services	Vulnerability Management	10
Resources	Digital and Customer Services	Network Folders Identity and Access Management	8
Resources	Digital and Customer Services	SharePoint Identity and Access Management	8
Resources	Digital and Customer Services	Third Party Identity and Access management	8
Resources	Internal Audit, Risk and Fraud	Insurance	10
TOTAL ESTIMATED DAYS FOR RESOURCES			695
Transformation and Partnerships	Communications and Information Management	Data Protection - GDPR (including Use of Privacy Notices)	20
Transformation and Partnerships	Communications and Information Management	Freedom of Information	10
Transformation and Partnerships	Communications and Information Management	Information Governance Group	3
Transformation and Partnerships	Communications and Information Management	Business Continuity Planning	10
Transformation and Partnerships	Strategy	Data Quality	10
Transformation and Partnerships	Partnerships and Community Engagement	Community Grants Sample	10
Transformation and Partnerships	Partnerships and Community Engagement	Humanitarian Support Arrangements	5
Transformation and Partnerships	Transformation	Transformation	5
TOTAL ESTIMATED DAYS FOR TRANSFORMATION AND PARTNERSHIPS			73

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Audit Committee

28 February 2018



**Internal Audit Progress Report
Period Ended 31 December 2017**

**Report of Paul Bradley, 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 2017 to 31 December 2017 as part of the 2017/2018 Internal Audit Plan.
- 2 The report aims to:
 - (a) 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;
 - (b) Advise of issues where controls need to be improved in order to effectively manage risks;
 - (c) 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;
 - (d) Advise of amendments to the Internal Audit Plan;
 - (e) Track the progress of responses to Internal Audit reports and the implementation of agreed audit recommendations;
 - (f) Advise of any changes to the audit process;
 - (g) Provide an update on the performance indicators comparing actual performance against planned.

- 3 The appendices attached to this report are summarised below. Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3).
- (a) Appendix 2 – Progress against the Internal Audit Plan;
 - (b) Appendix 3 – Final reports issued in the quarter ended 30 June 2017;
 - (c) Appendix 4 – The number of high and medium priority actions raised and implemented;
 - (d) Appendix 5 – Internal Audit performance indicators;
 - (e) Appendix 6* – Overdue Actions;
 - (f) Appendix 7* – Limited Assurance Audit Opinions.

Background

- 4 As an independent consultancy service, the Council's Internal Audit Team strives to continue to add value and improve the organisation's operations as well as providing objective assurance to service managers and the Council.
- 5 The Internal Audit Strategy and Annual Internal Audit Plan, covering the period 1 April 2017 to 31 March 2018, was approved by the Audit Committee on 28 June 2017.

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 status of each audit as at 31 December 2017 and, where applicable, also gives the resultant assurance opinion.
- 7 A summary of the status of audits in 2017/18 is illustrated in the table below:

Service Grouping	Not Started	Planning and Preparation	In Progress	Draft Report	Final Report / Complete
Adult and Health Services (AHS)	8	2	6	2	7
Children and Young People's Services (CYPS) *Excluding Schools	8	6	10	1	15
Regeneration and Local Services (REAL)	7	11	7	3	21
Resources (RES)	36	11	15	4	53
Schools	9	17	8	9	52
Transformation and Partnerships (TAP)	2	1	6	1	4
TOTAL	70	48	52	20	152

- 8 A summary of the final internal 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 4,301. As at 31 December 2017, the service had delivered 3,169 productive days, representing 74% of the total plan. The target at the end of the quarter was for 67.5% to be delivered, therefore performance has achieved the target.

Internal Audit activity in the quarter

Amendments to the Approved 2017/2018 Internal Audit Plan

- 10 The following ten 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
Children and Young People's Services (CYPS)	Special Guardianship and Child Arrangement Orders	Assurance	Whilst Internal Audit has provided some initial feedback on draft procedures, and is to provide further comment as an advice and consultancy activity, it has been agreed that the assurance review be deferred to 2018/19.
Regeneration and Local Services (REAL)	Environmental Compliance	Advice and Consultancy	Service request to cancel review.
Regeneration and Local Services (REAL)	Leisure Centre Timesheets (Follow Up)	Assurance	Service request to defer to 2018/19 to provide time for new processes to become embedded.
Regeneration and Local Services (REAL)	Anti-Social Behaviour (ASB) Powers / Training in Relation to Crime Policing Bill	Assurance	Service request to cancel review as review to be carried out by external agency.
Resources (RES)	Information Security - Public Services Network (PSN)	Assurance	Review cancelled, as scope to be included within work of another project.
Resources (RES)	Coroner	Assurance	Service request to defer review to 2018/19, to allow time for new Coroner to settle into post.
Resources (RES)	Debtors: Customer Masterfile	Assurance	Agreed with Service to defer to 2018/19.
Resources (RES)	Debtors: Standing Charges	Assurance	Agreed with Service to defer to 2018/19.
Resources (RES)	Caspar System (case management system for depute and appointee clients)	Assurance	Service request to defer review to 2018/19
Resources (RES)	Pension Fund: Investments	Advice and Consultancy	Advice and consultancy review cancelled at the request of the service.

- 11 Four unplanned reviews were added to the Internal Audit Plan in the quarter. These reviews, which are detailed below, were sourced from the service contingency provision within the Internal Audit Plan.

Service Grouping	Audit	Audit Type	Reason
Children and Young People's Services (CYPS)	Section 17 Payments	Advice and Consultancy	Support to the service work stream that has been formed to address the issues raised following the assurance review that had delivered a limited opinion.
Children and Young People's Services (CYPS)	Aycliffe Secure Services Centre	Advice and Consultancy	Support to the service in seeking to address the issues raised following the assurance review that had delivered a limited opinion.
Regeneration and Local Services (REAL)	Interreg Europe Programme –Project: Stephanie	Grant	Further certification work required for 2017/18.
Resources (RES)	Teaching Assistants – Final Review of Data	Advice and Consultancy	Review of the spreadsheet used to calculate salaries and compensation payments.

Outstanding Management Responses to Draft Internal Audit Reports

- 12 There is one overdue response to a draft report and this relates to the follow up audit of Procurement Cards (Resources). This response has been delayed due to the absence of one of the key officers required to provide feedback.

Survey Response Rate

- 13 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 31 December 2017.

Service Grouping	Surveys issued	Surveys returned	% returned	Av. score
Adult and Health Services (AHS)	5	4	80	4.5
Children and Young People's Services (CYPS) *Excluding Schools	7	5	71	4.6
Regeneration and Local Services (REAL)	12	10	83	4.6
Resources (RES)	53	46	87	4.5
Schools	52	27	52	4.7
Transformation and Partnerships (TAP)	4	2	50	4.7
TOTAL	133	94	71	4.6

Responses to Internal Audit Findings and Recommendations

- 14 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.
- 15 A summary of progress on the actions due, implemented and overdue, as at 31 December 2017, is given in the table below.

Service Grouping	No. of Actions Due	No. of Actions Implemented	No. Overdue by Original Target Date	No. with Revised Target Date	No. Overdue by Revised Target Date
Adult and Health Services (AHS)	65	***61	4 (6%)	4	0
Children and Young People's Services (CYPS) *Excluding Schools	114	*93	21 (18%)	21	0
Regeneration and Local Services (REAL)	351	330	21 (6%)	21	0
Resources (RES)	463	***451	12 (3%)	12	0
Transformation and Partnerships (TAP)	26	25	1 (4%)	1	0
TOTAL	1019	960	59 (6%)	59	0

* Includes 1 high priority action, which needs to be confirmed as implemented at follow up.

*** Includes 3 high priority actions, which need to be confirmed as implemented at follow up.

- 16 It is encouraging to note that, of the 1,019 actions due to be implemented, 960 (94%) have been implemented.
- 17 Details of the actions that are overdue, following their agreed original target dates, are included at Appendix 6.

Limited Assurance Audit Opinions

- 18 There have been eight audits, finalised in this quarter, that have been issued with a 'limited assurance' opinion. These are summarised in the table below.

Service Grouping	Service Area	Audit
Children and Young People's Services (CYPS)	Education Services	Five Primary Schools
Children and Young People's Services (CYPS)	Children's Services	Section 17 Payments
Children and Young People's Services (CYPS)	Children's Services	Aycliffe Secure Services Centre – Follow Up
Resources (RES)	Corporate Finance & Commercial Services	Pension Fund: Additional Voluntary Contributions

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

Performance Indicators

- 20 A summary of actual performance, as at the end of December 2017, compared with our agreed targets is detailed in Appendix 5.

Recommendations

- 21 Members are asked to note:
- (a) The amendments made to the 2017/18 Annual Internal Audit Plan;
 - (b) The work undertaken by Internal Audit during the period ending 31 December 2017;
 - (c) The performance of the Internal Audit Service during the period;
 - (d) The progress made by service managers in responding to the work of Internal Audit.

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

Appendix 1: Implications

Finance – None.

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, the Director of Transformation and Partnerships and all Heads of Service.

Procurement – None.

Disability Issues – None.

Legal Implications – None.

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2017

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
2016 / 2017 Internal Audit Plan - Audits Brought Forward					
Adult and Health Services	Adult Care	Section 117 Process	Advice & Consultancy	Final Report	N/A
Adult and Health Services	Adult Care	Continuing Health Care	Assurance	Not Yet Started	
Adult and Health Services	Adult Care	Shared Lives - Follow Up	Assurance	Final Report	Substantial
Adult and Health Services	Adult Care	Direct Payments - Direct Payment Cards	Advice & Consultancy	In Progress	
Adult and Health Services	Adult Care	Pathways - Establishment Audit	Advice & Consultancy	In Progress	
Adult and Health Services	Adult Care	Holiday Averages Calculation and Payment Arrangements for Part Time Adult Care	Advice & Consultancy	In Progress	
Adult and Health Services	EHCP	Pollution Control - Planning Consultation Arrangements	Assurance	Final Report	Substantial
Adult and Health Services	EHCP	Contaminated Land - Planning Consultation	Assurance	Cancelled	
Adult and Health Services	EHCP	Accumulations Protocol	Assurance	Planning and Preparation	
Adult and Health Services	Public Health	Public Health Claims Processed via Pharmoutcomes	Assurance	Final Report	Moderate
Children and Young People's Services	Children's Services	Supervised Spend - Leaving Care Service: Follow Up	Assurance	Final Report	Moderate
Children and Young People's Services	Children's Services	Aycliffe Secure Services Centre (Follow Up)	Assurance	Final Report	Limited
Children and Young People's Services	Children's Services	9 Cedar Drive Children's Home (Follow Up)	Assurance	Final Report	Substantial
Children and Young People's Services	Children's Services	Foster Carer Payments (Follow Up)	Assurance	Not Yet Started	
Children and Young People's Services	Children's Services	Scheme of Delegation for both Professional and Financial Decision Making within	Assurance	Planning and Preparation	
Children and Young People's Services	Children's Services	Review of Locality Offices Petty Cash	Assurance	In Progress	
Children and Young People's Services	Children's Services	Section 17 Payments	Assurance	Final Report	Limited
Children and Young People's Services	Education Services	Youth Employment Initiative - YEI Procurement	Assurance	Final Report	Substantial
Children and Young People's Services	Education Services	Schools - Safe Recruitment and Selection (Sacriston Primary)	Assurance	Final Report	Limited
Children and Young People's Services	Education Services	Schools - Safe Recruitment and Selection	Assurance	Not Yet Started	
Children and Young People's Services	Education Services	The Woodlands Pupil Referral Unit - (Finance and Governance)	Assurance	In Progress	
Regeneration and Local Services	Planning and Assets	Land Sales - Quality/Price	Advice & Consultancy	Draft Report	
Regeneration and Local Services	Transport and Contract Services	Public Rights of Way	Assurance	Final Report	Moderate
Regeneration and Local Services	Direct Services	Play Areas	Assurance	Final Report	Moderate
Regeneration and Local Services	Direct Services	Facilities Management	Assurance	Final Report	Substantial
Regeneration and Local Services	Direct Services	Environmental Compliance	Advice & Consultancy	Cancelled	
Regeneration and Local Services	Technical Services	Stores Budgetary Control	Advice & Consultancy	Final Report	N/A
Resources	Legal and Democratic Services	Newco Trading Arrangements - Follow Up	Assurance	Final Report	Substantial
Resources	Corporate Finance and Commercial Services	Capital Accounting	Key System	Final Report	Substantial
Resources	Corporate Finance and Commercial Services	Teachers Pension Fund: Process Review	Advice & Consultancy	Cancelled	
Resources	Corporate Finance and Commercial Services	Treasury Management - Short Term Investments	Key System	Final Report	Substantial
Resources	Corporate Finance and Commercial Services	Bank reconciliation	Key System	Final Report	Substantial
Resources	Corporate Finance and Commercial Services	General Ledger	Key System	Final Report	Substantial
Resources	Corporate Finance and Commercial Services	Medium Term Financial Plan	Key System	Planning and Preparation	
Resources	Corporate Finance and Commercial Services	Banking Arrangements	Assurance	Final Report	Substantial
Resources	Corporate Finance and Commercial Services	Potentially Violent Person Register	Assurance	Final Report	Moderate
Resources	Corporate Finance and Commercial Services	Off Contract Spend	Assurance	Final Report	Moderate
Resources	Corporate Finance and Commercial Services	Procurement - Schools Commercial Focus	Advice & Consultancy	Planning and Preparation	
Resources	Finance and Transactional Services	Council Tax: Recovery	Key System	Final Report	Substantial
Resources	Finance and Transactional Services	Council Tax: Maintenance of Debt, Annual Updates and PIs	Key System	Final Report	Substantial
Resources	Finance and Transactional Services	Council Tax: Discounts and Exemptions	Key System	Final Report	Substantial
Resources	Finance and Transactional Services	Business Rates: Recovery	Key System	Final Report	Substantial
Resources	Finance and Transactional Services	Business Rates: Maintenance of Debt, Annual Update and PIs	Key System	Final Report	Substantial
Resources	Finance and Transactional Services	Business Rates: Discounts and Exemptions	Key System	Final Report	Substantial
Resources	Finance and Transactional Services	HB & CTR New Claims and Change of Circumstances	Key System	Final Report	Substantial
Resources	Finance and Transactional Services	HB & CTR Annual Updates & PIs	Key System	Final Report	Substantial
Resources	Finance and Transactional Services	HB, Council Tax and Business Rates: System Access & Declarations of Interest	Key System	Final Report	Moderate
Resources	Finance and Transactional Services	Prepaid Cards	Advice & Consultancy	Final Report	N/A
Resources	Finance and Transactional Services	Creditor Payments	Key System	Final Report	Moderate
Resources	Finance and Transactional Services	Payroll: Establishment & Core Data	Key System	Final Report	Moderate
Resources	Finance and Transactional Services	Payroll: Adjustments & System Access	Key System	Final Report	Moderate
Resources	Finance and Transactional Services	Payroll: Processing, Payments and System Parameters	Key System	Final Report	Substantial
Resources	Finance and Transactional Services	Debtors	Key System	Final Report	Moderate
Resources	Finance and Transactional Services	Cash Collection: 02 - Annand House	Key System	Final Report	Moderate
Resources	Finance and Transactional Services	Cash Collection: 03 - Music Service	Key System	Final Report	Moderate

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2017

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Finance and Transactional Services	Cash Collection: 04 Revenues	Key System	Final Report	Substantial
Resources	Finance and Transactional Services	Cash Collection: 06 - County Hall Canteen	Key System	Final Report	Moderate
Resources	Finance and Transactional Services	Chapter Homes Arrangements	Advice & Consultancy	Final Report	N/A
Resources	Finance and Transactional Services	FST: Petty cash and Imprests	Advice & Consultancy	Final Report	N/A
Resources	Finance and Transactional Services	FST: Monitoring Visits	Advice & Consultancy	Final Report	N/A
Resources	Finance and Transactional Services	FST: Procurement, Payment and Collections Team Process Mapping	Advice & Consultancy	Final Report	N/A
Resources	Finance and Transactional Services	FST: Debtors	Advice & Consultancy	Final Report	N/A
Resources	Digital and Customer Services	ICT Purchasing	Assurance	Final Report	Moderate
Resources	Digital and Customer Services	ISP - Security Incident Management	Assurance	Final Report	Moderate
Resources	Digital and Customer Services	PSN Remedial Action Plan	Assurance	Final Report	Substantial
Resources	Digital and Customer Services	ISP - Backup Procedures	Assurance	Final Report	Moderate
Resources	Digital and Customer Services	ICT Service Level Agreements	Assurance	Final Report	Moderate
Transformation and Partnerships	Communications and Information Management	Data Breach Arrangements - Quality Review Team	Assurance	Final Report	Substantial
Transformation and Partnerships	Communications and Information Management	Data Protection - Accessing External Databases	Assurance	In Progress	
Transformation and Partnerships	Communications and Information Management	Caldicott Compliance: Data Sharing Procedures - Foster Carers	Assurance	Final Report	Moderate
Transformation and Partnerships	Strategy	Data Quality	Assurance	Final Report	Moderate
2017 / 2018 Internal Audit Plan					
Adult and Health Services	Adult Care	Notification of Service – Impact of Financial Assessment on Income Collection (RES)	Advice & Consultancy	Not Yet Started	
Adult and Health Services	Adult Care	Debt Management - Collection of Social Care Fees for Domiciliary and Residential Care	Assurance	Final Report	Moderate
Adult and Health Services	Adult Care	County Durham Care & Support Review	Advice & Consultancy	In Progress	
Adult and Health Services	Adult Care	Information Security - Caldicott Compliance (TaP)	Assurance	Not Yet Started	
Adult and Health Services	Adult Care	SSID Replacement	Advice & Consultancy	In Progress	
Adult and Health Services	Adult Care / Commissioning	Transition Arrangements between Childrens and Adult Services	Assurance	Not Yet Started	
Adult and Health Services	Adult Care / Commissioning	Commissioning of Learning Disability Services	Advice & Consultancy	Draft Report	N/A
Adult and Health Services	Commissioning	Payments to Independent Residential Homes (Quality Band Assessment etc)	Assurance	Not Yet Started	
Adult and Health Services	Commissioning	Approval and Payment of Commissioned Services - Panel arrangements for payments	Assurance	Planning and Preparation	
Adult and Health Services	Commissioning	Creditors - Supplier Masterfile Commissioning - SSID Independent Sector Suppliers	Assurance	Not Yet Started	
Adult and Health Services	EHCP	Licensing Arrangements for Houses in Multiple Occupation	Advice & Consultancy	Not Yet Started	
Adult and Health Services	EHCP	Intelligence Handling within Trading Standards and Licensing	Assurance	Draft Report	
Adult and Health Services	EHCP	Trading Standards Grant	Grant Certification	Final Report	N/A
Adult and Health Services	Public Health	Medical Examiners Service	Assurance	Not Yet Started	
Adult and Health Services	Commissioning	Payments to Independent Residential Homes - Calculation and Payment of Care Home	Advice & Consultancy	Complete	N/A
Adult and Health Services	Commissioning	Creditors - Supplier Masterfile Commissioning - SSID Independent Sector Suppliers	Advice & Consultancy	In Progress	
Children and Young People's Services	Children's Services	West Rainton Children's Home (Establishment Audit)	Assurance	Planning and Preparation	
Children and Young People's Services	Children's Services	Park House (Establishment Audit)	Assurance	Planning and Preparation	
Children and Young People's Services	Children's Services	One Point Hubs - Ferryhill One Point Service (Establishment Audit)	Assurance	In Progress	
Children and Young People's Services	Children's Services	Troubled Families Programme - Milestone 1 of 5	Grant Certification	Complete	N/A
Children and Young People's Services	Children's Services	Troubled Families Programme - Milestone 2 of 5	Grant Certification	Complete	N/A
Children and Young People's Services	Children's Services	Troubled Families Programme - Milestone 3 of 5	Grant Certification	Complete	N/A
Children and Young People's Services	Children's Services	Troubled Families Programme - Milestone 4 of 5	Grant Certification	Planning and Preparation	
Children and Young People's Services	Children's Services	Troubled Families Programme - Milestone 5 of 5	Grant Certification	Not Yet Started	
Children and Young People's Services	Children's Services	Adoption Services	Assurance	Not Yet Started	
Children and Young People's Services	Children's Services	Special Guardianship and Child Arrangement Orders	Assurance	Defer to 2018/19	
Children and Young People's Services	Education Services	Youth Employment Initiative - Durham Works	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education Services	Youth Employment Initiative	Advice & Consultancy	Cancelled	
Children and Young People's Services	Education Services	Arrangements for the allocation of SEN funding and its application in schools	Assurance	Planning and Preparation	
Children and Young People's Services	Education Services	Schools Organisations and Capital Programme	Assurance	Not Yet Started	
Children and Young People's Services	Education Services	Children Missing from Education	Assurance	Final Report	Substantial
Children and Young People's Services	Education Services	Arrangements for the allocation of Pupil Premium Funding and its application in schools	Assurance	Not Yet Started	
Children and Young People's Services	Education Services	Award of additional pay in Schools	Assurance	Not Yet Started	
Children and Young People's Services	Education Services	Schools Financial Value Standard (SFVS)	Advice & Consultancy	Planning and Preparation	
Children and Young People's Services	Education Services	Governor Training:	Advice & Consultancy	In Progress	
Children and Young People's Services	Education Services	School Business Manager Training	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education Services	Head Teacher induction to Finance and Budgeting	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education Services	Schools User Provider Group	Advice & Consultancy	In Progress	
Children and Young People's Services	Children's Services	SSID Replacement	Advice & Consultancy	In Progress	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2017

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Children and Young People's Services	Education Services	School Programme (governance and financial management)	Assurance	9 Substantial 29 Moderate 14 Limited	
Children and Young People's Services	Education Services	Audit of School Voluntary Funds	Fund Certification	37 Complete	
Children and Young People's Services	Education Services	National College for Teaching and Leadership (NCTL) - Direct Salaried Grant	Grant Certification	Not Yet Started	
Children and Young People's Services	Education Services	National College for Teaching and Leadership (NCTL) - Collaborative Fund Grant	Grant Certification	In Progress	
Children and Young People's Services	Education Services	The Woodlands - Data Security Arrangements	Advice & Consultancy	Final Report	N/A
Children and Young People's Services	Children's Services	Looked After Placement Referral Process and Placement and Resource Panel (PRP) Gu	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Children's Services	Information Security in Adoption and Fostering Service	Assurance	Draft Report	
Children and Young People's Services	Children's Services	Special Guardianship and Child Arrangement Orders	Advice & Consultancy	In Progress	
Children and Young People's Services	Children's Services	Section 17 Payments - Support to Service Workstream in Response to	Advice & Consultancy	In Progress	
Children and Young People's Services	Children's Services	Aycliffe Secure Services Centre - Support in Service Response to Recommendations	Advice & Consultancy	In Progress	
Regeneration and Local Services	Direct Services	Bulky Goods Collections Service	Advice & Consultancy	In Progress	
Regeneration and Local Services	Direct Services	Allotments (Follow Up)	Assurance	Defer to 2018/19	
Regeneration and Local Services	Direct Services	Flytipping	Assurance	Planning and Preparation	
Regeneration and Local Services	Direct Services	Effectiveness of MAIS and CSE arrangements - to be renamed as Vulnerability	Assurance	Defer to 2018/19	
Regeneration and Local Services	Planning and Assets	Low Carbo 1	Grant Certification	Final Report	N/A
Regeneration and Local Services	Planning and Assets	Low Carbo 2	Grant Certification	In Progress	
Regeneration and Local Services	Planning and Assets	Rebus 1	Grant Certification	Final Report	N/A
Regeneration and Local Services	Planning and Assets	Rebus 2	Grant Certification	In Progress	
Regeneration and Local Services	Planning and Assets	Planning Applications	Assurance	In Progress	
Regeneration and Local Services	Economic Development and Housing	Accommodation	Advice & Consultancy	In Progress	
Regeneration and Local Services	Economic Development and Housing	Stephanie	Grant Certification	Final Report	N/A
Regeneration and Local Services	Economic Development and Housing	Choice Based Letting Scheme	Assurance	Planning and Preparation	
Regeneration and Local Services	Economic Development and Housing	Disabled Facilities Grant	Grant Certification	Final Report	N/A
Regeneration and Local Services	Transport and Contract Services	Local Transport Capital Block Funding	Grant Certification	Final Report	N/A
Regeneration and Local Services	Transport and Contract Services	Bus Subsidy Ring Fenced Grant	Grant Certification	Final Report	N/A
Regeneration and Local Services	Transport and Contract Services	Local Growth Fund - Station Cycle Links	Grant Certification	Final Report	N/A
Regeneration and Local Services	Transport and Contract Services	Local Growth Fund - Forest Park	Grant Certification	Planning and Preparation	
Regeneration and Local Services	Transport and Contract Services	Local Growth Fund - Bishop Auckland Market Place	Grant Certification	Planning and Preparation	
Regeneration and Local Services	Transport and Contract Services	Wheels to Work	Grant Certification	Final Report	N/A
Regeneration and Local Services	Transport and Contract Services	Transport (Follow Up)	Assurance	Planning and Preparation	
Regeneration and Local Services	Transport and Contract Services	On Street and Off Street Parking (Follow Up)	Assurance	Final Report	Moderate
Regeneration and Local Services	Direct Services	Bereavement Services	Assurance	Final Report	Substantial
Regeneration and Local Services	Direct Services	Durham Crematorium	Assurance (Joint Ctte)	Planning and Preparation	
Regeneration and Local Services	Direct Services	Mounsett Crematorium	Assurance (Joint Ctte)	Planning and Preparation	
Regeneration and Local Services	Direct Services	ASB Powers / Training in relation to Crime Policing Bill	Assurance	Cancelled	
Regeneration and Local Services	Direct Services	Fleet Management	Assurance	Planning and Preparation	
Regeneration and Local Services	Direct Services	Hire of Vehicles and Skips	Assurance	Final Report	Substantial
Regeneration and Local Services	Direct Services	QMS Quarterly Visit	Advice & Consultancy	Cancelled	
Regeneration and Local Services	Direct Services	Waste Transfer Station (Thornley) - Financial Procedures	Advice & Consultancy	Planning and Preparation	
Regeneration and Local Services	Culture and Sport	Rolling Programme of Leisure Centres - Chester le Street	Assurance	Final Report	Moderate
Regeneration and Local Services	Culture and Sport	Rolling Programme of Leisure Centres - Woodhouse Close	Assurance	Final Report	Moderate
Regeneration and Local Services	Culture and Sport	Leisure Centres Timesheets (Follow Up)	Assurance	Defer to 2018/19	
Regeneration and Local Services	Culture and Sport	Leisureworks	Advice & Consultancy	In Progress	
Regeneration and Local Services	Culture and Sport	CLUK Income Share Agreement	Assurance	Final Report	Substantial
Regeneration and Local Services	Culture and Sport	Stanley Bowls	Advice & Consultancy	Not yet started	
Regeneration and Local Services	Culture and Sport	Library System	Advice & Consultancy	Not yet started	
Regeneration and Local Services	Culture and Sport	Locomotion	Assurance	Not yet started	
Regeneration and Local Services	Culture and Sport	Gala - Box Office	Assurance	Final Report	Substantial
Regeneration and Local Services	Culture and Sport	Gala - Cinema and Catering	Advice & Consultancy	Draft Report	
Regeneration and Local Services	Culture and Sport	Catering	Advice & Consultancy	Not yet started	
Regeneration and Local Services	Technical Services	Local Highways Maintenance Funding - Incentive Element	Grant Certification	Planning and Preparation	
Regeneration and Local Services	Technical Services	Local Transport Capital Block Funding for NECA	Grant Certification	Final Report	N/A
Regeneration and Local Services	Planning and Assets	Carbon Reduction Commitment	Advice & Consultancy	Final Report	N/A
Regeneration and Local Services	Economic Development and Housing	New Homes Bonus - Affordable Homes	Advice & Consultancy	In Progress	
Regeneration and Local Services	Direct Services	Natural Burials	Advice & Consultancy	Not yet started	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2017

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Regeneration and Local Services	Direct Services	Asbestos Management	Advice & Consultancy	Draft Report	
Regeneration and Local Services	Planning and Assets	Asset Management - Final Accounts	Assurance	Planning and Preparation	
Regeneration and Local Services	Planning and Assets	North Pennines AONB Partnership - Atlantic Geoparks	Grant Certification	Not yet started	
Regeneration and Local Services	Economic Development and Housing	Stephanie 2	Grant Certification	Not yet started	
Resources	People and Talent Management	Flexible Working - Variations to Contracts	Assurance	Planning and Preparation	
Resources	Finance and Transactional Services	Enforcement, including bailiff arrangements	Assurance	Planning and Preparation	
Resources	Digital and Customer Services	Active Directory	Advice & Consultancy	Not yet started	
Resources	Digital and Customer Services	CRM System	Assurance	Cancelled	
Resources	All	Transformation Assurance	Assurance	Not yet started	
Resources	Legal and Democratic Services	Electoral Services	Assurance	Not yet started	
Resources	Legal and Democratic Services	Registrars	Assurance	In Progress	
Resources	Legal and Democratic Services	RIPA Officers Group	Advice & Consultancy	In Progress	
Resources	People and Talent Management	ER/VR arrangements	Assurance	Final Report	Moderate
Resources	Corporate Finance and Commercial Services	General Ledger	Key System	Planning and Preparation	
Resources	Corporate Finance and Commercial Services	VAT	Key System	Not yet started	
Resources	Corporate Finance and Commercial Services	Bank Reconciliation	Key System	Final Report	Substantial
Resources	Corporate Finance and Commercial Services	Apprenticeship Levy Implementation Group	Advice & Consultancy	In Progress	
Resources	Corporate Finance and Commercial Services	Treasury Management	Key System	Planning and Preparation	
Resources	Corporate Finance and Commercial Services	Contract Register	Assurance	In Progress	
Resources	Corporate Finance and Commercial Services	Contract Management	Assurance	Planning and Preparation	
Resources	Corporate Finance and Commercial Services	Specifications	Assurance	Final Report	Substantial
Resources	Corporate Finance and Commercial Services	Off Contract Spend	Assurance	Not yet started	
Resources	Corporate Finance and Commercial Services	Procurement Cards (Follow Up)	Assurance	Draft Report	
Resources	Corporate Finance and Commercial Services	Oracle Programme Board	Advice & Consultancy	In Progress	
Resources	Corporate Finance and Commercial Services	Transactional Purchasing Improvement Group	Advice & Consultancy	Not yet started	
Resources	Corporate Finance and Commercial Services	Petty Cash and Payment Cards	Advice & Consultancy	In Progress	
Resources	Corporate Finance and Commercial Services	Health and Safety Training Requirments (Follow Up)	Assurance	Draft Report	
Resources	Finance and Transactional Services	SLAs	Assurance	Not yet started	
Resources	Finance and Transactional Services	Section 256	Grant Certification	Not yet started	
Resources	Finance and Transactional Services	Shared Lives Service - Financial Inspections (Follow Up)	Assurance	In Progress	
Resources	Finance and Transactional Services	Financial Assessments and Reassessments	Advice & Consultancy	Not yet started	
Resources	Finance and Transactional Services	FST Debit Card Account (Follow Up)	Assurance	In Progress	
Resources	Finance and Transactional Services	Financial Deputies	Advice & Consultancy	Not yet started	
Resources	Finance and Transactional Services	Supporting People with Oxford Computer Consultants (SPOCC)	Assurance	Not yet started	
Resources	Finance and Transactional Services	Creditor Payments	Key System	Not yet started	
Resources	Finance and Transactional Services	Creditor Payments - NFI	Advice & Consultancy	Final Report	N/A
Resources	Finance and Transactional Services	Creditor Payments - Transparency	Advice & Consultancy	Final Report	N/A
Resources	Finance and Transactional Services	Creditor Payments - Transactional Purchasing Team	Advice & Consultancy	Draft Report	
Resources	Finance and Transactional Services	Creditor Payments - No Purchase Order	Key System	Not yet started	
Resources	Finance and Transactional Services	IPIG	Advice & Consultancy	In Progress	
Resources	Finance and Transactional Services	Better Care Fund (Sn 75)	Assurance	Final Report	Substantial
Resources	Finance and Transactional Services	Payroll	Key System	Not yet started	
Resources	Finance and Transactional Services	Payroll - Implementation/Upgrade	Advice & Consultancy	In Progress	
Resources	Finance and Transactional Services	Payroll - Starters and Leavers	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Payroll - Temporary Input	Key System	Not yet started	
Resources	Finance and Transactional Services	Payroll - Permanent Input	Key System	Not yet started	
Resources	Finance and Transactional Services	Agency (Follow Up)	Assurance	Draft Report	
Resources	Finance and Transactional Services	Business Rates	Key System	Not yet started	
Resources	Finance and Transactional Services	Business Rates - Valuation	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Business Rates - Liability	Key System	In Progress	
Resources	Finance and Transactional Services	Business Rates - Refunds	Key System	Not yet started	
Resources	Finance and Transactional Services	Business Rates - System Access	Key System	Not yet started	
Resources	Finance and Transactional Services	Housing Benefit and Council Tax Reduction	Key System	Not yet started	
Resources	Finance and Transactional Services	Housing Benefit - New Claims and Change of Circumstance	Key System	Not yet started	
Resources	Finance and Transactional Services	Housing Benefit - Assessment and Review of Claims	Key System	In Progress	
Resources	Finance and Transactional Services	Housing Benefit - System Access	Key System	Not yet started	
Resources	Finance and Transactional Services	Housing Benefit - Supported Accommodation	Key System	Not yet started	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 DECEMBER 2017

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Finance and Transactional Services	Welfare Assistance Scheme	Key System	Final Report	Substantial
Resources	Finance and Transactional Services	Discretionary Housing Payments	Key System	Final Report	Substantial
Resources	Finance and Transactional Services	Welfare Rights	Key System	Not yet started	
Resources	Finance and Transactional Services	Council Tax	Key System	Not yet started	
Resources	Finance and Transactional Services	Council Tax - Liability	Key System	Not yet started	
Resources	Finance and Transactional Services	Council Tax - Refunds	Key System	Not yet started	
Resources	Finance and Transactional Services	Council Tax - System Access	Key System	Not yet started	
Resources	Finance and Transactional Services	Cash Management	Key System	Not yet started	
Resources	Finance and Transactional Services	Cash Management - County Hall	Key System	Not yet started	
Resources	Finance and Transactional Services	Cash Management - Dales Centre	Key System	Not yet started	
Resources	Finance and Transactional Services	Debtors	Key System	Not yet started	
Resources	Finance and Transactional Services	Debtors - Supporting Documents	Key System	Not yet started	
Resources	Finance and Transactional Services	Debtors - Credit Notes and Write Offs	Key System	Not yet started	
Resources	Finance and Transactional Services	Debtors - Refunds	Key System	Not yet started	
Resources	Finance and Transactional Services	Debtors - Customer Masterfile	Key System	Defer to 2018/19	
Resources	Finance and Transactional Services	Debtors - Standing Charges	Key System	Defer to 2018/19	
Resources	Finance and Transactional Services	Debtors - Write Off Relief	Key System	Final Report	Moderate
Resources	Finance and Transactional Services	Debtors Working Group	Advice & Consultancy	In Progress	
Resources	Finance and Transactional Services	Caspar System	Assurance	Defer to 2018/19	
Resources	Digital and Customer Services	Mobile Computing (Follow Up)	Assurance	Planning and Preparation	
Resources	Digital and Customer Services	Information Security - PSN	Assurance	Cancelled	
Resources	Digital and Customer Services	Information Security - Procurement	Assurance	Not yet started	
Resources	Digital and Customer Services	Business Continuity for ICT	Assurance	In Progress	
Resources	Digital and Customer Services	Software Licenses	Assurance	Final Report	Moderate
Resources	Digital and Customer Services	Asset Register (Follow Up)	Assurance	Final Report	Moderate
Resources	Digital and Customer Services	Business Travel and Accommodation	Assurance	Final Report	Moderate
Resources	Digital and Customer Services	Coroner	Assurance	Defer to 2018/19	
Resources	Internal Audit, Risk and Fraud	Risk Management	Assurance	Final Report	Substantial
Resources	Digital and Customer Services	Digital Durham	Grant Certification	Final Report	N/A
Resources	Finance and Transactional Services	Teaching Assistants	Advice & Consultancy	Final Report	N/A
Resources	Finance and Transactional Services	Deputy and Appointee Working Group	Advice & Consultancy	In Progress	
Resources	Legal and Democratic Services	Use of Social Media in Covert Investigations	Assurance	Planning and Preparation	
Resources	Finance and Transactional Services	Teaching Assistants - Final Review	Advice & Consultancy	Final Report	N/A
Transformation and Partnerships	Transformation	Project Management	Advice & Consultancy	Cancelled	
Transformation and Partnerships	Transformation	Transformation Programme	Advice & Consultancy	In Progress	
Transformation and Partnerships	Communications and Information Management	Business Continuity	Key System	Not yet started	
Transformation and Partnerships	Communications and Information Management	Data Protection - General Data Protection Regulation (GDPR)	Advice & Consultancy	In Progress	
Transformation and Partnerships	Communications and Information Management	Data Protection - EDMS	Assurance	Cancelled	
Transformation and Partnerships	Communications and Information Management	Data Protection - Use of privacy notices	Assurance	Defer to 2018/19	
Transformation and Partnerships	Communications and Information Management	Environmental Information Requests	Assurance	Final Report	Moderate
Transformation and Partnerships	Communications and Information Management	Information Governance Group	Advice & Consultancy	In Progress	
Transformation and Partnerships	Communications and Information Management	Information Security - Caldicott Compliance	Assurance	Not yet started	
Transformation and Partnerships	Communications and Information Management	Information Security - Caldicott Group	Advice & Consultancy	In Progress	
Transformation and Partnerships	Strategy	Data Quality Framework	Assurance	Planning and Preparation	
Transformation and Partnerships	Partnerships and Community Engagement	Community Buildings - Health & Safety Compliance	Assurance	Draft Report	
Transformation and Partnerships	Partnerships and Community Engagement	Community Grants Sample	Assurance	In Progress	

FINAL REPORTS ISSUED IN PERIOD ENDING 31 DECEMBER 2017

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
ADULT AND HEALTH SERVICES (AHS)		
Section 117 Process	An Advice and Consultancy review to support Strategic Managers in the development of suitable internal controls associated with the introduction of revised local practices for arranging care and support packages to meet service user needs arising from Section 117 of the Mental Health Act 1983.	N/A
Public Health Claims Processed via Pharmoutcomes	An Assurance review that considered the effectiveness of the control framework in place for the management of the following risks: <ul style="list-style-type: none"> - The Council pays for goods, services or works that are not provided or not completed; - Incorrect/late payments are made to Pharmacies; - Overpayments are not promptly recovered; - Employees do not have the skill to carry out their budget monitoring responsibilities / do not utilise the system as expected. 	Moderate
Shared Lives Follow Up	Assurance review that followed up on actions taken by the Service in responding to recommendations made within the Shared Lives report action plan that had delivered a Limited Assurance Opinion. As a result, the initial opinion was revised to Substantial.	Substantial
CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS)		
Section 17 Payments	Assurance review that considered the effectiveness of the control framework in place for the management of the following risks: <ul style="list-style-type: none"> - The Section 17 Panel is ineffective; - Ineffective decision making; - Team performance is ineffective; - Unauthorised/inappropriate payments are made; - Imprest cash is not securely held; - Overpayments/duplicate payments are made; - Employees do not have the skills to carry out their budget monitoring responsibilities/do not utilise the system as expected; - The authority does not comply with the Data Protection Act. 	Limited
Aycliffe Secure Services Centre – Follow Up	Assurance review that followed up on actions taken by the Service in responding to recommendations made within a wider review of the Children's Services – Aycliffe Locality Office, Residential and Secure Services report action plan that had delivered a Limited Assurance Opinion. As a result, the initial opinion remains at Limited.	Limited
The Woodlands – Data Security Arrangements	An Advice and Consultancy review that considered the data protection and information security arrangements at The Woodlands (where the Council provides Education for both permanently excluded pupils and those identified as close to permanent exclusion) and where DCC employees are able to access sensitive data from the Durham Learning Gateway (DLG) network on a personal device through web based email which poses a potential data protection / security risk to the Council as the data controller.	N/A

CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS) Contd.		
Looked After Placement Referral Process and Placement and Resource Panel (PRP) Guidance	Advice and Consultancy review that sought to strengthen the control framework within the PRP guidance being developed.	N/A
Children Missing from Education	Assurance review that considered the effectiveness of the control framework in place for the management of the following risks: <ul style="list-style-type: none"> - Children not provided with suitable education; - Children/pupils are at risk of harm or neglect; - Children regularly miss school without good reason. 	Substantial

REGENERATION AND LOCAL SERVICES (ReaL)		
Gala Theatre – Box Office	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Customers unable to book tickets during busy periods; - Loss of system, internet, or telephone lines; - Loss of cash through error, fraud, or theft; - Refunds/credits are inappropriately granted; - Incorrect ticket prices are charged - Invoices are unpaid; - Breaches to the data protection act; - Discounted/free tickets are inappropriately issued. 	Substantial
Bereavement Services	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Cemeteries are at capacity; - Cemeteries do not meet health and safety requirements; - Cemeteries are in an untidy condition; - Income is inaccurately charged, collected, banked, and recorded; - Burial records are incomplete and inaccurate; - Non-standard/compliant, and incomplete documentation in use; - Preparation of the grave not completed in time or satisfactorily; - Records are not retained in accordance with legislation. 	Substantial
Competition Line UK (CLUK) Income Share Agreement	Assurance review of the arrangements in place to mitigate against the risk of incorrect payments being made.	Substantial
On and Off Street Parking (Follow Up)	Assurance review following up on the actions raised in the previous audit.	Moderate
Chester le Street Leisure Centre	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Income is recorded or processed inaccurately; - Income is not received for bookings/courses; - Cash is held or transported insecurely; - Unauthorised access to cash receipting system and till; - Expenditure is inappropriate; - Stocks are inappropriate or insecure. 	Moderate
Woodhouse Close Leisure Centre	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Income is recorded or processed inaccurately; - Income is not received for bookings/courses; - Cash is held or transported insecurely; - Unauthorised access to cash receipting system and till; - Expenditure is inappropriate; - Stocks are inappropriate or insecure. 	Moderate

ReaL (Contd.)		
Disabled Facilities Grant	Grant Certification	N/A
Local Growth Fund – Station Cycle Links	Grant Certification	N/A

RESOURCES		
Risk Management	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Strategic risks are not promptly identified and mitigated; - The risk management process is not effective or efficient. 	Substantial
Discretionary Housing payments	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; - Inaccurate figures are submitted on the subsidy grant form. 	Substantial
Welfare Assistance Scheme	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; - Contractor / third party suppliers fail to meet required terms and conditions. 	Substantial
Bank Reconciliation	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Material errors / fraudulent activities within bank accounts and / or the General Ledger are not identified and corrected in a timely manner; - Theft or misuse of Council funds and/or bank accounts; - Transaction errors made by the bank go unnoticed; - Inaccurate or misleading financial information; - Performance is not properly managed or monitored. 	Substantial
Business Travel and Accommodation	Assurance review of the arrangements in place to mitigate against the risk of Council services or contracts not being fully utilised.	Moderate
Cash Collection – County Hall Canteen	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Non-compliance with financial regulations; - Theft / Misappropriation; - Postal remittances are not recorded / are misappropriated; - Lack of corporate understanding, and / or buy in, of PCI requirements; - Loss / Theft of card data. 	Moderate
ICT Asset Register Follow Up	Assurance review following up on the actions raised in the previous audit.	Moderate
Software Licences	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Unauthorised software is purchased and/or installed; - Software installed is not compliant with licence agreements or has excessive licences. 	Moderate

RESOURCES (Contd.)		
Early Retirement / Voluntary Redundancy (ER/VR) Arrangements	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Breach of legislation relating to employment, voluntary redundancy, and voluntary early retirement; - Employees with critical skills and knowledge leave the Council or ER/VR is approved in areas where there is a continuing need for those employees; - Not enough funding is set aside from the pension fund to cover the ER/VR scheme; - Appointments are made to posts which have previously been made redundant. 	Moderate
Potentially Violent Person Register	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - DCC employees and Members are subjected to violence or aggression; - Breach of the Data Protection Act 1998. 	Moderate
Debtors – Bad Debt/Write Off Relief	Assurance review of the arrangements in place to mitigate against the risk of non-compliance with HMRC legislation.	Moderate
Pension Fund: Additional Voluntary Contributions	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Members of the scheme are not aware of the implications of purchasing AVCs; - Liabilities in excess of the assets received are created for the pension fund; - Investment in AVCs is delayed reducing member benefits; - Pension records are inaccurate as they do not accurately reflect the AVC; - Incorrect information is provided to members leading to poor decision making on behalf of the member. 	Limited
Creditors – Review of Transparency Data	Advice and consultancy of the transparency reporting process to ensure that it is compliant with legislation and the Local Government Transparency Code.	N/A
Creditors – Review of National Fraud Initiative (NFI) Data	Advice and consultancy to review and rationalise the NFI data matches and highlight data matches which indicate potential fraud or error.	N/A
Teaching Assistants – Final Review of Data	Advice and consultancy review of the spreadsheet used to calculate salaries and compensation payments.	N/A

TRANSFORMATION AND PARTNERSHIPS (TaP)		
Environmental Information Requests	Assurance review of the arrangements in place to mitigate against the risk of non-compliance with statutory or other regulatory requirements.	Moderate

Progress on the Implementation of Audit Recommendations

Appendix 4

	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					
ADULT AND HEALTH SERVICES (AHS)										
2016/17										
High	7	7	7	0	7	0	0	0	7	0
Medium	47	47	46	0	46	1	1	0	46	0
Total	54	54	53	0	53	1	1	0	53	0
2017/18										
High	2	2	2	0	2	0	0	0	2	0
Medium	18	9	6	0	6	3	3	0	6	0
Total	20	11	8	0	8	3	3	0	8	0
Overall Total	74	65	61	0	61	4	4	0	61	0
CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS)										
2016/17										
High	1	1	1	0	1	0	0	0	1	0
Medium	47	46	46	0	46	0	0	0	46	0
Total	48	47	47	0	47	0	0	0	47	0
2017/18										
High	2	2	2	0	2	0	0	0	2	0
Medium	70	65	44	0	44	21	21	0	44	0
Total	72	67	46	0	46	21	0	0	46	0
Overall Total	120	114	93	0	93	21	0	0	93	0
REGENERATION AND LOCAL SERVICES (REAL)										
2015/2016										
High	7	7	6	0	6	1	1	0	6	0
Medium	115	115	109	0	109	6	6	0	109	0
Total	122	122	115	0	115	7	7	0	115	0
2016/17										
High	11	10	9	0	9	1	1	0	9	0
Medium	190	187	179	0	179	8	8	0	179	0
Total	201	197	188	0	188	9	9	0	188	0
2017/18										
High	0	0	0	0	0	0	0	0	0	0
Medium	36	32	27	0	27	5	5	0	27	0
Total	36	32	27	0	27	5	5	0	27	0
Overall Total	359	351	330	0	330	21	21	0	330	0
RESOURCES (RES)										
2014 / 2015										
High	7	7	7	0	7	0	0	0	7	0
Medium	134	134	133	0	133	1	1	0	133	0
Total	141	141	140	0	140	1	1	0	140	0
2015/2016										
High	3	3	3	0	3	0	0	0	3	0
Medium	124	124	123	0	123	1	1	0	123	0
Total	127	127	126	0	126	1	1	0	126	0
2016/17										
High	16	16	16	0	16	0	0	0	16	0
Medium	113	111	106	0	106	5	5	0	106	0
Total	129	127	122	0	122	5	5	0	122	0
2017/18										
High	3	3	3	0	3	0	0	0	3	0
Medium	112	65	60	0	60	5	5	0	60	0
Total	115	68	63	0	63	5	5	0	63	0
Overall Total	512	463	451	0	451	12	12	0	451	0
TRANSFORMATION AND PARTNERSHIPS (TAP)										
2016 / 2017										
High	0	0	0	0	0	0	0	0	0	0
Medium	26	25	24	0	24	1	1	0	24	0
Total	26	25	24	0	24	1	1	0	24	0
2017 / 2018										
High	0	0	0	0	0	0	0	0	0	0
Medium	3	1	1	0	1	0	0	0	1	0
Total	3	1	1	0	1	0	0	0	1	0
Overall Total	29	26	25	0	25	1	1	0	25	0
TOTAL COUNCIL										
2015 / 2016										
High	10	10	9	0	9	1	1	0	9	0
Medium	239	239	232	0	232	7	7	0	232	0
Total	249	249	241	0	241	8	8	0	241	0
2016 / 2017										
High	35	34	33	0	33	1	1	0	33	0
Medium	423	416	401	0	401	15	15	0	401	0
Total	458	450	434	0	434	16	16	0	434	0
2017 / 2018										
High	7	7	7	0	7	0	0	0	7	0
Medium	239	172	138	0	138	34	34	0	138	0
Total	246	179	145	0	145	34	34	0	145	0
OVERALL TOTAL	1094	1019	960	0	960	59	59	0	960	0

Performance Indicators as at 31 December 2017

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)	74% at 31 December 2017
Timeliness of Draft Reports	% of draft reports issued within 30 calendar days of end of fieldwork/closure interview	90% (Quarterly)	91% (115 out of 126)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response	95% (Quarterly)	96% (137 out of 142)
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 4.6
Customers providing feedback Response	% of customers returning satisfaction returns	70% (Quarterly)	71%
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

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

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