Audit Committee

28 June 2012

Annual Internal Audit Report 2011/12

Report of Manager of Internal Audit and Risk

Don McLure, Corporate Director Resources

Purpose of the Report

1.   The purpose of this report is to present the Annual Internal Audit Report for 2011/12. (Copy attached at Appendix 2).

Background

2.   The Council has a responsibility for maintaining sound systems of internal control that support the achieving of its objectives and for reviewing their effectiveness.

3.   This report fulfils the requirement of the CIPFA Code of Practice for the Head of Internal Audit to provide, "a written report to those charged with governance timed to support the Statement of Internal Control", which is now incorporated as part of the Council's Annual Governance Statement.

4.   The Annual Internal Audit Report should therefore be considered in the context of fulfilling the requirement to provide an opinion on the overall adequacy and effectiveness of the Council's control environment during the year, and how this opinion has been derived.

5.   The opinion on the control environment and any significant issues arising will be reflected in the Council's Annual Government Statement which will be published as part of the Council's Annual Governance Statement of Accounts for 2011/12.

6.   Based on the work undertaken, Internal Audit is able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2011/12. This moderate opinion ranking is the same as 2010/11 and provides assurance that there is basically a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls. Control objectives are however often achieved in all service groupings across the Council.

Recommendation

7.   Members note the content of the Annual Internal Audit Report and the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's control environment for 2011/12.

Contact: Avril Wallage   Tel: 0191 383 3537

Appendix 1: Implications

Finance

There are no direct financial implications arising for the Council as a result of this report, although we aim through our audit planning arrangements to review core systems in operation and ensure through our broad programme of work that the Council has made safe and efficient arrangements for the proper administration of its financial affairs.

Staffing

None

Risk

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

Equality and Diversity / Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability issues

None

Legal Implications

None

DURHAM COUNTY COUNCIL

Internal Audit

Annual Report
2011-2012

LIST OF CONTENTS

Appendices

Introduction

1.   This report summarises work carried out by internal Audit during the financial year ended 31/3/2012 and provides assurance on the effectiveness of the Council's control environment, risk management and corporate governance arrangements in place during the year.

Background

2.   The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires that Local Authorities to, "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".
.
3.   The Accounts and Audit (England) Regulation 2011 requires the Council to, "undertake an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control". The Council has delegated this responsibility to the Corporate Director Resources and the Internal Audit and Risk service carry out the Internal Audit Role.
.
4.   The guidance accompanying the legislation states that proper internal control practice for internal audit is that contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom

5.   This report fulfils the requirement of the CIPFA Code of Practice for the Head of Internal Audit to provide, "a written report to those charges with governance timed to support the Statement of Internal Control", which is now incorporated as part of the Council's Annual Governance statement.

Service Provided and Audit Methodology

6.   Internal Auditing is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.

7.   The primary objective of Internal Audit is to provide an independent and objective opinion on the Council's control environment.

8.   The Internal Audit Charter, agreed by the Audit Committee, establishes and defines the terms of reference and audit strategy for how the service is to be delivered.

9.   Audit services are also provided to a number of external clients including the Durham Police Authority, Durham and Darlington Fire & Rescue Authority and the Durham and Mountsett Crematoria Joint Committees.

10. The service is also responsible for the audit of the Durham County Pension Fund.

11. The agreed audit strategy to provide independent assurance, as detailed in the Internal Audit Charter, 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 5 year programme (Strategic 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 systems
- To use a Control Risk Assessment (CRA) methodology to focus audit resources on providing assurance on key controls where there is little of no other assurance on their adequacy or effectiveness.

Types of Audit Work Carried Out in 2011/12

Assurance Reviews

12. 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.

13. 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.

Advice and Consultancy Work

14. In addition to planned assurance reviews, provision is also made in annual audit plans to support service managers by undertaken advice and consultancy type work. The outcomes from this work can also provide assurance on the control framework.

Counter Fraud Work

15. 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

16. 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.

Audit Quality Assurance framework

17. The Internal Audit Charter sets out the performance and quality framework for the service.

18. Key contacts, determined by the appropriate head 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.

19. A summary of our performance against agreed indicators is provided in **Appendix A.**

20. It should be noted that the audit planning year was revised during the year and approved annual plans for 2011/12 covered work to be carried in the period July 2011 to June 2012. An interim plan was approved for the period April to June 2011 and the performance figures quoted relate to work carried out in the period April 2011 to March 2012. The actual performance in delivering planned assurance reviews from the approved 2011/12 plan up to the 31st March 2012 is also shown for information.

21. As can be seen the % of planned assurance work completed is below target. The main reasons for this are summarised below:

     -   Reduction in audit days available due to retirement, secondment and temporary vacancies
     -   Inadequate provisions for unplanned work, particularly that carried over as work in progress from the previous year
     -   Inadequate provision for fraud and irregularly investigations
     -   Planned work (including some advice and consultancy work) taking longer than estimated

22. Slippage on the approved plan is being addressed through the acquisition of additional resources through the Internal Audit Partnership with an external provider and the temporary engagement of an agency worker, funded from budget savings from temporary vacant posts.

23. The Accounts and Audit (England) Regulation 2011 requires the Council to carry out an annual review of the effectiveness of Internal Audit. The outcome is reported to Audit Committee and is subject to independent review by the external auditor.

24. The outcomes of the last review carried out by the Corporate Director Resources, and considered by the Audit Committee in June 2011 consisted of an assessment of compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 and an assessment of compliance with CIPFA's Statement on the role of the Head of Internal Audit (HIA) in public section organisations. The review concluded that the service is substantially compliant with the requirements of the Code and the Statement and noted actions being taken to achieve full compliance. A similar exercise will be carried out this year to be considered at the same meeting of the Audit Committee as this report.

25. Independent quality reviews are undertake by audit managers as a matter of routine and periodically by the head of internal audit to ensure consistent

application of agreed processes and procedures and to ensure expected quality standards are maintained.

26.   Internal Audit continues to be a member of the CIPFA Audit Benchmarking Club. The outcomes from this annual exercise are subject to challenge by the Audit Committee.

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

27.   The main areas where improvements were identified through the last annual review of the effectiveness of the service related to:

- Embedding a risk based audit approach
- Improving relationships with other regulatory and inspection agencies
- Improving assurance on programme and project risks

28.   The implementation of the revised audit strategy and the CRA methodology outlined above reflected a risk based approach to internal auditing. This has allowed a much more focused and consistent approach to the development of the scope of audit assurance reviews informed by an assessment of key risks and other sources of assurance agreed with the key contact as part of the planning and preparation process of each assignment.

29.   Audit processes have also been revised during the year to reflect this risk based approach. These include:

- Revised Terms of Reference Format informed by the agreed CRA

- A revised audit report format to help focus executive summaries on key findings i.e those that will increase the impact or the likelihood of key risk occurring if not addressed. The CRA is updated at the end of the process and issued with final reports to reflect actual controls in place and provides a mechanism for on-going self-assessment.

- Revised methodology for categorising the importance of audit findings, resultant recommendations and audit assurance opinions. A copy of this revised methodology is attached at Appendix D.

- The introduction of a Post Audit Evaluation (PAE). This is carried out by the lead auditor in conjunction with the relevant audit manager on the completion of each audit. In addition to providing a mechanism for reflecting on what went well during the audit and identifying any areas for improvement, the PAE also consists of an audit need risk assessment which is used to inform the strategic audit plan and future audit coverage.

30.   Work was begun during the year to develop a corporate assurance framework to help identify key assurance providers and the assurance they provide on the management of risks. As a result, a corporate assurance framework was approved by full Council in December 2011. This provides a high level illustration of the Council's assurance framework but further work is needed in the current year to develop a more co-ordinated and coherent approach to assurance provision.

31. More resources were allocated in the 2011/12 audit plans to improve assurance on programme and projects. However, some work scheduled in this area has not progressed, at the request of the management, due to concerns about duplication with other assurance providers and the demands placed on the service. Whilst the CRA approach seeks to ensure that reliance would be placed on the work of other assurance providers, these concerns have emphasised the need for clarity over roles and responsibility of the various internal providers of assurance and on which risks they provide assurance. Work has therefore begun to clarify the roles and responsibilities of other assurance providers, whether internal or external, and the nature and limitation of what assurance they provide as part of development of the corporate assurance framework. This will however take time to develop and require the investment of not only internal audit resources but also that of senior management.

32. In recognition that the in house risk and audit service may not have all the necessary skills and experience to provide reliable independent assurance in the specialist area of the Pension Fund, an internal audit partner was appointed to develop a strategic risk register and assurance map in consultation with management and the Pension Fund Committee. The partner also delivered the pension fund audit in 2011/12. This partnership arrangement has allowed the opportunity of skills transfer and the sharing of best practice with the in house team which has contributed to further improvements to audit processes and procedures introduced during the year.

33. The head of internal audit now reports direct to the Corporate Director Resources rather than the head of corporate finance. This change has helped raised the profile of the audit service and improved its independence. It has also provided a better strategic platform for the work of the service to influence senior management.

Summary of audit work carried out

Assurance Work

34. Our work programme for the financial year 2011-12 was determined by an approved interim plan covering the period April to June 2011 and the approved Annual Audit Plan for year ending June 2012.

35. A summary of assurance work complete during the year is attached at **Appendix E**. Details of work carried out in the previous 2 financial years together with work in progress at the 31st March which has subsequently been completed is also included to provide a more informed opinion on the control environment.

Added Value Work

36. 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. This evaluation and challenge supports the effective and efficient use of resources and and value for money (VFM).

37. Through our advice and consultancy work we are able to add value pro-actively and reactively.

38. Reactive work involves positively responding to ad-hoc requests for advice and reviews added to the plan to address new or emerging risks. It also includes responding to potential fraud or 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 plan.

39. A summary of added value work undertaken is attached at **Appendix B**.

Key Areas for Opinion

40. The key areas of the control environment where assurance is required to inform our overall opinion are:

- Financial Management

- Risk Management

- Corporate Governance

41. Assurance has been provided on some aspects of all key financial systems during the year. It is acknowledged that good progress has been made during the year in improving the operational efficiency and performance of both of Oracle, following the closure of the former council district systems, and the Revenue and Benefits systems, following the implementation, on schedule, of a the new single system and a new cash management system. However, testing of the control environment in operation during the year still highlighted a number of weaknesses in key controls. Key issues arising from audit work where controls have improved or further improvements have been identified are summarised in **Appendix C.**

42. 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. In addition specific work has been carried out to provide independent assurance on the management of some strategic risks.

43. 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 of service related planned assurance reviews.

44. Recommendations made to improve the control environment helps to embed effective risk management and strengthen the effectiveness of the Council's corporate governance arrangements.

45. Significant control issues where audit findings concluded that controls in place provided only limited assurance that risks were managed effectively and where actions are still to be implemented to address these are summarised in Appendix C.

Audit Opinion Statement

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

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

48.   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.

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

- All audits undertaken during the year

- Follow up action 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 internal audit reviews

50.   Consideration of the direction of travel on the adequacy and effectiveness of the control environment since unitary status as illustrated in Appendix E. 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 Councils 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 2011/12. This moderate opinion ranking provides assurance that there is basically a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls. Control objectives are often achieved however in all service groupings across the Council.

51.   This overall 'moderate' opinion reflects the same overall opinion as the last 2 years.

52.   The adequacy and effectiveness of key financial controls is a major consideration in our opinion. Whilst good progress has been made during the year to improve a number of key financial systems that will provide a much better operational platform for effective financial risk management going

forward, some key controls were still absent or not operating effectively in 2011/12 hence the same "moderate" opinion on the financial control environment as the last 2 years. The full benefit of new systems together with those arising from the recent utilisation of the finance service should ensure an improvement in the financial control environment in 2012/13.

53. As can be seen from Appendix E, the majority of work undertaken on core governance risks has resulted in a "moderate" assurance opinion. Likewise the opinion on the effectiveness of operational risk management across service groupings, with the exception of CYPS and AWH, was considered to be "moderate". These outcomes reflect the extent of change across the Council since Local Government Reorganisation, with those services subject to less change being in a position to maintain a higher level of control.

54. Where Internal Audit has identified areas for improvement, recommendations were made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management.

55. All audits with a limited assurance opinion have disclosed at least one high risk finding and these are subject to more rigorous follow up and are reported to Audit Committee on an exception basis.

56. Progress made by management on the implementation of audit recommendation is monitored, reported and subject to challenge by the Audit Committee. Whilst good progress has been made by management in implementing agreed actions a number of high risk actions were overdue at the end of the year, even where revised target implementation dates have been agreed, and consequently this has impacted on the overall opinion.

PERFORMANCE INDICATORS

Efficiency	Objective: To provide maximum assurance to inform the annual audit opinion		
KPI	Measure of Assessment	Target and (Frequency of Measurement)	Actual as at 31/3/12
Planned audits completed	% of assurance work planned to be completed in the financial year to draft report stage as at 31 March % of planned assurance work from the annual plan July 2011– June 2012 as at 31 March	90% (Quarterly)	66% - adjusted to **85%** when work in progress considered (80%) 60%
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Quarterly)	87% (91%) 18 days on average (12)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response Average time taken is also reported for information	95% (Quarterly)	92% (91%) 5 days on average (5)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100% (96%)
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	88% (97%)
Quality	**Objective: To ensure that the service is effective and adding value**		
KPI	Measure of Assessment	Target and (Frequency of Measurement)	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	98% (99%)
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (4 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	96% (87%) Overall average score 4.49 (4.47)
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	47% (56%)
Cost	**Objective: To ensure that the service is cost effective**		
KPI	Measure of Assessment	Target and (Frequency of Measurement)	
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	Yes (No)

* figures in brackets are 2010/11 actual shown for comparison purposes

VALUE ADDED WORK

Information Governance

The service is represented on the corporate Information Governance Group 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 reputation damage that may impact on future external funding opportunities.

Personalisation of Care Services

We have continued to work closely with social care staff implementing the new personalisation process for care services. Further work is planned in this area In this area to ensure controls established continue to be effective.

Procure to Pay (P2P) Workstreams

We have continued to work closely with our colleagues in Finance to provide advice and guidance to in support of the P2P project team set up to improve the effectiveness of the procure to pay process within Oracle E Business Suite.

New Revenues and Benefits System and Icon Cash Management System

We have provided substantial support to the implementation on these major financial systems, advising on the control framework design and carrying out testing on the integrity of data conversions and reconciliations.

Membership of the Strategic Procurement Network (SPN)

The SPN is a corporate group and Internal Audit provides independent advice and challenge on internal control and VFM issues as they arise as well as acting as the Resources Service Grouping representative.

Membership of the Information Security Forum (ISF)

The ISF is a corporate group and Internal Audit provides advice and guidance on information security issues. We also carry out assurance work on the information security arrangements which assist in the Council's ability to retain its compliance with the information security standard (ISO27001).

Partnership Governance Framework

We have continued to work with officers in Partnerships and Community Engagement, ACE, and service link officers to review partnership governance arrangements leading to the development of an annual online self assessment process.

Counter Fraud

Work has continued during the year to promote the Council's Counter fraud and Corruption Strategy to help embed a zero tolerance culture across the Council. Other work carried out includes:

- Helping service managers identify fraud risks and to design controls to prevent and /or detect fraud occurring.
- Conducting counter fraud reviews to help detect fraud and error in known high risk areas
- Supporting managers to investigate suspected fraud and irregularities
- Helping service managers prevent reoccurrences
- Monitoring and reporting upon fraud & irregularity activity to the Corporate Management Team and the Audit Committee

Miscellaneous Service Requests

Examples of ad hoc advice and consultancy work carried out during the year in include:

- Production of performance management data for the Housing/Council Tax Benefits Service
- Free School Meals eligibility
- Precepting arrangements
- Support in the development of Single Asset Register
- School clerking recharges
- Relocation of the Library at Barnard Castle
- Due Diligence Analysis relating to the transfer of Public Health
- Shared Lives Procedures
- Bishop Auckland Town Hall (BATH) Catering Contract Arrangements
- Systems relating to Direct Payment (DP) Bank Accounts and associated monies with AWH
- Library Service - Recovery of unpaid monies / suspended memberships
- Review of Registrars Service
- Support to head teachers and governing bodies on the new School Financial Value Standard

KEY CONTROL ISSUES

Key Financial Systems

As can be seen from Appendix D, the overall assurance opinion on the financial control environment operating during 2011/12 is considered to be **Moderate.** In some specific areas, only limited assurance could be provided. Weaknesses identified in relation to these areas are considered significant and may put the system objectives at high risk. Consequently controls in these areas are not considered adequate to manage potential risks effectively.

The full benefits of ICON cash management are yet to be realised as it has not yet been rolled out across the whole Council. Consequently there are still a number of piecemeal arrangements in place for the collection and receipting of income. An income management strategy is not yet in place and policies and procedures are not yet standardised.

The planned implementation of Financial Management Standards, supporting by robust operational accounting policy and procedures will help address this.

It is acknowledged that good progress has been made during the year to improve the overall financial management framework, including the recent unitisation of the finance service. Improvements made to Oracle during the year and the demise of the former district council feeder systems, together with the implementation of the ICON cash management system, have reduced the number of reconciliations required and therefore provide a much sounder basis for effective controls as the potential for error is greatly reduced. However, some key reconciliations between ICON and Oracle, including bank reconciliation and clearing of suspense accounts, were not always timely during the year resulting in a temporary suspension of debt recovery procedures.

Improved performance management arrangements have been implemented during the year to monitor the extent of creditor payments being processed manually outside of the authorisation control built into the P2P Module of Oracle. Whilst performance has improved, controls relating to the manual payment of invoices remain poor due to absence of approved lists of authorised signatories. In addition the electronic authorisation limits set within Oracle have on occasions been disabled during the year to allow the speedier processing of payments.

The absence of up to date lists of approved authorised officers, linked to an approved detailed scheme of delegation, increases the likelihood that inappropriate payments could be submitted for payment. Roles and responsibilities are not clearly documented and little assurance can be provided that an adequate division of duties is maintained and/ or that there is clear accountability for payments authorised. Interrogation of creditor payments have identified duplicated payments amounting to £110K during the year. The majority of this has already been recovered and action is being taken to ensure full recover of all overpayments.

Procedures in place for creating and monitoring direct debit payments made from the Council's bank account were found to be weak and have exposed the Council to the risk of loss through fraud.

Control weaknesses identified at audit are being addressed through the P2P project improvement plan.

Authorised signatories are not maintained by the payroll section to act as a deterrent against inappropriate adjustments to payroll being submitted. Subject to the system development plan being accepted, this is to be addressed by introducing a workflow facility within ResourceLink which will allow for the electronic review and authorisation of claims.

.

ICT Charges

The database of external ICT customers was not up to date consequently there was a risk of loss income through the failure to raise invoices for services provided. Management are in the process of ensuring appropriate SLA's are established and raising invoices accordingly.

.

Pension Fund

There is a lack of clarify over the roles and responsibilities of the Pension Fund Committee. This together with a number of other control weakness relating to the governance arrangements for the fund are to be addressed through revised terms of reference.

.

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 ands 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 (non compliance 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 (non compliance will have very little or no impact on operational performance, monetary of 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	L
	Minor	Major	Critical
	IMPACT		

Priority of our recommendations

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

High	Action that is considered imperative to ensure that the service/system/process objectives are not exposed to **significant risk** from weaknesses in critical or key controls
Medium	Action required to ensure that the service/system/process objectives are not exposed to **major risk** from weaknesses in controls
Low	Action required to ensure that the service/system/process objectives is not exposed to **minor risk** from weaknesses in controls
Advisory	Action that is considered desirable to address minor weaknesses in control that if implemented may not reduce the impact or likelihood or a risk occurring but should result in enhanced control or better value for money.

Overall Assurance Opinion

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

Full Assurance	There is a sound system of control designed to achieve the process/system/service objectives and manage the risks to achieving those objectives. (No H, M or L findings/recommendations)
Substantial Assurance	Whilst there is a sound system of control, there are some weaknesses, which may put some of the system objectives at minor risk. (No H or M findings/recommendations)
Moderate Assurance	Whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk. (No H findings/recommendations)
Limited Assurance	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk.(H findings/recommendations)
No Assurance	Control is weak as controls in numerous key areas are ineffective leaving the system open to significant risk of error or abuse

Appendix E

SUMMARY OF WORK CARRIED OUT

Audit Area	Sub Area	2009/10 Opinion	2010/11 Opinion	2011/12 Opinion	Opinion Conclusion
CORPORATE FINANCIAL MANAGEMENT RISKS					
P2P	Compliance with key controls		Limited		
	Petty Cash Usage		Moderate		
	Data Quality	Substantial	Moderate		
	Internal use of Credit Cards		Limited		Limited
	Procurement Cards		Limited		
	Supplier/Contractors bank account amendments			Moderate	
	Direct Debit Payments			Limited	
Customer to Cash	Income from DCC Assets		Limited		
	Income Reconciliation: Revenues & Benefits	Substantial			
	Income from Online Sales	Moderate			Moderate
	Cash Management		Limited	*Limited	
	Cashier Security			Moderate	
	Income collection (Debtors)		Limited	** Moderate	
NNDR	Key Controls	Substantial	Limited		Moderate
	Governance review			*Moderate	
Payroll	Central System Key Controls		Moderate		
	Governance review			Moderate	
	Teachers Pension Fund: Annual Auditor Certification (TR17) Review of controls		Moderate	Moderate	
	Service based key controls	Moderate			Moderate
	HR arrangements across Directorates			Limited	
	Electronic Data Interchange	Limited			
	Tupe allowances	Limited			
	Member expenses		Moderate		
Council Tax	Compliance with key controls	Substantial	*Limited		Moderate
	Governance review			*Moderate	
Housing and Council Tax Benefits	Compliance with key controls	Moderate	Moderate		
	Governance review			Moderate	
	Housing and Council Tax Grant	Limited	Moderate		Moderate
	Housing and Council Tax Grant - Control Framework			Full	
	Fraud and Error Unit			*Moderate	
Treasury Management	Short Term Investments	Moderate	Substantial	Substantial	
	Banking Contract		Substantial		Moderate
	Bank reconciliations	Substantial	Moderate	Limited	
General Ledger:	Review of Opening Balances		Moderate		
	Feeder systems and reconciliation processes	Substantial		Substantial	
	VAT	Limited			
	PAYE	Moderate			Moderate
	SIMS/Oracle Reconciliation			Moderate	
	SSID Oracle reconciliation			Moderate	
	Journals			*Moderate	
	Key controls and reconciliations			*Limited	
Financial Planning	MTFP - Control Design			Full	Substantial
	Budgetary Control & Financial Reporting	Moderate		**Substantial	
Housing Rents	Compliance with key controls	Moderate			Moderate
Insurance	Governance review			Moderate	Moderate

CORE GOVERNANCE RISKS

Information Governance	Data Quality	Moderate	Substantial		
	Sickness Absence			Moderate	
	Freedom of Information		Substantial		
	Information Security	Moderate	Moderate	Moderate	
	Payment Card Industry Data Security Standard		Limited	Limited	
	Caldicott arrangements (A&CS)	Moderate	Moderate		
	Home working		Moderate		
	Internet Security	Moderate	Moderate		
	Standards Compliance			Moderate	
	Mobile computing		Substantial		
	SQL Server		Moderate		
	Code of Connection (CoCo)	Moderate	Moderate		
	Business Continuity for IT		Limited		
	IS-IT Strategy		Substantial		Moderate
	Software Licenses		Limited		
	Information Security:	Limited			
	3rd Party Acceptable Use		No Assurance		
	Business Continuity Planning		No Assurance		
	Personal Information		Limited		
	Organisational Arrangements		Moderate		
	ICT Asset Management			*Moderate	
	Applications Review			*Moderate	
	ITSS	Substantial			
	Change Controls	Moderate			
	Unix Security	Moderate			
	Network Management	Moderate		Moderate	
	Windows Security	Substantial			
	E-Tendering	Substantial			
Compliance with HR Policies and Procedures	Flexi System			Moderate	Moderate
	Recruitment and selection			*Moderate	
Procurement	Exemptions and Variations			*Moderate	
	Tenders			Substantial	Substantial
	EU Regulations			Substantial	
Capital Programme Management	Key Controls			Moderate	Moderate
Equality, Diversity and Community Cohesion	Equality Impact Assessments			Full	Full
Business Continuity Planning		Substantial			Substantial
Delegated Powers		Moderate			Moderate
Key Decisions		Moderate			Moderate

SERVICE BASED OPERATIONAL RISK

Establishment Audits	AWH	Moderate	Substantial		
	Schools FMSIS Inspections	Substantial	Substantial		Moderate
	Schools Other		Substantial		
	Other CYPS	Limited	Substantial		
	Leisure Centres	Moderate	Moderate		
ACE	Community Associations Funding		Moderate		
	AAP Neighbourhood Fund			Moderate	Moderate
	AAP Members Initiative Fund			Moderate	
AWH	Welfare Rights		Substantial		
	Traveller Arrangements - Illegal Encampments		Moderate		
	DECHA (Durham Employers Care & Health Alliance)	Substantial			
	DAC (Durham Assessment Centre)	Substantial			
	Shared Lives Placement Scheme		Substantial		
	Personalisation - Direct Payments	Moderate			
	Contract Monitoring			Substantial	
	Regalement Services			Substantial	Substantial
	Extra Care Housing			Moderate	
	Continuing Health Care			Limited	
	Emergency Duty Team Sectional and Overtime Costs			Substantial	
	Share lives financial inspections			Substantial	
	Gala Hospitality and Catering			Limited	
	Fees and charges - Key controls			Moderate	
	Various service based financial systems	Substantial	Substantial		
CYPS	Education Psychology Service		Moderate		
	Children missing from education		Substantial		
	Review of Free School Meals Eligibility in Primary Schools		Moderate		
	External & High Cost Child Placements		Substantial		
	ITSS	Substantial			
	Community of Learning - Extended Services Cluster		Moderate		
	School Transport	Limited			
	School Transport Charging Arrangements			Full	Substantial
	Voluntary Funding Arrangements in Schools			Moderate	
	Safe recruitment and selection arrangements within schools			*Limited	
	School Academy Transfer Arrangements			Moderate	
	BSF Programme			Substantial	
	Schools SLA's			Moderate	
	School Budget Preparation and Monitoring			Substantial	
	School Governor Support Service			Moderate	
	Summary of service based financial systems	Limited	Substantial		
	Education Development Service			Substantial	

PENSION FUND					
	Deferred Benefits		Substantial		
	Contributions (Internal and External)		Substantial	Moderate	
	Bank Reconciliation		Limited		
	Transfer Values and Interfund Transfers	Moderate			Moderate
	Benefits and Allowances	Substantial			
	Governance			Limited	
	Investments			Substantial	
	Benefits and other payments			Moderate	
*Draft Report					
** Indicative					