

## Audit Committee

27 June 2013

### Annual Internal Audit Report 2012/13

Report of Manager of Internal Audit and Risk



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**Don McLure, Corporate Director Resources**

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#### Purpose of the Report

1. The purpose of this report is to present the Annual Internal Audit Report for 2012/13 (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 Annual Governance Statement.
4. The Annual Internal Audit Report should therefore be considered in the context of fulfilling the requirement to provide an annual opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework i.e the 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 2012/13.
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 2012/13. This moderate opinion ranking is the same as the 2011/12 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. Given the extent of change across the Council and the overall reduction in resources during the year, the sustainment of this assurance opinion should be regarded as a positive outcome.

## **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 2012/13.

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## **Appendix 1: Implications**

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### **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  
2012-2013**

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## **Introduction**

This report summarises work carried out by internal Audit during the financial year ended 31/3/2013 and provides assurance on the effectiveness of the Council's control environment, risk management and corporate governance arrangements in place during the year.

## **Background**

The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires that 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".

The Accounts and Audit (England) Regulations 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.

Up until the 1 April 2013, the proper internal control practices for internal audit defined in guidance supporting the Regulations were those contained within CIPFA's Code of Internal Audit Practice in Local Government 2006 (The Code). From the 1 April 2013 this Code has been replaced by the Public Sector Internal Audit Standards (PSIAS).

This report fulfils the requirement of both the previous Code and the new PSIAS 2450 for the Head of Internal Audit (referred to as the Chief Audit Executive under PSIAS) to provide an annual report to the Audit Committee (defined as the Board under PSIAS) timed to support the Annual Governance Statement.

The report sets out:

- The annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework ( i.e the control environment)
- A summary of the audit work carried out from which the opinion is derived
- Details of the quality assurance arrangements in place during 2012/13 which incorporates the outcomes of the last annual review of the effectiveness of internal audit carried out by the Audit Committee in June 2012. A further review of effectiveness is currently in progress. This will include an early assessment of the extent of compliance with the new PSIAS.

## **Service Provided and Audit Methodology**

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

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

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

The service is also responsible for the audit of the Durham County Pension Fund. 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 or no other assurance on their adequacy or effectiveness.

### **Types of Audit Work Carried Out in 2012/13**

#### **Assurance Reviews**

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.

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.

The audit methodology for arriving at audit opinions on individual assurance reviews is attached at Appendix D.

#### **Advice and Consultancy Work**

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**

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**

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**

The Internal Audit Charter sets out the performance and quality framework for the service. This reflects the requirements of the CIPFA Code of Practice for Internal Audit in Local Government 2006. This will be reviewed during 2013/14 to reflect the introduction of the PSIAS with effect from 1 April 2013.

Key elements of the quality assurance framework operating during 2012/13 include:

- Independent quality reviews undertaken 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
- Internal Audit continues to be a member of the CIPFA Audit Benchmarking Club. The key outcomes from the most recent exercise carried out in May 2013 will be considered by the Audit Committee in June 2013 as part of annual review of the effectiveness of the service.
- 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.

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

It should be noted that the audit planning year was revised during 2011 and approved annual plans for 2012/13 covered work to be carried in the period July 2012 to June 2013. The actual performance shown therefore does not relate to a whole year but to the period July 2012 to March 2013. Performance in relation to the whole year will however continue to be monitored and will be reported to the Audit Committee as part of the Internal Audit Progress as at 30 June 2013.

As at the 31 March 2013, the % of planned assurance work completed after 9 months indicated that the service is on schedule to deliver its target to complete 90% of planned assurance work. However, some slippage has occurred subsequently and the latest estimated outturn figure for the year ended June 2013 is estimated to be 85%. The main reasons for this are summarised below:



- Reduction in audit days available due to secondment and temporary vacancies
- High level of sickness absence
- 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

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

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.

The last review carried out by the Corporate Director Resources, and considered by the Audit Committee in June 2012, was informed by informed by consideration of a series of questions, designed to evaluate compliance with best practice, independently by

- The Chair of the Audit Committee
- The Corporate Director Resources
- The Head of Internal Audit
- External Audit

The Committee noted that good progress had been made with the implementation of a risk based approach to auditing but recognised that the skills mix of the in house team needed to be strengthened in some specialist areas. Overall the Committee concluded that the service was effective and reliance could be placed on the audit opinion provided by the service.

A further review of the effectiveness of the internal audit service is currently in progress and is to be informed by the outcomes of an evaluation survey issued to all Heads of Service and Corporate Directors. An initial assessment against the requirements of the PSIAS is also to be carried out to identify areas of non-compliance and improvements required during 2013/14 to become fully compliant. The outcomes of this latest review will be reported to Audit Committee.

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

The main areas where improvements were identified through the last annual review of the effectiveness of the service related to the recognition that the skills mix of the in house team needs improving in the specialist areas of IT audit and fraud investigation.

It was planned to strengthen the in house team during the year through the appointment of an additional IT Auditor. However, this is a specialist area and good

quality experienced IT auditors are in high demand and therefore command high salaries. Regretfully we were unable to recruit within our staffing structure and budget. This is not uncommon in Local Government. We have therefore gone out to tender to procure an IT Audit partner and Audit North, an NHS non for profit consortium, has recently been appointed to supplement the in house team. Our existing partnership agreement with PriceWaterhouseCooper has also been extended for a further 12 months to continue to supplement in the in house team in the specialist area of Pension Fund audit. Both contracts allow the opportunity for the sharing of best audit practice and skills transfer.

Plans to strengthen the in house team's fraud and investigative skills were put on hold during the year pending consideration of what impact the development of the Single Fraud Investigation Service, by the Department of Works and Pensions, will have on our Housing Benefit Fraud Unit. This will be progressed during 2013/14.

Work has continued during the year to embed a risk based approach to audit work and a training away day was held during the year with all audit staff to assess progress and to reinforce training previously delivered by the Institution of Internal Auditors. (IIA). Whilst the implementation of a risk based approach ensures consideration of other assurance sources each time an audit review is undertaken, more work is still required to capture and assess the level of assurance provided from other sources and to map this assurance to help inform annual planning processes and annual reporting. This work will continue in 2013/14.

In addition 3 staff commenced training to achieve the IIA Diploma in Internal Auditing qualification during the year and one member of staff has successfully completed the Association of Certified Chartered Accountants (ACCA) training, adding to the number of professionally qualified accountants within the service.

It should be noted that the new PSIAS 1300 requires the Chief Audit Executive to develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity. Improvements identified to date, plus any further arising from the 2012/13 annual review of effectiveness will be incorporated into an action plan and monitored during 2013/14.

## **Summary of audit work carried out**

### ***Assurance Work***

Our work programme for the financial year 2012-13 was determined by work carried out in April to June 2012 from the approved 2011/12 audit plan and work carried out between July 2012 and March 2013 from the approved 2012/13 audit plan.

A summary of assurance work complete during the year is attached at **Appendix E**. Details of work carried out in the previous 3 financial years is also included to provide a more informed opinion on the control environment.

## ***Advice and Consultancy Work***

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 value for money (VFM).

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

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.

A summary of key advice and consultancy work under during the year is attached at **Appendix B**.

## **Key Areas for Opinion**

The three main areas of the control environment considered when determining our overall assurance opinion are:

- Financial Management
- Risk Management
- Corporate Governance

Assurance has been provided on some aspects of all key financial systems during the year. It is acknowledged that good progress has been continued to be made during the year in improving the operational efficiency and performance of key financial systems. However, testing of the control environment in operation during the year still highlighted a number of weaknesses in key controls.

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.

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.

Key issues arising from audit work where controls have improved or further improvements have been identified are summarised in Appendix C.

The implementation of audit recommendations made to improve the control environment helps to embed effective risk management and strengthen the effectiveness of the Council's corporate governance arrangements. Details of

progress made on the implementation of all High and Medium ranking recommendations are reported quarterly to Corporate Directors and the Audit Committee. A summary of progress on actions due by the 31 March 2013 is given below:

Service	Actions Due by 31/03/13	Overdue Actions by Original Target Dates		Overdue Actions where revised date agreed		Revised overdue actions	
		No	%	No	%	No	%
ACE	9	1	11	1	100	0	0
CAS	137	12	9	8	67	7	8
NS	414	42	10	21	50	25	6
RED	300	7	2	7	100	0	0
RES	353	14	4	14	100	0	0
<b>TOTAL</b>	<b>1213</b>	<b>76</b>	<b>6</b>	<b>51</b>	<b>67</b>	<b>32</b>	<b>3</b>

The % of audit recommendations implemented by service managers within agreed targets dates has substantially improved from previous years with 94 % of agreed actions being implemented with original targets. This increases to 97% if revised target dates are used as the measure of performance.

### **Audit Opinion Statement**

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

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

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.

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

- All audit work 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

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 Council's system of internal control. Based on the work undertaken, we are able to provide a Moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2012/13. 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.

This overall 'moderate' opinion reflects the same overall opinion as the last 3 years and reflects the widened scope of internal audit, with some new audit areas being undertaken each year as part of the agreed audit strategy to review key service activities over a 5 year rolling programme.

The adequacy and effectiveness of key financial controls is a major consideration in our opinion. Whilst good progress has been continued to be made during the year to improve a number of key financial systems that has provided a better operational platform for effective financial risk management some key controls were still absent or not operating effectively in 2012/13 hence the same "moderate" opinion on the financial control environment as the last 3 years. The expectation is that the financial control environment will continue to improve as new systems and processes become more robust and the recently implemented financial management standards become more embedded.

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

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. Whilst the % of actions implemented within agreed target dates has been very high during the year, in many cases there is a considerable time gap between a control weakness being reported and the date determined by management for when the action can realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion.

## PERFORMANCE INDICATORS

<b>Efficiency</b>			
<b>Objective: To provide maximum assurance to inform the annual audit opinion</b>			
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target and (Frequency of Measurement)</b>	<b>Actual as at 31/3/13</b>
Planned audits completed	% of assurance work planned to be completed to draft report stage as at the end of planning year 30 June	90% (Quarterly)	Annual target not yet due - on target at the end of Q3 but some slippage expected in period April to July  (80%)
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)	91% (87%)  14 days on average (18)
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)	91% (92%)  6 days on average (5)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	98% (100%)
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	98% (88%)
<b>Quality</b>			
<b>Objective: To ensure that the service is effective and adding value</b>			
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target and (Frequency of Measurement)</b>	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	96% (98%)
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 (96%)  Overall average score 4.60 ( 4.49)
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	33 (47%)
<b>Cost</b>			
<b>Objective: To ensure that the service is cost effective</b>			
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target and (Frequency of Measurement)</b>	
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	Yes (Yes)

\* figures in brackets are 2011/12 actual shown for comparison purposes

## **KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2012/13**

### **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.

### **Free School Meals**

An exercise was carried out to verify free school meals entitlement. As a result £54K has been recovered from the formula element of funds delegated to schools budgets.

### **Procure to Pay (P2P) Project**

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.

### **Digital Durham**

We have provided support to the Digital Durham Project by providing independent assurance that all relevant evidence required at each gateway stage of the project management plan is in place.

### **Review of Award of Contracts (on going)**

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

### **Indoor facilities**

We have reviewed cash collection and reconciliation arrangements and energy management arrangements in place in leisure centres following concerns raised by management.

### **Local Council Tax Scheme**

We have supported the implementation of the Local Council Tax Support Scheme by verifying the tax base calculations.

## **Oracle Projects**

We have provided advice to a number of projects relating to enhancements of the Oracle E:Business Suite

## **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.

## **Project Assurance Framework**

We have begun work to develop a joint project assurance framework with colleagues in ACE to enhance the existing project assurance framework relating to major corporate improvement programme and projects. Under this framework internal audit will seek to provide assurance on benefit realisation and any resultant inherent risks after projects are completed.

## **Schools Risk Management Self-Assessment Tool**

In consultation with head teachers we have developed a control risk self-assessment tool to help embed effective risk management in schools

## **Public Health Transfer**

We have completed a due diligence exercise relating to the transfer of the Public Health to the Council with effect from April 2013. This comprehensive exercise considered all aspects of the governance, risk management and internal control associated with the transfer and supported the successful completion of the transition project with Children and Adult Services.

## **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, including the roll out of fraud awareness training to all managers.

Other work carried out included:

- 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:



- Review of stores security following a number of reported incidents of inappropriate use
- Development and implementation of Financial Management Standards
- Review of the Sale of Windlestone Hall
- Review of project management arrangements for a major capital scheme
- Support to community buildings project
- Building maintenance quality management system compliance
- Cash collection arrangements at outside events
- Indoor facilities contract review of income sharing arrangements

### KEY CONTROL ISSUES

#### Key Financial Systems

It is acknowledged that good progress has continued to be made during the year to improve the overall financial management framework, including the recent implementation of the financial management standards and clarification of roles and responsibilities following the full implementation of finance unitisation. However, as can be seen from Appendix E, the overall assurance opinion on the financial control environment operating during 2012/13 was, overall, still considered to be **Moderate**.

A review carried out early in the year relating to progress made on the implementation of recommendations made in the external auditor's 2010/11 interim and final governance reports indicated a number of weaknesses in the monitoring arrangements. Improvements identified were however addressed during the year and the subsequent monitoring of issues arising from the 2011/12 annual governance reports has been much more robust and the majority of areas requiring improvements during 2013/13 have now been addressed.

The main areas where improvements were identified through internal work related to cash collection and debt recovery. A number of control weaknesses were identified, primarily due to a lack of documented, clearly communicated procedures to clarify roles and responsibilities for all those involved in the process. This is being addressed.

Whilst significant progress has been made during the year to improve performance relating the payment of invoices, an interrogation of creditor payments identified a number of duplicate payments arising from both the automated and the manual processing of invoices. Whilst the value to be recovered of £58K is lower than previous years this indicates that there are still some weaknesses in the control environment.

Due to the change in audit planning year, some testing of the financial control environment is still in progress and consequently the resultant assurance opinion is yet to be determined in some areas. However, it should be noted that there has been good progress made on the implementation of audit recommendations arising from both internal and external audit work and consequently the completion of outstanding internal audit work is expected to improve the overall assurance opinion.

#### Business Continuity IT

Arrangements in place to manage risks associated with IT business continuity need improvement. Whilst it is recognised progress is being made on identifying a second site for ICT equipment this is still not operational.

#### Direct Payments – Social Care Personal Budgets

Weaknesses in the procedures in place relating to the control of direct payments were disclosed at audit which if not addressed will increase the risk of financial loss due to misuse of funds in this high risk fraud area.

## **Disposal of Land**

A review of the sale of Windlestone Hall, carried out as a joint review with the external auditor following a letter of complaint that the property had been sold significantly under value, identified a number of control weaknesses in the processes and procedures in place relating to the disposal of land and buildings. Given the public interest in the circumstances of the sale, the implementation of agreed actions to address control weaknesses is being closely monitored by the Audit Committee.

## **Weaknesses in Controls Identified through fraud and irregularity investigations**

Since the launch of the Counter Fraud and Corruption Strategy in March 2010, the number of potential cases of suspected fraud and / or irregularity reported to Internal Audit has increased each year. Details of cases reported and work being undertaken to combat the strategic corporate risk of fraud are reported to Corporate Management Team and the Audit Committee in an Annual Fraud & Irregularity Report.

It should be noted that of the 98 potential cases reported in 2012/13, improvements in control were identified in 34% of cases, irrespective of whether or not any wrong doing was substantiated.

**Findings**

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

<b>Impact Rating</b>	<b>Assessment Rationale</b>
<b>Critical</b>	<b>A finding that could have a:</b>
	<b>Critical</b> impact on operational performance (Significant disruption to service delivery)
	<b>Critical</b> monetary or financial statement impact (In excess of 5% of service income or expenditure budget )
	<b>Critical</b> 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)
	<b>Critical</b> impact on the reputation of the Council (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
	<b>Critical</b> impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)
<b>Major</b>	<b>A finding that could have a:</b>
	<b>Major</b> impact on operational performance (Disruption to service delivery)
	<b>Major</b> monetary or financial statement impact (1-5% of service income or expenditure budget )
	<b>Major</b> 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)
	<b>Major</b> impact on the reputation of the service within the Council and/or complaints from service users
<b>Minor</b>	<b>A finding that could have a:</b>
	<b>Minor</b> impact on operational performance (Very little or no disruption to service delivery)
	<b>Minor</b> monetary or financial statement impact (less than 1% of service income or expenditure budget )
	<b>Minor</b> breach in internal policies and procedures (non compliance will have very little or no impact on operational performance, monetary or financial statement impact or reputation of the service)

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

### Overall Finding Rating

This grid is used to determine the overall finding rating.

<b>LIKELIHOOD</b>			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	L
	Minor	Major	Critical
	<b>IMPACT</b>		

### Priority of our recommendations

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

<b>High</b>	Action that is considered imperative to ensure that the service/system/process objectives are not exposed to <b>significant risk</b> from weaknesses in critical or key controls
<b>Medium</b>	Action required to ensure that the service/system/process objectives are not exposed to <b>major risk</b> from weaknesses in controls
<b>Low</b>	Action required to ensure that the service/system/process objectives is not exposed to <b>minor risk</b> from weaknesses in controls
<b>Advisory</b>	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:

<b>Full Assurance</b>	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)
<b>Substantial Assurance</b>	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)
<b>Moderate Assurance</b>	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)
<b>Limited Assurance</b>	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk.(H findings/recommendations)
<b>No Assurance</b>	Control is weak as controls in numerous key areas are ineffective leaving the system open to significant risk of error or abuse

## SUMMARY OF ASSURANCE WORK CARRIED OUT

Audit Area		2009/10 Opinion	2010/11 Opinion	2011/12 Opinion	2012/13 Opinion	Opinion Conclusion
<b>CORPORATE FINANCIAL MANAGEMENT RISKS</b>						
P2P	Compliance with key controls		Limited			<b>Limited</b>
	Petty Cash Usage		Moderate			
	Data Quality	Substantial	Moderate			
	Internal use of Credit Cards		Limited			
	Procurement Cards		Limited			
	Supplier/Contractors bank account amendments			Moderate		
Customer to Cash	Direct Debit Payments			Limited		<b>Limited</b>
	Income from DCC Assets		Limited			
	Income Reconciliation: Revenues & Benefits	Substantial				
	Income from Online Sales	Moderate				
	Cash Management		Limited		Limited	
	Cashier Security			Moderate		
NNDR	Income collection (Debtors)		Limited		Limited	<b>Moderate</b>
	ICON Cash Management				*Moderate	
	Key Controls	Substantial	Limited		*Moderate	
Payroll	Governance review			Moderate		<b>Moderate</b>
	Central System Key Controls			Moderate		
	Governance review			Moderate	Moderate	
	Teachers Pension Fund: Annual Auditor Certification (TR17) Review of controls			Moderate	Moderate	
	Service based key controls	Moderate				
	HR arrangements across Directorates			Limited		
	Electronic Data Interchange	Limited				
	Tuqe allowances	Limited				
	Member expenses		Moderate			
	Expenses and allowances				Moderate	
Council Tax	Compliance with key controls	Substantial	Limited		*Moderate	<b>Moderate</b>
	Governance review			Moderate		
Housing and Council Tax Benefits	Compliance with key controls	Moderate	Moderate		Moderate	<b>Moderate</b>
	Governance review			Moderate		
	Housing and Council Tax Grant	Limited	Moderate			
	Housing and Council Tax Grant - Control Framework			Full	Moderate	
	Fraud and Error Unit			Moderate		
Treasury Management	Revenues and Benefits Reconciliations				Substantial	<b>Moderate</b>
	Short Term Investments	Moderate	Substantial	Substantial		
	Treasury Management Overview				Moderate	
	Banking Contract		Substantial			
	Bank reconciliations	Substantial	Moderate	Limited		
General Ledger:	Banking Arrangements				Limited	<b>Moderate</b>
	Review of Opening Balances		Moderate			
	Feeder systems and reconciliation processes	Substantial		Substantial		
	VAT	Limited				
	PAYE	Moderate				
	SIMS/Oracle Reconciliation			Moderate		
	SSID Oracle reconciliation			Moderate		
	Journals			Moderate		
Financial Planning	Key controls and reconciliations				Limited	<b>Substantial</b>
	MTFP - Control Design			Full		
	Capital Programme Management			Moderate		
Housing Rents	Budgetary Control & Financial Reporting	Moderate		Substantial		<b>Moderate</b>
	Durham City Homes	Moderate				
Insurance	ALMO Rent Collection				Moderate	<b>Moderate</b>
	Governance review			Moderate		

Audit Area		2009/10 Opinion	2010/11 Opinion	2011/12 Opinion	2012/13 Opinion	Opinion Conclusion
<b>CORE GOVERNANCE RISKS</b>						
Information Governance	Data Quality	Moderate	Substantial		Moderate	
	Sickness Absence			Moderate		
	Freedom of Information		Substantial			
	Records Management				*	
	Information Security	Moderate	Moderate	Moderate		
	Data Protection - Training				*Moderate	
	Payment Card Industry Data Security Standard		Limited	Limited		
	Caldicott arrangements (A&CS)	Moderate	Moderate			
	Caldicott compliance (former CYPS)				Moderate	
	Caldicott compliance (former AWH)				Substantial	
	Home working		Moderate			
	Internet Security	Moderate	Moderate			
	Standards Compliance			Moderate		
	Whistleblowing				Moderate	
	RIPA				Substantial	
	Mobile computing		Substantial			
	SQL Server		Moderate			
	Code of Connection (CoCo)	Moderate	Moderate			
	Business Continuity for IT		Limited		*Limited	
	IS-IT Strategy		Substantial			<b>Moderate</b>
	Software Licenses		Limited			
	Information Security: 3rd Party Acceptable Use	Limited	No Assurance			
	Business Continuity Planning		No Assurance			
	Personal Information		Limited			
	Organisational Arrangements		Moderate			
	ICT Asset Management			Moderate		
	Physical Security				*Limited	
	Access Controls				*Moderate	
	Encryption				*Limited	
	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		<b>Moderate</b>
	Recruitment and selection			Moderate		
	ER/VR				Substantial	
Procurement	Exemptions and Variations			Moderate		
	Tenders				Substantial	<b>Substantial</b>
	EU Regulations			Substantial		
	Governance Arrangements				Moderate	
Equality, Diversity and Community Cohesion	Equality Impact Assessments			Full		<b>Full</b>
Business Continuity Planning		Substantial				<b>Substantial</b>
Delegated Powers		Moderate				<b>Moderate</b>
Whistleblowing Arrangements					Moderate	<b>Moderate</b>
Key Decisions		Moderate				<b>Moderate</b>
Health & Safety					Substantial	<b>Substantial</b>
Compliance with laws and regulations					Moderate	<b>Moderate</b>

Audit Area		2009/10 Opinion	2010/11 Opinion	2011/12 Opinion	2012/13 Opinion	Opinion Conclusion		
<b>SERVICE BASED OPERATIONAL RISK</b>								
<b>Establishment Audits</b>	AWH	Moderate	Substantial			<b>Moderate</b>		
	Schools FMSIS Inspections	Substantial	Substantial					
	Schools Other		Substantial		Moderate			
	Other CYPS	Limited	Substantial					
	Gala Theatre - various aspects each year			Limited	Moderate			
<b>ACE</b>	Leisure Centres	Moderate	Moderate	Moderate		<b>Moderate</b>		
	Community Associations Funding		Moderate					
	AAP Neighbourhood Fund			Moderate				
<b>CAS</b>	AAP Members Initiative Fund			Moderate		<b>Moderate</b>		
	Welfare Rights		Substantial					
	Traveller Arrangements - Illegal Encampments		Moderate					
	AWH Governance Framework				Full	<b>Substantial</b>		
	AWH Quality Assurance System				Full			
	DECHA (Durham Employers Care & Health Alliance)	Substantial						
	DAC (Durham Assessment Centre)	Substantial						
	Shared Lives Placement Scheme		Substantial					
	Personalisation - Direct Payments	Moderate			Limited			
	Contract Monitoring			Substantial				
	Reablement Services			Substantial				
	Extra Care Housing			Moderate				
	Continuing Health Care			Limited				
	Emergency Duty Team Sectional and Overtime Costs			Substantial				
	Share lives financial inspections			Substantial				
	Fees and charges - Key controls			Moderate				
	Various service based financial systems	Substantial	Substantial					
	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				
	Award of additional pay in Schools				*Moderate			
	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				<b>Substantial</b>
		Education Development Service			Substantial			
		Positive Activities for Young People (PAYP)					Limited	
		School Catering					Full	
Procurement in Schools					*Moderate			
One Point - Children's Services for Under 5 year olds and their families					*Moderate			
SSID System Review					Moderate			
County Durham Care and Support - Shared Lives					Substantial			
Professional Practice oversight of Care Management Processes					Full			
Management of service users finances and property					Substantial			
Durham Federation				Substantial				



<b>Audit Area</b>		<b>2009/10 Opinion</b>	<b>2010/11 Opinion</b>	<b>2011/12 Opinion</b>	<b>2012/13 Opinion</b>	<b>Opinion Conclusion</b>
<b>NS</b>	Bereavement Services	Substantial			Limited	
	Parking Control and Enforcements	Substantial				
	Grounds maintenance Partnering Contract	Moderate				
	Economic Wellbeing Consumer Complaints		Substantial			
	Public Safety - Markets		Limited			
	Fleet Management - Fuel Stocks and Stores		Moderate			
	Housing Maintenance - Gas (Durham City Homes)		Substantial		Substantial	
	Housing Maintenance Responsive Repairs (Durham City Homes)		Substantial			
	Housing Maintenance (Durham City Homes Planned Maintenance)				Full	
	Leisure Services - Connection Management		Moderate			
	Leisure works - contract management				Moderate	
	Indoor facilities (Sports and Leisure)				Substantial	
	Road Safety		Substantial			
	Renewal and raising of licenses				Moderate	
	Control of Infectious diseases				Substantial	
	Events Management - Control Design				Full	Moderate
	Customer Services				Moderate	
	Enforcement and Education Neighbourhood Wardens				Limited	
	Fleet Management Service				Substantial	
	Facilities Management Service				Moderate	
	Supported Housing (Income and Funding arrangements)					Full
	Management of Gym Memberships					Moderate
	MOT Arrangements					Moderate
	Street Lighting					Full
	Public Health enforcement - Housing Multiple Occupation Licences					Moderate
	Stores Management - central & on site management of disposal of surplus stock					Limited
	School Crossing Patrol - Retainer payment arrangements					*Moderate
	Budgetary Control - Focus on management of duplicate receipting of expenditure on system and allocation of costs to budget heads					Moderate

Audit Area		2009/10 Opinion	2010/11 Opinion	2011/12 Opinion	2012/13 Opinion	Opinion Conclusion
<b>RED</b>	County Durham Development Company (CDDC)		Substantial			
	Inspection of dangerous structures		Substantial			
	Planning Application System		Moderate			
	NWA Collection		Moderate			
	Passenger Transport: coordinating public transport, home to school and social care transport - Concessionary fares		Substantial			
	Strategic Traffic Management:					
	Park and Ride Scheme		Moderate			Substantial
	Public Right of Way		Moderate			
	On Street Parking		Moderate			
	ALMO's Governance Arrangements	Moderate				
	HR ALMO's Contract Monitoring				Full	
	Homelessness	Limited				
	Housing Tenancies	Moderate				
	Building control	Substantial				
	Planning Applications	Moderate				
	Planning S106	Substantial				
Utility Bills				Moderate		
<b>RESOURCES</b>	Land Charges			Limited		
	Flexi Scheme - Compliance			Moderate		Moderate
	ICT Charges			Limited		
	Registrars Service			Moderate		
	Design & Print				Moderate	
	Committee Services				*Substantial	
<b>PENSION FUND</b>	Deferred Benefits		Substantial			
	Contributions (Internal and External)		Substantial	Moderate		
	Bank Reconciliation		Limited			
	Transfer Values and Interfund Transfers	Moderate				Moderate
	Benefits and Allowances	Substantial			*Substantial	
	Governance			Limited		
	Investments			Substantial		
	Benefits and other payments			Moderate		