

Audit Committee

31 May 2012



Compliance with International Auditing Standards

Report of the Manager of Internal Audit & Risk

Corporate Director Resources, Don McLure

Purpose of the Report

1. The purpose of this report is to seek Members' approval to a draft response from the Chair of the Audit Committee relating to a letter sent from the Audit Commission regarding compliance with International Auditing Standards.

Background

2. As part of the 2011/12 final accounts audit process, the external auditor is required to comply with a number of International Standards on Auditing and needs to obtain an understanding from 'those charged with governance' of the processes regarding fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements. This covers the opinion on the Council's 2011/12 accounts including the pension fund accounts.
3. A copy of the letter from the Audit Commission and a copy of the response provided by the Corporate Director Resources, in relation to a similar request, are attached for your assistance as Appendices 2 and 3.
4. The proposed draft response from the Audit Committee is attached at Appendix 4.

Recommendation

5. Members are requested to note the response provided by the Corporate Director Resources and to approve the response to be provided by the Audit Committee.

Contact: Avril Wallage, Manager of Internal Audit & Risk, Tel 0191 383 3537

Appendix 1: Implications

Finance

No direct financial implications

Risk

None

Staffing

None

Equality and Diversity / Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human Rights

None

Consultation

None

Procurement

None

Disability Discrimination

None

Legal Implications

None

Our reference DU08812A

13 January 2012

Eddie Bell
Chair Audit Committee
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Dear Mr Bell

Audit of Durham County Council's Financial Statements 2011/12 including the Pension Fund Accounts - Compliance with International Auditing Standards

In order to comply with a number of International Standards on Auditing (ISA (UK&I) 240, 250, 501 and 570) we are required to obtain an understanding from 'those charged with governance' of the processes with regard to fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements. This covers the opinion on the Council's 2011/12 accounts including the pension fund accounts.

International Standard for Auditing (UK and Ireland) 240 - The auditor's responsibility to consider fraud in an audit of financial statements

Background

- 1 Under the ISA, the primary responsibility for preventing and detecting fraud rests with both management and 'those charged with governance', which for the Council is the Audit Committee.
- 2 This includes fraud that could impact on the accuracy of the annual accounts.
- 3 The ISA requires us, as external auditors, to obtain an understanding of how the Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

What is 'fraud' in the context of the ISA?

- 4 The ISA views fraud as either:
 - the intentional misappropriation of the Council's assets (cash, property, etc); or
 - the intentional manipulation or misstatement of the financial statements.

What are we required to do?

- 5 We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA+240. We are therefore making requests from the Audit Committee and management on the following, or similar, issues:
- 1) How does the Audit Committee, in its role as those charged with governance, exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
 - identifying and responding to risks of fraud in the organisation, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
 - communicating to employees of views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the organisation's code of conduct); and
 - communicating to those charged with governance the processes for identifying and responding to fraud or error
 - 2) How does the Audit Committee oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control? Is the Audit Committee aware of any breaches of internal control during 2011/12?
 - 3) Has the Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?
 - 4) Has the Audit Committee any suspicion that fraud may be occurring within the organisation?
 - Has the Audit Committee identified any specific fraud risks within the organisation?
 - Does the Audit Committee have any concerns that there are areas within the organisation that are at risk of fraud?
 - Are there particular locations within the organisation where fraud is more likely to occur?
 - 5) Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively?
 - If not, where are the risk areas?
 - What other controls are in place to help prevent, deter or detect fraud?
 - 6) Is the Audit Committee satisfied that staff are encouraged to report their concerns about fraud, and the types of concerns they are expected to report?

- 7) From a fraud and corruption perspective, what are considered by the Audit Committee to be high risk posts within the organisation?
 - How are the risks relating to these posts identified, assessed and managed?
- 8) Is the Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud?
 - How are the risks associated with fraud related to such relationships and transactions mitigated?
- 9) Is the Audit Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?
 - Are there particular balances where fraud is more likely to occur?
 - Is the Audit Committee aware of any assets, liabilities or transactions that it believes were improperly included or omitted from the accounts of the organisation?
 - Could a false accounting entry escape detection? If so, how?
 - Are there any external fraud risk factors which are high risk of fraud?
- 10) Is the Audit Committee aware of any organisational, or management pressure to meet financial or operating targets?
 - Is the Audit Committee aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?

International Standard for Auditing (UK and Ireland) 250 – Consideration of laws and regulations in an audit of financial statements

Background

6. Under the ISA, in the UK and Ireland, the primary responsibility for ensuring that the entity's operations are conducted in accordance with laws and regulations and the responsibility for the prevention and detection of non compliance rests with management and 'those charged with governance', which for the Council is the Audit Committee.
7. The ISA requires us, as external auditors, to obtain an understanding of how the Committee gains assurance that all relevant laws and regulations have been complied with.

What are we required to do?

8. We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA+250. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:
 - How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with. For example:
 - Is the Committee aware of the process management has in place for identifying and responding to changes in laws and regulations?
 - What arrangements are in place for the Committee to oversee this process?

- Is the Committee aware of the arrangements management have in place, for communicating with employees, non-executive directors, partners and stakeholders regarding the relevant laws and regulations that need to be followed?
- Does the Committee have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with, and if so is it aware of what actions management is taking to address it?

International Standard for Auditing (UK and Ireland) 501 – Specific consideration of the potential for, and actual, litigation and claims affecting the financial statements

Background

9. This ISA deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence, in this instance with respect to the completeness of litigation and claims involving the entity.
10. The ISA requires us, as external auditors, to design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement.

What are we required to do?

11. We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA+501. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:
 - Is the Audit Committee aware of any actual or potential litigation of claims that would affect the financial statements?

International Standard for Auditing (UK and Ireland) 570 – Consideration of the going concern assumption in an audit of financial statements

Background

12. Financial statements are generally prepared on the basis of the going concern assumption. Under the going concern assumption, an audited body is ordinarily viewed as continuing in operation for the foreseeable future. Accordingly, assets and liabilities are recorded in financial statements on the basis that the audited body will be able to realise its assets and discharge its liabilities in the normal course of its operations.

What are we required to do?

13. If used, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements if we are to properly discharge our responsibilities under ISA+570. We are therefore making the following request from the Audit Committee:
 - How has the Audit Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

- Has the Audit Committee identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?

A brief response, on behalf of management, before 30 April 2012 to the above issues would be much appreciated. If in the meantime you have any queries, please let me know.

Yours sincerely

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Audit Manager

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30th April 2012

Dear Catherine,

Audit of Durham County Council's Financial Statements (including Pension Fund Accounts) - Compliance with International Auditing Standards

With reference to your letter dated 12th January 2012 I would like to make the following comments:

ISA + 240 - Management processes in place in relation to fraud

1. ***We seek an understanding of management's assessment of the risk that the financial statements may be misstated due to fraud.***
 - a). ***Does management undertake its assessment of the risk of that the financial statements may be materially misstated due to fraud and error (including the nature extent and frequency of these assessments?)***

Management's assessment of the risk that the financial statements may be misstated due to fraud or error is informed by consideration of various sources of assurance on the adequacy of the control environment relating to key financial systems. Sources of assurance include front line service managers supervisory controls, corporate risk management arrangements and performance management arrangements. Internal Audit review key financial systems on an annual basis, using a risk based approach, to provide independent assurance that expected controls are effective in reducing the likelihood of material fraud or error. Internal audit will also consider financial risks as part of planned assurance reviews of key service activities agreed in annual audit plans. The risk based approach used by internal audit involves working with services managers to agree and assess key risks, key controls and other assurance sources using a Control Risk Assessment (CRA) methodology This enables audit resources to be targeted to high risk areas where there is little or no assurance. At the end of the audit the CRA is updated with details of actual controls in place which provides a basis for responsible officers to carry out Control Risk Self Assessments (CRSA).

Assurance is also provided by the external auditor and other external review agencies e.g HM Revenues and Customs. Any agreed actions to improve the control environment are regularly monitored to ensure they are implemented in a timely manner.

Ongoing consideration of the various sources of assurance allow for continuous assessment of the risk of material misstatement. Risks will also be assessed as part of the planning and preparation of annual internal audit plans..

b) What is management's process for identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist?

Managers are responsible for the implementation of controls to reduce the likelihood and / or impact of fraud occurring in their service areas.

The risk of fraud and corruption is recognised as a strategic risk and monitored through the Corporate Risk Management process.

The Head of Internal Audit is responsible for the development and effective implementation of the Council's Counter Fraud and Corruption Strategy and leads on a number of initiatives to help combat fraud through raising awareness of the risks, supported through a dedicated Counter Fraud Officer. Fraud and corruption risks will be considered in consultation with service managers as part of the CRA process outlined above.

The Council has a Benefits Fraud and Error Team that raises awareness of the risk of benefit fraud and investigates suspected cases.

Internal Audit assess the fraud risks to which the Council may be exposed on an annual basis as part of the annual audit planning process and make provision within annual audit plans for conducting a number of specific counter fraud reviews aimed to prevent and detect fraud in high risk areas. This annual assessment will consider risks identified externally such as those highlighted in the Audit Commission's publication "Protecting the Public Purse and the National Fraud Authority's, "Fighting Fraud Locally", the National Anti Fraud Network (NAFN) and various audit/counter fraud networking groups.

The Council's Counter Fraud Strategy is supported by a Fraud Response Plan that sets out the process to be followed if fraud is suspected.

All cases of suspected corporate fraud must be reported to the Head of Internal Audit, who will then agree, with the appropriate officers, how the matter will be investigated.

The Counter Fraud Officer keeps a register of all suspected cases of corporate fraud and monitors and reports upon counter fraud activities.

The Council has a zero tolerance approach to fraud and proven cases will be dealt with under the appropriate disciplinary procedures and, if considered appropriate, a referral to the Police will be made. Wherever possible sums lost will be recovered through whatever means are available to the Council.

The investigation and outcomes of all cases of corporate fraud are monitored and reported as part of Internal Audit's quarterly progress reporting to Corporate Directors. In addition a bi annual fraud report is prepared for consideration of the Corporate Management team summarising counter fraud initiatives, new and emerging risks, reported cases and outcomes.

Control weaknesses identified as a result of reported suspected cases will be reviewed in consultation with service managers to reduce the impact or likelihood of the risk of reoccurrence. Any recommendations made to improve the control environment will be monitored by Internal Audit

c) What arrangements does management have in place to communicate to employees regarding its views on business practices and ethical behaviour (for example by updating, communicating and monitoring against the Council's Code of Conduct).

The Employee Code of Conduct is part of the induction package for all new starters and is easily accessible on the Council's Website and intranet. It is reviewed annually and employees are regularly reminded of their responsibilities under the Code through various means of communication e.g Employee Updates. There is also a link to the Code of Conduct in the Counter Fraud Strategy that is also widely communicated to employees. Support is also provided for Schools and Governors in raising fraud awareness.

More counter fraud work is planned to help embed and maintain a strong counter fraud culture across the whole Council, including the development of online fraud awareness training for all managers and employees. This will include links to the Council's Code of Conduct.

d) How does management communicate the processes for identifying and responding to fraud or error to the Audit committee?

Bi-annual reports are made to the Audit Committee on counter fraud activity, reported and investigated cases and outcomes.

Any amendments required to the Council's Counter fraud Strategy, Fraud Response Plan, Anti Money Laundering Policy, and Confidential Reporting Code (Whistle Blowing Policy) are reported to the Audit Committee for approval.

New and emerging fraud risks will be brought to the Audit Committee's attention when annual audit plans are presented for approval and through quarterly Internal Audit Progress reports.

2) Does management have knowledge of any actual, suspected or alleged fraud, either within the Council as a whole or within your department during the period 1/4/2011 to 31/3/2012? If so, what actions is management taking to address?

Management is aware of a number of proven and potential frauds. The majority of cases relate to housing benefit that have either been disclosed through data matching exercises (Audit Commission and the Housing Benefit Service) or through its own fraud and error investigative procedures. Action taken in response to proven housing benefit fraud is in accordance with the Council's Housing Benefit Sanction Policy. This involves recovery action through court prosecution, or the imposing of administrative penalties or cautions, as considered most appropriate in accordance with the sanction policy.

Details of all actual, suspected or alleged fraud and action taken in response are as reported by the Head of Internal Audit through bi- annual reports.

3. Does management have any suspicion that fraud may be occurring within the organisation?

Within any organisation of the size of Durham County Council there is the potential for fraud to be occurring. However, the policies, procedures and processes outlined above and the continual further development of raising fraud awareness seek to further embed a strong counter fraud culture and minimise the risk.

Specific fraud risks within the Council are identified through the internal audit fraud risk assessment process, based on the monitoring and investigation of reported cases consideration of the overall control environment operating within the Council and national fraud risk indicators.

Management is aware that the extent of change across the Council together with the current economic climate has increased the risk of fraud and corruption. All suspicions reported by management referred to Internal Audit are as captured in bi annual reports to CMT and Audit Committee.

4. Is management satisfied that internal controls, including segregation of duties, exist and work effectively?

Independent assurance on the effectiveness of the control environment is provided through the work of Internal Audit as reported through individual audit reports, quarterly progress reports and the Annual Audit Report. The latter is yet to be finalised for 2011/12 but will be considered by CMT and the Audit Committee shortly.

Corporate Directors also consider other assurance sources and the effectiveness of internal controls operating within their service groupings when providing assurance statements in support of the Council's Annual Governance Statement (AGS). This is currently being prepared and will be reported in CMT and Audit Committee in June.

5. Is management satisfied that staff are encouraged to report their concerns about fraud, and the types of concerns they are expected to report?

The Council has a Confidential Reporting Code (Whistle Blowing Policy) that is effectively communicated through staff induction and is easily accessible. Work continues to be undertaken as part of the "Combating fraud through awareness", campaign, reminding staff of their responsibilities to report any concerns, the types of concern they should report and how to do this. Information is available, internally through the intranet and also externally, for members of the public, through the internet, and details several methods of reporting suspected breaches.

6. Is management aware of the posts which are considered to be high risk from a fraud and corruption perspective and what action has been taken to manage this risk?

Discussions on the risk of fraud and corruption are held with senior management as part of the consultation process on the preparation of annual audit plans and managers reminded of their responsibilities for ensuring that adequate controls are implemented to manage any identified risks.

Fraud awareness training continues to be developed that is planned to be rolled out to all employees and further training will be targeted to those staff working in higher risk areas.

Internal Audit devise an annual counter fraud programme of work, agreed by Corporate Management Team and the Audit Committee as part of their annual audit plan, to provide independent assurance that internal controls are operating effectively in high risk areas.

Fidelity guarantee insurance is in place.

7. Is management aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to such relationships and transactions

The Council has an employee Code of Conduct in place which clearly communicates the responsibilities of staff and requires officers to complete declarations of interest where appropriate. It is management's responsibility to ensure compliance with this Code and to monitor the nature of any interests declared.

The Council has a member's Code of Conduct in place which clearly communicates the responsibilities of members, during meetings, with regard to declarations of interests. Procedures are in place for the recording, maintaining and monitoring of such declarations.

A register of interests of members and co-opted members of the council, as required under section 81(1) of the Local Government Act 2000, is maintained which details the declaration of financial and other interests.

All Members and the corporate management team are required to complete an annual return of related party relationships and transactions and guidance notes have been issued to support their completion. Where any related transactions are declared extracts are obtained from Accounts Payable to identify actual payments made and reviewed. A list showing all such transactions for 2011/12 is currently being compiled by strategic finance.

In addition, Internal Audit carries out periodic reviews of all employees and members declarations to help identify any potential undeclared relationships and or fraudulent transactions. The latest reviews relating to 2011/12 involved an examination of data matches identified through the 2010-11 NFI exercise as at October 2010 (Reports 80 and 81) and a review of the similar outputs from our own data matching exercise covering the period Oct 2010-Dec 2011. Testing is complete and draft reports detailing the findings are due to be issued shortly. Further work is planned to help identify any potential undeclared interests/related party transactions through known applicable web based search sites.

8. Is management aware of any entries made in the accounting records of the Council that it believes or suspects are false or intentionally misleading?

Given the size and complexity of transactions reflected in the Council's accounting records there is always the potential for error or false accounting that could escape detection. However internal controls and assurance on their effectiveness provides reasonable assurance that any such error would not be material.

I am not aware of specific entries that I believe are false or intentionally misleading.

9. Are you aware of any organisational, or management pressure to meet financial or operating targets?

I am not aware of any inappropriate organisational or management pressures being applied or incentives offered to anyone to meet financial or operating targets.

ISA+250 - Management processes in place in relation to compliance with relevant laws and regulations

10. How does management gain assurance that all relevant laws and regulations have been complied with?

The Council has a local Code of Corporate Governance developed in accordance with CIPFA/SOLACE guidance. This Code is part of the Council's Constitution and is communicated internally and externally. This is reviewed annually and corporate governance arrangements in place, including those relating to compliance with relevant laws and regulations are regularly assessed by senior officers. The AGS must be approved by the Corporate Management Team and the Audit Committee.

The Council's Monitoring Officer, the Head of Legal and Democratic Services, is generally responsible for ensuring that all laws and regulations impacting on County Services are disseminated to appropriate service managers and will

arrange to brief the Corporate Management Team and Cabinet as considered appropriate on legal issues. Service managers are responsible for ensuring that laws and regulations relevant to their service area are complied with and for ensuring that any legal implications are identified and considered when any reports requiring key decisions are presented to Cabinet.

The Council's Financial Procedure Rules, which are also part of the Council's Constitution, provide the framework for managing the Council's financial affairs. There is specific provision within these procedures for the Chief Financial Officer to report to full Council, and to the Council's external auditors, if the Council or one of its officers:

- Has made, or is about to make a decision which involves incurring expenditure which is unlawful
- Has taken or is about to take any unlawful action which has resulted in a loss or deficiency to the Council
- Is about to make an unlawful entry in the Council's accounts.

I am not aware of any such issue having being reported.

Arrangements have been put in place within ACE to prepare regular updates on new central government initiatives and consultation exercises which are circulated to senior managers as an early warning of potential new legislation and regulations.

Assurance that risks around compliance with laws and regulations are being effectively managed is provided through the Council's risk management processes.

Internal audit carry out periodic reviews of the control framework in place for ensuring that services keep abreast of any changes to legislation impacting on their operations and carry out compliance testing.

Other functions within the Council also provide assurance on compliance e.g Quality assurance audits within AWH and Health and Safety inspections.

Some external assurance is also provided through external inspection and review bodies.

11. Are management aware of any instances where the Council has not complied with any laws or regulations during 2011/12?

I am aware of a number of cases involving actual and potential litigation action against the Council, that if proven may indicate non compliance with legislation in a variety of subject areas. Records of all such cases are captured in a database maintained by Legal Services as and when cases are referred to them for advice.

ISA+501 - Litigation and claims that would effect the financial statements

12. Are management aware of any actual or potential litigation or claims involving the Council which may result in a material misstatement of the financial statements?

The value of individual potential claims are not currently held on the central data base, although services are advised of any potential financial implications and these will be supported by records on individual case files held within Legal Services. Collectively, potential values are not considered to be material although I am aware of some cases where a contingent liability and / or provision may be necessary. For example, I am aware that the Council is involved in defending a

class action relating to land charges fees. Provision has been made in reserves based upon possible restitution of fees, but the litigants are represented by lawyers who may be widening the scope of the litigation. The council is using LGA organised external lawyers to represent its interests.

We are currently reviewing our arrangements for monitoring and reporting of financial risks associated with all potential litigation claims to ensure any uninsured risks are appropriately reflected in the financial statements and any incidences of non compliance with legal requirements are identified and corrective action taken to avoid a reoccurrence. Any individual cases with a significant value are brought to the attention of the appropriate Service Director and Director of Resources.

Yours sincerely

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Corporate Director Resources

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17th May 2012

Dear Catherine,

Audit of Durham County Council's Financial Statements (including Pension Fund Accounts) - Compliance with International Auditing Standards

I refer to your letter dated 13 January 2012 regarding the above.

The Committee have noted the response provided by Don McLure as the Section 151 Officer, in relation to the management arrangements in place for those areas covered by the International Auditing Standards you refer to, and would like to add the following comments from the Audit Committee's perspective.

ISA + 240 - Management processes in place in relation to fraud

How does the Audit Committee exercise oversight of the management processes in place relating to fraud?

The Audit Committee is responsible for considering proposed changes to the Council's Counter Fraud and Corruption Strategy and supporting Fraud Response Plan, prior to approval by Cabinet, and is therefore well aware of the management processes in place for identifying and responding to the risk of fraud. The Audit Committee also has responsibility for reviewing the Council's Anti Money Laundering and Whistle Blowing Policies and for monitoring their effectiveness.

The Audit Committee receives updates, twice a year, on Counter Fraud Activity and is aware of a number of actions being undertaken or planned to help embed a strong counter fraud culture.

The Committee is kept informed of the Audit Commission's National Fraud Initiative exercise and the outcomes. The Committee is also kept informed of key messages from other national initiatives and publications that highlight potential fraud risks that the Council could be exposed to e.g the Audit Commission's, "Protecting the Public Purse", and is therefore able to challenge how the risk of fraud and corruption is being managed within the authority and to seek assurance that management arrangements in place are effective.

Members of the Committee are aware of how to report any suspected fraud and are satisfied that staff are encouraged to report their concerns about fraud.

The Audit Committee is aware that all suspected cases of corporate fraud must be reported to the Head of Internal Audit and are advised of all cases reported. Bi

annual fraud reports also advise the Committee of the number of cases handled by the Housing Benefit Fraud and Error Team.

The Committee approve annual internal plans and provide challenge to counter fraud audit work planned each year to ensure that adequate assurance is provided on high fraud risk areas.

The Committee receive independent assurance that internal controls exist and work effectively, or otherwise, from the work undertaken by internal and external audit. Any significant control weaknesses are brought to the Committee's attention and the Committee monitors progress made by management in implementing agreed recommendations to improve controls.

The Committee is aware that internal controls evaluated by internal and external audit will include those controls managers have put in place to mitigate the risk of fraud and corruption.

As the risk of fraud and corruption has been recognised as a Corporate Strategic Risk the Audit Committee is kept informed of how this risk is being managed as part of quarterly risk management update reports.

The Audit Committee maintains an oversight of management processes in place for assessing the risk that the financials statements may be materially misstated by considering all the sources of assurances it has available to it on the effectiveness of the control environment. These sources include Internal Audit, External Audit, management (throughout the Council), risk management, section 151 and monitoring officer and other external review bodies.

The Committee is responsible for considering any proposed amendments to the Council's Code of Local Governance prior to approval by Full Council, and maintains an understanding of key corporate policies and procedures that are an integral part of the Council's Internal Control Framework to help mitigate the risk of fraud e.g. officers and members code of conducts, financial procedure rules, contract procedure rules, officer scheme of delegations, complaints procedures and performance management arrangements.

The Committee is aware of the processes in place to identify related party transactions and the relevant reporting requirements for this.

The Committee is not aware of any specific entries made in the accounting records of the Council that it believes or suspect are false or intentionally misleading.

The Committee is not aware of any inappropriate organisational or management pressure to meet financial or operating targets.

ISA+250 - Management processes in place in relation to compliance with relevant laws and regulations

How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?

The Audit Committee is responsible for the annual review of the Council's Local Code of Corporate Governance and approving the Annual Governance Statement and is therefore aware of management arrangements in place for identifying and

responding to changes in laws and regulations and any significant governance issues arising as a result.

The Audit Committee gains independent assurance over the effectiveness of the arrangements in place through the work of Internal and External Audit and other external review bodies.

The Audit Committee receives regular updates on the management of strategic risks that include risks relating to non compliance with laws and regulations e.g. “serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO”.

ISA+501 – Specific consideration of the potential for, and actual litigation and claims affecting the financial statements

The Audit Committee note the current review of the monitoring and reporting of financial risks associated with potential litigation claims and will seek to gain assurance that revised processes are effective and any significant risks or control implications are brought to its attention.

ISA+570 – Consideration of the going concern assumption in an audit of financial statements

The Audit Committee has not as yet considered whether or not it is appropriate to adopt the going concern basis in preparing the financial statements of the Council and the Pension Fund but will seek assurance from the Corporate Director Resources on this issue.

Yours sincerely

Edward Bell
Chair of Durham County Council Audit Committee