

Catherine Banks
Senior Auditor
Mazars LLP
The Rivergreen Centre
Aykley Heads
DH1 5TS

30 April 2013

Dear Catherine,

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

Thank you for your letter dated 11 March 2013 regarding the above.

I have noted the response provided by Don McLure as the Council's 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 potential and proven cases reported. Bi annual fraud reports also advise the Committee of the number of cases handled by the Housing Benefit Fraud and Error Team. Consequently, the Committee is aware of suspected or alleged fraud during 2012/13.

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 have a good understanding of where fraud may be occurring and actively seek assurance on any specific risks they identify.

The Committee receive independent assurance that internal controls, including the division of duties 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 which have been 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 financial 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 also calls officers into account where further assurance is required.

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 also aware that certain posts, such as those involved with treasury management activities and have access to the Council's bank accounts, carry a higher risk and are consequently covered by fidelity guarantee insurance.

The Committee is aware of the processes and controls in place to identify and monitor 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.

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

The Audit Committee is aware of the monitoring and reporting arrangements in place 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 considered a report of the Corporate Director Resources at its meeting on the 4 April 2013 relating to an assessment of the going concern assumption. The Committee is satisfied that it is appropriate to adopt the going concern basis in preparing the 2013/13 financial statements.

The Audit Committee have not identified any events or conditions since this assessment was considered which cast any doubt on the Council's ability to continue as a going concern..

Yours sincerely

Cllr Edward Bell
Chair of Durham County Council Audit Committee