

Audit Committee

29 June 2020

Annual Internal Audit Opinion and Report 2019 / 2020



Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager

Electoral division(s) affected:

Countywide.

Purpose of the Report

- 1 To present to members the Chief Internal Auditor and Corporate Fraud Manager's assurance opinion on the adequacy and effectiveness of the Council's internal control environment.
- 2 Members are also presented with the Annual Internal Audit Report for 2019 / 2020.

Executive Summary

- 3 The Public Sector Internal Audit Standards (PSIAS) 2017 state that the provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control but still contribute to the overall opinion however each review does not deliver individual assurance opinions.
- 4 Based on the work undertaken during the year, internal audit is able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2019/2020.

- 5 This opinion is however qualified, in light of the current COVID-19 pandemic and the impact of this on the Council. The opinion given above is based on internal audit work undertaken, and completed, prior to emergency measures being implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short-term measures or the overall impact on the framework of governance, risk management and control that have been put in place.
- 6 Processes link business objectives, budget and workforce planning and are governed by timely and appropriate layers of officer and Member challenge and scrutiny. These arrangements remain robust. The Council remains well placed to respond to risks however the scale and pace of change continues to be an inherent risk to the control environment and this needs to be effectively managed.
- 7 There are significant developments and projects ongoing across the Council including ongoing work in key areas including health and social care integration, the replacement of significant IT systems in both Adults and Children's Social Care, the future development of the Council's new headquarters and various commercial investment and regeneration projects.
- 8 The moderate opinion provides assurance that there is a sound system of control in place however there are some weaknesses and evidence of ineffective controls. Given the constant extent of change the Council continues to face, the reduction in resources and the increasing diverse nature of the Internal Audit Plan this assurance opinion should be regarded as positive.
- 9 Many of the reviews during 2019/2020 have made references to unsatisfactory compliance with the Council's Policies and Procedures. It is recognised that the Council is on a journey of Transformation and it is evident that there is a direction and drive from the organisation to change the culture and behaviours. It is recognised that this will not be a quick or easy task but the Council's previous track record holds it in good stead to achieve its objectives. Furthermore, it is important that internal audit contributes where it can to assist the organisation achieve its objectives and continually add value. Internal Audit can be a valuable tool to the Council during its Transformation and will continue to be involved going forward.

- 10 Additionally, further work will be required in 2020/2021 on the effectiveness of the Council's Company governance. This work has been referenced in the Council's Annual Governance Statement as an area for improvement. The Chief Internal Auditor and Corporate Fraud Manager sits on a corporate group providing advice and guidance to implement improvements in the governance arrangements currently in place where the Council has a significant interest or control in a company.
- 11 During the year internal audit issued 7 'Limited' assurance opinions which is less than last year, however 4 were in schools. Limited assurance opinions are issued where there are significant concerns about the system of internal control or an absence of controls which could put the process or system objectives at risk and urgent improvement is needed.

Recommendation

- 12 Members are asked to:
 - (a) Note the content of the Annual Internal Audit Report for 2019/2020 at Appendix 2;
 - (b) Note the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's internal control environment for 2019/2020;

Background

- 13 The Public Sector Internal Audit Standards (PSIAS) established in 2013 and revised in 2017 are the agreed professional standards for internal audit in local government. PSIAS was the Code under which the Internal Audit Service operated during 2019/2020. It sets out the requirement for the Chief Internal Auditor and Corporate Fraud Manager (“Chief Audit Executive”) to report to officers and the Audit Committee (“The Board”) to help inform their opinions on the effectiveness of the Internal Control environment in operation within the Council.
- 14 The Annual Internal Audit Report should therefore be considered in the context of fulfilling the above requirement.
- 15 The annual internal audit opinion contributes to the completion of the Annual Governance Statement (AGS). It is specifically timed to be considered as part of the Council’s annual review of governance and internal control.
- 16 Internal Audit therefore has a professional duty to provide an unbiased and objective view of the Council’s Internal Control environment. Internal Audit is independent of the processes that it evaluates and as such reports to Corporate Management Team and the Audit Committee.
- 17 No system of internal control can provide absolute assurance against material misstatement or loss, nor can internal audit give absolute assurance.

Appendix 1: Implications

Legal Implications

The Accounts and Audit Regulation 2015 (Part 2, Section 5) states a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.

Completion of the Annual Internal Audit Opinion ensures compliance with both the Public Sector Internal Audit Standards 2017 and the Accounts and Audit Regulations 2015

Furthermore, internal audit assists the Corporate Director of Resources in fulfilling their duties under Section 151 of the Local Government Act 1972 which requires each Local Authority to make arrangements for the proper administration of their financial affairs.

Finance

There are no direct financial implications associated with this report.

Internal Audit work has clear and direct effects, through recommendations made, to assist in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

Consultation

All Corporate Directors, the Director of Transformation and Partnerships and all Heads of Service.

Equality and Diversity / Public Sector Equality Duty

There are no equality and diversity / public sector equality duty implications as a result of this report.

Climate Change

There are no climate change implications as a result of this report.

Human Rights

There are no human rights implications as a result of this report.

Crime and Disorder

There are no crime and disorder implications as a result of this report.

Staffing

There are no staffing implications as a result of this report.

Accommodation

There are no accommodation implications as a result of this report.

Risk

The key risk is that the Chief Internal Auditor and Corporate Fraud Manager is unable to deliver an annual opinion to inform the Annual Governance Statement. To mitigate this risk, a defined process exists within the Service to carry out effective performance management and as such assurance is reflected in reports to the Audit Committee. Any issues with performance would be reported to the Audit Committee where further action would be agreed and overseen.

Procurement

There are no procurement implications as a result of this report.

INTERNAL AUDIT

ANNUAL REPORT

2019 / 2020

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1. Introduction and Background

- 1.1 This report summarises the work carried out by internal audit during the financial year 2019/2020 and provides assurance on the effectiveness of the Council's control environment, risk management and corporate governance arrangements in place during the year.
- 1.2 The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires Local Authorities 'make arrangements for the proper administration of their financial affairs and ensure that one of its officers has responsibility for the administration of those affairs'. Authority has been delegated to the Corporate Director of Resources to fulfil this function.
- 1.3 Part 2, Regulation 5 of the Accounts and Audit Regulations 2015 requires that "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
- 1.4 From 1 April 2013 Public Sector Internal Audit Standards (PSIAS) define the proper internal control practices alongside the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note.
- 1.5 This report fulfils the requirement of PSIAS 2450 for the Chief Internal Auditor and Corporate Fraud Manager ("Chief Audit Executive") to provide an annual report to the Audit Committee ("The Board") timed to support the Annual Governance Statement (AGS).
- 1.6 The report sets out:
 - The annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
 - A summary of the audit work carried out from which the opinion is derived;
 - Details of the quality assurance arrangements in place during 2019/2020 which incorporates the outcomes of the last annual review of the effectiveness of internal audit carried out by the External Assessor in July 2016 and the self-assessment completed in June 2020 to ensure conformance with the PSIAS.

2. Service Provided and Audit Methodology

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

3. Types of Audit Work Carried Out in 2019/2020

Assurance Reviews

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

Advice and Consultancy Work

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

Counter Fraud Work

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

Grant Certification

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

4. Audit Quality Assurance Framework

- 4.1 The Internal Audit Charter sets out the performance and quality framework for the service. This reflects the requirements of the PSIAS.
- 4.2 Key elements of the quality assurance framework operating during 2019/2020 include:
- Independent quality reviews undertaken by audit managers as a matter of routine and periodically by the Chief Internal Auditor and Corporate Fraud Manager to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained.
 - Key contacts, determined by appropriate Heads of Service, agree the Terms of Reference for each audit review and are able to challenge the findings and content of draft reports prior to them being finalised.
- 4.3 A summary of our performance against agreed indicators is provided in Appendix A.
- 4.4 As at 31 March 2020, the % of planned work completed indicated that the service has achieved its target to complete 90% of the audit plan in terms of productive days.
- 4.5 The PSIAS requires that the Council completes an annual review of the effectiveness of internal audit. The outcome is reported to Audit Committee. This was last completed in the form of an external assessment in July 2016 and a self-assessment in June 2020.
- 4.6 As per PSIAS requirements, an External Assessment must be completed once every five years. An External Assessment therefore has been performed by Newcastle City Council in April 2016 and reported to management and the Audit Committee in July 2016. The assessment involved an evaluation against the requirements of PSIAS, a sample review of audit files and working papers and an interview with the Corporate Director, Resources. The external assessment concluded “Durham County Council’s Internal Audit Service **conforms** to the requirements of the Public Sector Internal Audit Standards”.

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

5.1 The main areas of improvement which were identified through the last annual review of the effectiveness of the service related to a number of areas of PSIAS compliance and progress has been made in all areas. The areas highlighted in the last review and the progress made are highlighted below:

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

On 1 April 2020 audit responsibilities were reallocated across all at Principal Auditor and Senior Auditor level. Work is regularly allocated on the basis to ensure individual auditors gain experience in a variety of areas in order to maintain their training and development. The rotation of responsibilities occurs annually.

5.2 The service has a qualified IT auditor in the service who has been in post since September 2015.

5.3 The Corporate Fraud Team influences pro-active fraud work and promotes the counter fraud strategy across the organisation.

6. Summary of Audit Work Carried Out

Assurance Work

6.1 Our work programme for the financial year 2019/2020 included work carried out between April 2019 and March 2020.

6.2 A summary of assurance work completed during the year is attached at Appendix E.

Advice and Consultancy Work

6.3 All planned reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks and the development of controls. This evaluation and challenge supports the effective and efficient use of resources and value for money (VFM).

6.4 Through our advice and consultancy work we are able to add value proactively and reactively.

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

7. Key Areas for Opinion

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

7.6 The implementation of audit recommendations made to improve the control environment helps to embed effective risk management and strengthen the effectiveness of the Council's corporate governance arrangements. Details of progress made on the implementation of all High and Medium ranking recommendations are reported quarterly to Corporate Directors and the Audit Committee. A summary of progress on actions due at the 31 March 2020 is given below:

Service Grouping	Number of Actions Due to be Implemented	Number of Actions Actually Implemented	Actions Overdue by Agreed Original Target Date	Actions with an Agreed Revised Target Date	Actions Overdue by Revised Target Date
Adult and Health Services (AHS)	67	64	3 (4%)	3	0
Children and Young People's Service (CYPS)	176	173	3 (2%)	3	0
Regeneration and Local Services (REAL)	181	165	16 (9%)	10	6
Resources (RES)	302	277	25 (8%)	25	0
TOTAL	726	679	47 (6%)	41	6

7.7 The % of audit recommendations implemented by service managers within agreed target dates continues to improve and the Council out performs many of its benchmarked comparators. This statistic stands at 94% before revised targets are incorporated, this increases to 99% if revised to include revised target dates. The remaining six outstanding actions relate to Leisure Services which at 31 March the facilities were closed and staff had been redeployed to assist with the Council's COVID-19 response. These will be followed up as soon as practically possible.

8. Audit Opinion Statement

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

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

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

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

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

8.5 We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's system of internal control. Based on the work undertaken, we are able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2019/2020. There are no qualifications to this opinion. This moderate opinion ranking provides assurance that there is a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls.

8.6 This opinion is however qualified, in light of the current coronavirus pandemic and the impact of this on the Council. The opinion given at paragraph nine is based on internal audit work undertaken, and completed, prior to emergency measures being implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short term measures or the overall impact on the framework of governance, risk management and control that have been put in place.

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

Assurance Level	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Full	7	5	N/A	N/A	N/A	N/A	N/A	N/A
Substantial	23	37	40	65	53	35	61	44
Moderate	40	60	51	60	39	34	67	46
Limited	15	10	12	6	16	22	10	7
Total	85	112	103	131	108	91	138	97

8.8 The adequacy and effectiveness of key financial controls is a consideration in our opinion. Good progress continues to be made during the year, including improvements to a number of key financial systems which has provided a better operational platform for effective financial risk management.

8.9 Policies and procedures are now in place across most key financial systems however a number of our recommendations continue to relate to non-compliance where system owners are requested to send reminders to employees or offer refresher training as appropriate.

8.10 Many of the reviews during 2019/2020 have referred to unsatisfactory compliance with the Council's Policies and Procedures. It is recognised that the Council is on a journey of Transformation and it is evident that there is a clear direction and drive from the organisation to change the culture and behaviours. This will not be a quick or easy task but the Council's previous track record holds it in good stead to achieve its objectives. Furthermore, it is important that internal audit contributes where it can to assist the organisation achieve its objectives and continually add value. Internal Audit can be a valuable tool to the Council during its Transformation and will be actively involved going forward.

8.11 In addition further work will be required in 2020/2021 on the effectiveness of the Council's Company governance. This work has been referenced in the Council's Annual Governance Statement as an area for improvement. The Chief Internal Auditor and Corporate Fraud Manager sits on a corporate group providing advice and guidance to implement improvements in the governance arrangements currently in place where the Council has a significant interest or control in a company.

- 8.12 Of the 7 Limited Assurance reports 4 were related to Schools. Internal Audit is working closely with Children and Young People's Service Grouping at root causes and have implemented a range of preventative measures to get the right messages to schools including, internal audit newsletters and face to face training sessions for Governors, Head Teachers, School Business Managers and Educational Development Partners.
- 8.13 All audits with a limited assurance opinion have disclosed at least one high risk finding or a number of medium priority recommendations and these are subject to a follow up audit six months after the final report has been issued and are reported to Audit Committee on an exception basis.
- 8.14 It is especially pleasing to note that service groupings are valuing the work of internal audit and particularly around involving us in advice and consultancy work where major systems or processes are being implemented or amended. This is illustrated in the continuing work around key financial systems, e.g. Creditors, Debtors, Payroll and the implementation of new IT software in both Adult and Childrens Services. It is therefore important that service groupings continue to engage internal audit in work of this nature where controls and processes can be evaluated before implementation.
- 8.15 Where internal audit has identified areas for improvement, recommendations are made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within target dates is high, in many cases there is a time gap between a control weakness being reported and the date determined by management for when the action can practically and realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion. Work is ongoing with management with regard to timely and realistic implementation dates for actions being agreed.

PERFORMANCE INDICATORS

Appendix A

Efficiency			
Objective: to provide maximum assurance to inform the annual audit opinion			
KPI	Measure of Assessment	Target (Frequency of Measurement)	Actual as at 31/03/2020
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% (Annually)	98%
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview	90% (Quarterly)	80% (98 out of 122)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response	95% (Quarterly)	100% (122 out of 122)
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)	Actual as at 31/03/2020
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Annually)	100%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service satisfactory or above (3 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	100% - Average score 4.7
Customers providing feedback responses	% of Customer returning satisfaction returns	70% (Quarterly)	79%
Cost			
Objective: To ensure the service is cost effective			
KPI	Measure of Assessment	Target (Frequency of Measurement)	Actual as at 31/03/2020
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average	Yes (2015/16 exercise) £226 cost per chargeable audit day.

KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2019/2020

Information Governance

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

Grant Work

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

Review of Contracts

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

Oracle Programme Board

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

Debtors Working Group

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

Procure to Pay: Performance and Improvement

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

Payroll System (ResourceLink)

The service is represented on the project board and working groups for implementing the proposed new Payroll System. Ensuring no critical controls would be lost in any system migration and that benefits can be realised from the new system appropriately. Work continues on this project.

Petty Cash / Procurement Cards

Petty Cash arrangements are being reviewed alongside the use of Procurement Cards as an alternative. The Service is represented to give advice on controls and reconciliations to be put in place and to give counter fraud guidance as applicable.

General Data Protection Regulations (GDPR)

With the implementation of the new GDPR legislation on 25 May 2018 the service has sat on both the Information Governance Group and the GDPR specific task group giving advice and guidance on controls and data protection where applicable.

SSID Replacement – Liquid Logic

Assisting the Children and Young Peoples Service with advice and guidance in terms of the required controls when changing system. Work continues this project.

SSID Replacement - Azeus

Assisting the Adult and Health Services with advice and guidance in terms of the required controls when changing system. Work continues this project.

Company Governance

Assisting the Head of Legal and Democratic Services with advice and guidance as to the proper governance structures required within the Council to effectively report on the performance of companies in which the Council has an interest or control.

KEY CONTROL ISSUES

Key Financial Systems

The main areas where improvements were identified through internal work related to cash collection, debt recovery and the timely payment of creditors. A number of control weaknesses were identified primarily due to procedures not being followed.

It should be noted that there continues to be good progress made on the implementation of audit recommendations arising from both internal work and completion of internal audit work.

Limited Assurance Opinions

During the year limited assurance opinions were delivered against the following areas with follow up working either currently being in progress or is planned to be completed in the coming months. In all cases an agreed action plan has been developed and is being implemented. The details of the issues raised can be found on Part B of the Audit Committee Papers held throughout the year. Below is a brief summary of the work that was carried out.

Leisure Centre Timesheets

A review that looked at:

- Ensuring payments to employees do not reflect actual hours worked.

High Needs Budget

A review that looked at:

- Ensuring Children/young people with SEND are provided with appropriate support to achieve their goals in life.
- Any non-compliance with Contract Procedure Rules.
- SEN funding paid to schools is appropriate.
- The panels in place for SEND are effective.
- Decision Making
- Payments
- Budget Management, forecasting and modelling.

Welfare Rights

A follow up review that looked at:

- Adherence with legislation, best practice and procedures.
- User access to relevant systems
- Information is held securely and appropriately.
- Appeals case management and tribunal representation are adequate, sufficiently recorded and evidenced.
- Performance is adequately managed and reported.

Schools

4 x Primary Schools

School reviews attempt to support each Governing Body in providing an independent assurance opinion on the school's financial management and key governance processes.

They look at the effectiveness of:

- relevant key policies and procedures;
- the arrangements in place in school to identify, assess and monitor risks;
- the control design to ensure that the school's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money.

Fraud and Irregularity

Weaknesses in control identified through fraud and irregularity investigations.

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

It should be noted that of the potential cases reported in 2019/2020, improvements in controls weaknesses were identified in many of the cases, irrespective of whether any wrong doing was substantiated.

Findings

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

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

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

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

Priority of our recommendations

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

High	Action required, that is considered imperative , to improve the control environment so that objectives are not exposed to unacceptable risks through lack of or weaknesses in critical or key controls.
Medium	Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls.
Best Practice	The issue merits attention and its implementation will enhance the control environment.

Overall Assurance Opinion

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

Substantial Assurance	There is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risks.
Moderate Assurance	Whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk.
Limited Assurance	There are weaknesses in key areas in the system of control, which expose objectives to unacceptable levels of risk.

Summary of Assurance Work 2019 / 2020

Appendix E

Service Grouping	Service	Audit Activity	Assurance Opinion
Children and Young People's Service	Children's Social Care	First Contact Service – Data Protection Issues	Moderate
Children and Young People's Service	Operational Support	Caldicott	Moderate
Children and Young People's Service	Operational Support	Section 17 – Follow Up	Moderate
Children and Young People's Service	Early Help, Inclusion and Vulnerable Children	High Needs Budget	Limited
Children and Young People's Service	Education	DurhamWorks Learning Working Earning Grant Review	Moderate
Children and Young People's Service	Education	x Schools	Substantial
		x Schools	Moderate
		4 x Schools	Limited
Regeneration and Local Services	Community Protection Services	Fair Trading – Consumer Complaints	Substantial
Regeneration and Local Services	Corporate Property and Land	Asset Valuation	Substantial
Regeneration and Local Services	Culture, Sport and Tourism	Abbey Leisure Centre	Substantial
Regeneration and Local Services	Culture, Sport and Tourism	Meadowfield Leisure Centre	Substantial
Regeneration and Local Services	Culture, Sport and Tourism	Riverside Leisure Centre	Substantial
Regeneration and Local Services	Culture, Sport and Tourism	Competition Line UK Income Share Agreement	Substantial
Regeneration and Local Services	Culture, Sport and Tourism	Consett Leisure Centre	Moderate
Regeneration and Local Services	Culture, Sport and Tourism	Louisa Centre	Moderate
Regeneration and Local Services	Culture, Sport and Tourism	Leisure Centre Timesheets	Limited
Regeneration and Local Services	Development and Housing	Safety at Sports Grounds	Substantial
Regeneration and Local Services	Environment	Durham Crematorium	Substantial
Regeneration and Local Services	Environment	Mountsett Crematorium	Substantial
Regeneration and Local Services	Environment	Public Health Funerals	Substantial
Regeneration and Local Services	Environment	Driver Checks	Moderate
Regeneration and Local Services	Transport and Contract Services	Park and Ride	Substantial
Regeneration and Local Services	Transport and Contract Services	Concessionary Fares	Substantial

Service Grouping	Service	Audit Activity	Assurance Opinion
Resources	Corporate Finance and Commercial Services	Value Added Tax	Substantial
Resources	Corporate Finance and Commercial Services	Variations	Substantial
Resources	Corporate Finance and Commercial Services	Electrical Component Contract	Substantial
Resources	Corporate Finance and Commercial Services	Off Contract Spend	Moderate
Resources	Corporate Finance and Commercial Services	Contract Procedure Rules	Moderate
Resources	Digital and Customer Services	Incident Management	Substantial
Resources	Digital and Customer Services	Oracle Licenses	Moderate
Resources	Finance and Transactional Services	Council Tax	Substantial
Resources	Finance and Transactional Services	Council Tax: Valuation – Empty Homes Review	Substantial
Resources	Finance and Transactional Services	Council Tax: Recovery	Substantial
Resources	Finance and Transactional Services	Business Rates	Substantial
Resources	Finance and Transactional Services	Business Rates: Valuation	Substantial
Resources	Finance and Transactional Services	Business Rates: Recovery	Substantial
Resources	Finance and Transactional Services	Housing Benefits and Council Tax Reduction	Substantial
Resources	Finance and Transactional Services	Housing Benefits: Overpayment Recovery	Substantial
Resources	Finance and Transactional Services	Payroll Processing	Substantial
Resources	Finance and Transactional Services	Financial Deputies (Compliance with OPG Standards)	Substantial
Resources	Finance and Transactional Services	Cash Management – Proceeds of Crime Act	Substantial
Resources	Finance and Transactional Services	Creditors Payments	Moderate
Resources	Finance and Transactional Services	Creditors: Supplier Masterfile	Moderate
Resources	Finance and Transactional Services	Creditors: System Access	Moderate
Resources	Finance and Transactional Services	Payroll: Taxation (PAYE)	Moderate
Resources	Finance and Transactional Services	Debtors: Customer Masterfile	Moderate

Service Grouping	Service	Audit Activity	Assurance Opinion
Resources	Finance and Transactional Services	Debtors: Standing Charges	Moderate
Resources	Finance and Transactional Services	Creditors: Invoice and PO Authorisation	Moderate
Resources	Finance and Transactional Services	Procurement Cards	Moderate
Resources	Finance and Transactional Services	Cash Management: Meadowfield Depot	Moderate
Resources	Finance and Transactional Services	Welfare Rights	Limited
Resources	People and Talent Management	Apprentices	Moderate
Resources	People and Talent Management	Attendance Management Framework	Moderate