

Audit Committee

30 June 2023

Annual Internal Audit Opinion and Report 2022 / 2023



Report of Paul Darby, Corporate Director of Resources

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, risk management and corporate governance arrangements in place during the year.
- 2 Members are also presented with the Annual Internal Audit Report for 2022 / 2023.

Executive Summary

- 3 The Public Sector Internal Audit Standards (PSIAS), established in 2013 (revised in 2016 and 2017), states 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 An overall opinion is the professional judgement of the Head of Internal Audit Services based primarily on the results of individual internal audit engagements and supported by incorporating other reliable assurance information.
- 5 Based on the work undertaken, we are able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of the governance, risk management and internal control operating across the Council in 2022/2023.

- 6 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. Despite the financial challenges the Council continues to face and the ever increasing diverse nature of the Internal Audit Plan this assurance opinion should be regarded as positive. This is supported by the improvements made over recent years particularly within key financial systems where significant improvements have been made in recent years.
- 7 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.
- 8 Despite the challenges faced, the Council has continued to progress a number of significant developments and projects which include the replacement of a significant IT system in Adults Social Care and various commercial investment and regeneration projects. It has actively provided information, and support to County Durham residents dealing with the economic impact of the cost of living crisis.
- 9 The Council's Company governance arrangements where the Council has a significant interest or control in a company have also continued to progress through a corporate group. During the year the Group has considered the Council's strategic approach to, and structure of, its Companies and joint venture arrangements. Updates on the Group's work are periodically presented to the Corporate Management Team, which considered proposals to amend the governance arrangements to ensure appropriate member oversight of Council companies in their capacity as shareholder.
- 10 Reviews undertaken during 2022/23 have largely resulted in substantial audit opinions being issued, particularly for the key financial systems, which is positive. Some reviews have however referred to unsatisfactory compliance with the Council's Policies and Procedures in some instances and identified weaknesses with regards to the management oversight over the operational working practices in place in some areas. It is recognised that the Council is on a continuing never ending journey in terms of strengthening its governance arrangements and internal controls. Internal audit contributes where it can to assist the organisation achieve its objectives and continually add value.

- 11 During the year internal audit issued only one 'Limited' assurance opinion which related to a school, a reduction on the previous year when there were five limited assurance opinions issued. 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.
- 12 In determining the annual assurance opinion, consideration has been given to the organisations risk management and governance arrangements, as well as to the findings contained within the Annual Protecting the Public Purse report which is being reported to this Committee meeting as a separately agenda item.

Recommendation

- 13 Members are asked to:
 - (a) note the content of the Annual Internal Audit Report for 2022/2023 at Appendix 2;
 - (b) note the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's governance, risk management and internal control environment for 2022/2023.

Background

- 14 The Public Sector Internal Audit Standards (PSIAS) established in 2013 (revised in 2016 and 2017) are the agreed professional standards for internal audit in local government. PSIAS was the Code under which the Internal Audit Service operated during 2022/2023. 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.
- 15 The Annual Internal Audit Report should therefore be considered in the context of fulfilling the above requirement.
- 16 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.
- 17 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.
- 18 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 and 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

2022 / 2023

CONTENTS

1. Introduction and Background
2. Service Provided and Audit Methodology
3. Types of Audit Work Carried Out
4. Audit Quality Assurance Framework
5. Summary of Work Carried Out
6. Key Areas for Opinion
7. Audit Opinion Statement

APPENDICES

Appendix A: Performance Indicators

Appendix B: Key Advice and Consultancy Work

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

Appendix D: Assurance Opinion Methodology

Appendix E: Summary of Assurance Work 2022/2023

1. Introduction and Background

- 1.1 This report summarises the work carried out by internal audit during the financial year 2022/2023 and provides assurance on the effectiveness of the Council's internal control environment, risk management and corporate governance arrangements in place during the year.
- 1.2 The requirement for an internal audit function is contained within 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 Internal Audit within the public sector in the United Kingdom has been governed by the Public Sector Internal Audit Standards (PSIAS) since 1st April 2013 (revised 2016 and 2017) and sets out 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 framework of governance, risk management and control (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 2022/2023 which incorporates the outcomes of the self assessment completed in February 2023 and the external quality assessment carried out by CIPFA in February 2022 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. During the year, Audit services are also provided to a number of external clients including Durham's Police and Crime Commissioner and Durham Constabulary, Durham and Darlington Fire and Rescue Authority, Peterlee Town Council, Spennymoor Town Council, Shotton Parish Council, Horden Parish Council, Monk Hesleden Parish Council, Trimdon Parish Council, Great Aycliffe Town Council, New College Durham 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 2022/2023

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 2022/2023 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 The total number of productive days available during 2022/23 was originally estimated to be 3,241. As at 31 March 2023, the service had delivered 2,595 productive days, representing 80% of the total estimated planned days for the year. The target to the end of March was for 90% to have been delivered, therefore performance was below the profiled target.
- 4.5 Throughout the year the service faced ongoing staffing shortages and operational challenges, which have continued to impact on the delivery of the overall plan. These challenges have included vacant posts (resulting in only 88% of the planned staffing level being in post through the year). Over and above this, there has also been a long-term sickness absence, of a Senior Auditor, from late September 2022 to early March 2023. As at 31 March, approximately 79% of the audits in the revised plan had been delivered.
- 4.6 As a result of the challenges facing the service, the service regularly reviews the content of the plan to ensure that the audits included in the plan are prioritised on a risk basis and to ensure that all key financial systems and high risk areas of activity are reviewed on an annual basis to ensure that the Chief Internal Auditor is able to provide an annual opinion on the adequacy of the internal control environment in place.
- 4.7 The PSIAS requires that the Council completes an annual review of the effectiveness of internal audit and that once every five years an External

Assessment must be completed, the outcome of which are reported to Audit Committee.

- 4.8 In February 2023, a self-assessment by the Chief Internal Auditor and Corporate Fraud Manager was carried against the key elements of the Public Sector Internal Audit Standards (PSIAS) and CIPFA Local Government Application Note during 2022/23 which established that the service continues to confirm to the demonstrated that the service was **conforming** with the requirements.
- 4.9 The last external assessment, carried out by the Chartered Institute of Public and Finance and Accountancy (CIPFA) in February 2022, concluded that 'Durham County Council's Internal Audit Service's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note'.

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

- 4.10 All areas of improvement which were identified by CIPFA in the last external quality assessment carried out in February 2022 have been considered and actioned as required, in accordance with the agreed timescales.
- 4.11 Furthermore, improvements identified during the self-assessment carried out by the Chief Internal Auditor and Corporate Fraud Manager in February 2023 have also been made.
- 4.12 A summary of the main improvements made to the service as a result of these reviews are highlighted below:

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

On 1 April 2022 audit responsibilities were reallocated across 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.

- PSIAS Ref 2010 - Establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

The annual Internal Audit planning process involves reviewing the organisation's risk registers to identify strategic and operational risks, as

well carrying out horizon scanning of the the organisation's macro environment to consider the inclusion of relevant emerging issues which may arise.

Once approved, the Internal Audit Plan is reviewed throughout the year and where required, changes are made to planned activities to ensure the audit plan is risk based and is consistent with the Council's objectives.

- PSIAS Ref 2030 – To ensure the that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

The service has continued to face staffing challenges throughout the year which resulted in changes been made to the staffing establishment. This involved the removal of one Principal Auditor post and 1.5 Senior Auditor posts, which were replaced with one Graduate Trainee ICT Auditor post and two Audit Assistant posts.

These changes were made following consideration of the requirements outlined within the Workforce Development Plan for the service which was finalised in September 2022.

- 4.13 The Corporate Fraud Team influences pro-active fraud work and promotes the counter fraud strategy across the organisation. Improvements have also been made during the year to improve the joint working relationships between Internal Audit and Corporate Fraud Teams to ensure that where required, improvements are made to the organisations control framework on a timely basis.

5. Summary of Audit Work Carried Out

Assurance Work

- 5.1 Our work programme for the financial year 2022/2023 included work carried out between April 2022 and March 2023.
- 5.2 A summary of assurance work completed during the year is attached at Appendix E.

Advice and Consultancy Work

- 5.3 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).

Appendix 2

- 5.4 Through our advice and consultancy work we are able to add value proactively and reactively.
- 5.5 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.
- 5.6 A summary of key advice and consultancy work completed during the year is attached at Appendix B.

6. Key Areas for Opinion

- 6.1 The four main areas of the control environment considered when determining our assurance opinion are:
- Overall Control Environment
 - Financial Management
 - Risk Management
 - Corporate Governance
- 6.2 Assurance has been provided through the review of key financial systems during the year. It is acknowledged that whilst overall assurance in relation to key financial systems remains positive, testing of the control environment in operation during the year still highlighted some weaknesses in controls.
- 6.3 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.
- 6.4 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.
- 6.5 Key issues arising from audit work where controls have improved or further improvements have been identified are summarised in Appendix C.
- 6.6 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

Appendix 2

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 2023 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)	9	8	1 (11%)	1	0
Chief Executive (CE)	1	1	0 (0%)	0	0
Children and Young People's Service (CYPS)	71	69	2 (3%)	2	0
Neighbourhoods and Climate Change	56	56	0 (0%)	0	0
Regeneration, Economy and Growth (REG)	27	27	0 (0%)	0	0
Resources (RES)	213	209	4 (2%)	4	0
TOTAL	377	370	7 (2%)	7	0

6.7 The % of audit recommendations implemented by service managers within agreed target dates remains high and the Council out performs many of its benchmarked comparators. This statistic stands at 98% before revised targets are incorporated, this increases to 100% if revised to include revised target dates.

7. Audit Opinion Statement

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

7.2 Internal Audit is required to provide an opinion on the Council's control environment, risk management and corporate governance arrangements in place during the year.

7.3 The Chief Internal Auditor and Corporate Fraud Manager is able to confirm that there has not been any impairments to the Internal Audit Service's independence and objectivity during the year.

Appendix 2

- 7.4 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.
- 7.5 In assessing the level of assurance to be given, we based our opinion on:
- All of the work undertaken by Internal Audit and the Corporate Fraud Teams 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.
- 7.6 Based on the work undertaken, we are able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of the governance, risk management and internal control operating across the Council in 2022/2023.
- 7.7 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.
- 7.8 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	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Substantial	35	61	44	22	26	51
Moderate	34	67	46	20	8	21
Limited	22	10	7	3	5	1
Total	91	138	97	45	39	73

Note: For comparison purposes previous year reported figures include school based reviews which, because of COVID, were not undertaken for the majority of 2020/21 and 2021/22

- 7.8 The adequacy and effectiveness of key financial controls is a consideration in our opinion. Good progress continues to be made in making improvements to a number of key financial systems which has provided a better operational platform for effective financial risk management and resulted in substantial assurance opinions being issued during 2022/23.
- 7.9 Policies and procedures are now in place for the majority of 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.
- 7.10 A number of internal audit reviews and fraud referrals made during the year identified unsatisfactory compliance with the Council's Policies and Procedures. It is recognised that the Council continues to be on a journey and it is evident that there is a clear direction and drive from the organisation to change the culture and behaviours. It is important that internal audit contributes where it can to assist the organisation achieve its objectives and continually add value.
- 7.11 The Annual Internal Audit Report 2019/2020 identified that further work would be required in relation to the effectiveness of the Council's Company governance arrangements and improvements continued to be made during 2022/23 through a corporate group, and where the Council has a significant interest or control in a company. The Chief Internal Auditor and Corporate Fraud Manager attends these meetings.
- 7.12 One Limited Assurance report was issued in 2022/23 which related to a School, which is a reduction on the previous years. 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 progress updates and a follow up audit approximately six months after the final report has been issued and are reported to Audit Committee/ the relevant Governing Body on an exception basis.
- 7.13 It is especially pleasing to note that service groupings continue to value the work of internal audit and particularly around involving us in advice and consultancy work both 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 in the implementation of

new IT software in Adult and Health 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.

7.14 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 31/03/2023
Productive audit time achieved	% of planned productive time from original approved plan completed as at 31 st March.	90% (Annually)	80%
Timeliness of Draft Reports	% of draft reports issued within 20 working days of end of fieldwork/closure interview	100% (Quarterly)	96% (72 out of 75)
Timeliness of Final Reports	% of final reports issued within 10 calendar days of receipt of management response	100% (Quarterly)	96% (73 out of 76)
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 31/03/2023
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)	98% (64 out of 65) Average score 4.7
Customers providing feedback responses	% of Customer returning satisfaction returns	70% (Quarterly)	83%

KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2022/2023

COVID Related Activity

In response to the considerable impact on the Council resulting from the COVID 19 pandemic, Internal Audit has continued to provide ongoing support throughout the year on a range of different COVID related activities, including an evaluation of the control framework in place on the management of the risks associated with COVID 19 related expenditure and continued with supporting the Corporate Fraud Team with investigations.

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 across the organisation, as well as for some school. Such work adds value by ensuring no grant is lost through claw back or reputational damage that may impact on future external funding opportunities.

Business Energy Efficiency Project (BEEP)

The Business Energy Efficiency Project (BEEP) is an ERDF funded scheme to enable the provision of professional advice and grant funding to assist qualifying businesses in improving their energy efficiency performance.

The work carried out involved reviewing a sample of claims to determine whether the evidence available met the requirements of the funding scheme and provided support to Neighbourhoods and Climate Change with regards to the control improvements required .

Payroll System (ResourceLink)

Attending meetings to provide advice and support on the ongoing development of the Payroll System.

SSID Replacement - Azeus

Assisting the Adult and Health Services with advice and guidance in terms of the required controls following system implementation. Work continues with 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.

RIPA Officers Group

The service is represented on the corporate RIPA Officers Group to ensure robust working relationships are in place with other DCC Officer and to provide counter fraud guidance with regards to in place across the council.

KEY CONTROL ISSUES

Key Financial Systems including COVID Related Activity

Internal Audit has undertaken range of COVID related activities during the year to provide an evaluation of the control framework in place on the management of risks associated with COVID 19 related activity and in supporting the Corporate Fraud Team with investigations.

Limited Assurance Opinions

During the year one limited assurance opinion was delivered for a school, for which an agreed action plan has been developed and work is in the process of being implemented. A follow up work is planned to be completed in the coming months.

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 November 2022 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.

Assurance Opinion Methodology

Appendix D

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)

Appendix 2

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 2022 / 2023

Appendix E

Service Grouping	Service	Audit Activity	Assurance Opinion
Adult and Health Services	Adult Care	Workforce Development Fund	Substantial
Adult and Health Services	Adult Care	Hawthorn House – Financial Systems Review)	Substantial
Adult and Health Services	Adult Care	Personalisation – Virtual Budgets	Substantial
Adult and Health Services	Public Health	Real Time Data Surveillance System (Suicide Early Alert)	Substantial
Chief Executive	Corporate Affairs	Equality, Diversity and Community Cohesion	Moderate
Chief Executive	Corporate Affairs	Data Quality	Moderate
Children & Young People's Services	Children's Social Care	Youth Justice Management Information System (Childview)	Substantial
Children & Young People's Services	Children's Social Care	Moorside Children's Home	Substantial
Children & Young People's Services	Children's Social Care	New Lea Children's Home	Substantial
Children & Young People's Services	Children's Social Care	Hickstead Children's Home	Substantial
Children & Young People's Services	Children's Social Care	Hickstead Children's Home	Moderate
Children & Young People's Services	Education and Skills	Durham Learn	Moderate
Neighbourhoods and Climate Change	Community Protection Services	Online Licence Applications	Substantial
Neighbourhoods and Climate Change	Partnerships and Community Engagement	COVID-19 Area Budgets	Substantial
Neighbourhoods and Climate Change	Environment	Durham Crematorium	Substantial
Neighbourhoods and Climate Change	Environment	Mountsett Crematorium	Substantial
Regeneration, Economy and Growth	Corporate Property and Land	Potentially Violent Persons Register	Moderate
Regeneration, Economy and Growth	Corporate Property and Land	The Sands – Contract Management	Substantial

Appendix 2

Service Grouping	Service	Audit Activity	Assurance Opinion
Regeneration, Economy and Growth	Corporate Property and Land	Asset Valuation	Substantial
Regeneration, Economy and Growth	Culture, Sport and Tourism	Peterlee Leisure Centre	Substantial
Regeneration, Economy and Growth	Culture, Sport and Tourism	Seaham Leisure Centre	Substantial
Regeneration, Economy and Growth	Planning and Housing	Local Lettings Agency Governance	Substantial
Regeneration, Economy and Growth	Planning and Housing	Planning Applications	Substantial
Resources	Transactional and Customer Services	Business Rates – Overarching Report	Moderate
Resources	Transactional and Customer Services	Business Rates – Liability	Substantial
Resources	Transactional and Customer Services	Creditors - Processing of Payments through ContrOCC	Substantial
Resources	Transactional and Customer Services	Debtors (Refunds)	Substantial
Resources	Transactional and Customer Services	Debtors (Direct Debits)	Substantial
Resources	Transactional and Customer Services	Cash Management	Moderate
Resources	Transactional and Customer Services	Cash Management – Crook CAP	Substantial
Resources	Transactional and Customer Services	COVID-19 Small Business Rates Relief	Moderate
Resources	Transactional and Customer Services	COVID-19 Retail, Hospitality and Leisure Grant Fund	Moderate
Resources	Transactional and Customer Services	Housing Benefit Award Accuracy Initiative	Substantial
Resources	Corporate Finance and Commercial Services	Short Term Investment	Substantial

Appendix 2

Service Grouping	Service	Audit Activity	Assurance Opinion
Resources	Corporate Finance and Commercial Services	Bank Reconciliation Process	Substantial
Resources	Corporate Finance and Commercial Services	Banking Arrangements	Substantial
Resources	Digital Services	Business Continuity for ICT	Moderate
Resources	HR and Employee Services	Payroll - MyView – Establishment Changes	Substantial
Resources	HR and Employee Services	Payroll - Preparation - Corrections	Substantial
Resources	Procurement, Sales and Business Services	Creditors	Moderate
Resources	Procurement, Sales and Business Services	Contract Procedure Rules (CPRs)	Moderate
Resources	Pension Fund	Pension Fund: ICT Controls, Data Quality and Performance	Substantial
Resources	Pension Fund	Pension Fund: Benefit Calculations	Substantial
Resources	Pension Fund	Pension Fund: Bank Reconciliation	Substantial
Resources	Pension Fund	Pension Fund: Admission Bodies and Funding Risks	Substantial
School Audit Reviews			
Children & Young People's Services	Primary Schools	Lumley Junior School	Substantial
Children & Young People's Services	Primary Schools	Lumley Infants and Nursery School	Substantial
Children & Young People's Services	Primary Schools	Nettlesworth Primary School	Substantial
Children & Young People's Services	Primary Schools	Cothelstone Primary School	Substantial
Children & Young People's Services	Primary Schools	Catchgate Primary School	Substantial
Children & Young People's Services	Primary Schools	Burnhopefield Primary School	Substantial
Children & Young People's Services	Primary Schools	Leadgate Primary School	Limited
Children & Young People's Services	Primary Schools	Delves Lane Primary School	Moderate
Children & Young People's Services	Primary Schools	Consett Junior School	Substantial
Children & Young People's Services	Primary Schools	Crook Primary School	Moderate

Appendix 2

Service Grouping	Service	Audit Activity	Assurance Opinion
Children & Young People's Services	Primary Schools	Stanley Crook Primary School	Substantial
Children & Young People's Services	Primary Schools	Willington Primary School	Moderate
Children & Young People's Services	Primary Schools	Byers Green Primary School	Moderate
Children & Young People's Services	Primary Schools	Toft Hill Primary School	Substantial
Children & Young People's Services	Primary Schools	Cockton Hill Junior School	Moderate
Children & Young People's Services	Primary Schools	Cockfield Primary School	Moderate
Children & Young People's Services	Primary Schools	Pittington Primary School	Moderate
Children & Young People's Services	Primary Schools	Ludworth Primary School	Substantial
Children & Young People's Services	Primary Schools	West Rainton Primary School	Moderate
Children & Young People's Services	Primary Schools	Neville's Cross Primary School	Moderate
Children & Young People's Services	Primary Schools	Belmont Cheveley Park Primary School	Substantial
Children & Young People's Services	Primary Schools	Acre Rigg Infant School	Substantial
Children & Young People's Services	Primary Schools	Sedgefield Primary School	Substantial
Children & Young People's Services	Primary Schools	Benfieldside Primary School	Substantial
Children & Young People's Services	Primary Schools	Belmont CE Controlled Primary School	Moderate
Children & Young People's Services	Primary Schools	Shincliffe CE Controlled Primary School	Substantial
Children & Young People's Services	Primary Schools	Bowes Hutchinson's C. E. (Aided) Primary School	Substantial
Children & Young People's Services	Primary Schools	Prince Bishops Community Primary	Substantial