

Audit Committee Agenda



10.00 am Wednesday, 17 April 2019
Committee Room No. 2, Town Hall,
Darlington. DL1 5QT

Members of the Public are welcome to attend this Meeting.

1. Introductions/Attendance at Meeting
2. Declarations of Interest
3. To Approve the Minutes of the last meeting of this Committee held on 30 January 2019 (Pages 1 - 4)
4. ICT Strategy - Implementation Progress Report –
Report of the Assistant Director – Xentrall Shared Services
(Pages 5 - 8)
5. Ethical Governance and Member Standards - Update Report –
Report of the Managing Director
(Pages 9 - 20)
6. Information Governance Programme Progress Report –
Report of the Managing Director
(Pages 21 - 32)
7. External Audit Plan 2018/19 –
Report of the Managing Director
(Pages 33 - 72)
8. Annual Grants Certification Report 2017/18 –
Report of the Managing Director
(Pages 73 - 86)
9. Audit Services - Audit Charter, Annual Audit Plan 2019-20 and Quality Assurance and Improvement Process –
Report of the Audit and Risk Manager
(Pages 87 - 102)

10. Audit Services Annual Audit Plan 2018/19 - Progress Report –
Report of the Audit and Risk Manager
(Pages 103 - 118)
11. Anti-Fraud and Corruption Strategy 2019/20 –
Report of the Audit and Risk Manager
(Pages 119 - 132)
12. Accounting Policies to be Applied to the 2018/19 Financial Statements –
Report of the Managing Director
(Pages 133 - 154)
13. Final Accounts Timetable for the Year Ended 31 March 2019 –
Report of the Managing Director
(Pages 155 - 158)
14. SUPPLEMENTARY ITEM(S) (if any) which in the opinion of the Chair of this
Committee are of an urgent nature and can be discussed at this meeting
15. Questions



Luke Swinhoe
Assistant Director Law and Governance

Tuesday, 9 April 2019

Town Hall
Darlington.

Membership

Councillors Baldwin, Crudass and McEwan

If you need this information in a different language or format or you have any other queries on this agenda please contact Shirley Burton, Democratic Manager, Resources Group, during normal office hours 8.30 a.m. to 4.45 p.m. Mondays to Thursdays and 8.30 a.m. to 4.15 p.m. Fridays E-Mail : shirley.burton@darlington.gov.uk or telephone 01325 405998

AUDIT COMMITTEE

Wednesday, 30 January 2019

PRESENT – Councillors Baldwin (Chair), Crudass and McEwan

APOLOGIES –

ABSENT –

ALSO IN ATTENDANCE – Nicola Wright and Mark Outterside (Ernst and Young)

OFFICERS IN ATTENDANCE – Peter Carrick (Finance Manager Central/Treasury Management), Lee Downey (Complaints and Information Governance Manager) and Shirley Burton (Democratic Manager)

21 DECLARATIONS OF INTEREST

There were no declarations of interest reported at the meeting.

22 TO APPROVE THE MINUTES OF THE LAST MEETING OF THIS COMMITTEE HELD ON 24 OCTOBER 2018

Submitted – The Minutes (previously circulated) of a meeting of this Audit Committee held on 24th October, 2018.

RESOLVED – That the Minutes be approved as a correct record.

23 MID YEAR RISK MANAGEMENT UPDATE REPORT 2018/19

The Managing Director submitted a report (previously circulated) updating Members on the approach to and outcomes from the Council's Risk Management processes.

It was reported that positive progress continued to be made within the Authority regarding the management of key strategic risks and the submitted report outlined the work and processes undertaken by Officers to manage operational risks.

Particular reference was made to the identified operational risk in relation to the inability to retain and recruit sufficient qualified and suitably experienced social workers in Adults Services and its potential impact on cost and quality of service and Members requested that further information be sought on the actions in place to manage this risk going forward and mitigate any impact on service delivery.

A Member also referred to the role of the Regional Schools Commissioner in relation to the risk associated with underperforming Academies and the Council's reliance on that post to mitigate the risk and how that could be addressed.

RESOLVED – That the report be noted and that the thanks of this Committee be extended to the Officers on an excellent report.

24 MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2018/19

The Managing Director submitted a report (previously circulated) seeking approval of the revised Treasury Management Strategy, Prudential Indicators and providing a half-yearly review of the Council's borrowing and investment activities.

It was reported that the mandatory Prudential Code, which governed Council's borrowing, required Council approval of controls, called Prudential Indicators, which related to capital spending and borrowing. The indicators were set out in three statutory annual reports and the key objectives of those reports were set out in the submitted report, together with the key proposed revisions to the indicators which related to a reduction in the Operational Boundary and the Authorised Limit to allow for any additional cashflow requirement.

Particular reference was made to the limited debt rescheduling opportunities which had been available in the current economic climate, however Officers highlighted an opportunity which had arisen in relation to two inverse Lender Option Borrowing Options (LOBO's) whereby early settlement of those LOBOs had resulted in savings to the Council of £26.740 million over the remaining 42 years of the loans and £12.658 at net present value discounted rates.

Reference was also made to the Treasury management budget which was forecast to achieve an improvement of £0.590 million in 2018/19, which would be returned to balances.

Members examined the Prudential Indicators and the Treasury Management half-yearly review and were satisfied with the Council's borrowing and investment activities and the reported prudential indicators.

RESOLVED – That the submitted report be referred to Cabinet and that it be advised that this Audit Committee approves the revised prudential indicators and limits and notes the reduction in the revised Treasury Management Budget (Financing Costs).

25 PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY REPORT 2019/20

The Managing Director submitted a report (previously circulated) requesting that this Committee reviews and scrutinises the Council's Treasury Management Strategy 2019/20 and its associated policies, the Treasury Management Prudential Indicators and a policy statement relating to the Minimum Reserve Position (MRP) and make any necessary amendments or comments thereon prior to consideration by Cabinet and Council.

The submitted report outlined the Council's Prudential Indicators for 2019/20-2021/22 and set out the expected treasury operations for this period and it was reported that the Council's expenditure plans, treasury management and prudential borrowing activities indicated that they were within the statutory framework and consistent with the relevant codes of practice, prudent, affordable and sustainable and were an integral part of the Council's Revenue and Capital Medium Term Financial Plans.

The submitted report also included a Treasury Management Strategy for 2019/20, covering the Council's debt and investment projections estimates and limits on future debt, expected movements in interest rates and the Council's borrowing and investment strategies for future years. Key objectives of the investment strategy were outlined noting that the primary objective was the safeguarding of the repayment of principal due to the Council, ensuring adequate liquidity of those investments and finally the rate of return on the investment.

It was reported that the revised 2017 CIPFA Prudential and Treasury Management Code required all local authorities, from 2019-20 to prepare a Capital Strategy report which would ensure that all Members fully understood the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite and that this report would be considered by Cabinet at its meeting schedule to be held on 12 February 2019.

Particular reference was also made to the lifting of the Housing Revenue Account debt cap.

RESOLVED – That this Audit Committee is satisfied with the Prudential Indicators and Treasury Management Strategy, the Minimum Revenue Position statement and the Annual Investment Strategy 2019/20, as presented in the submitted report, and that the report be forwarded to Cabinet for its onward referral to Council for consideration.

26 AUDIT SERVICES ANNUAL AUDIT PLAN 2018/19 - PROGRESS REPORT

The Audit and Risk Manager submitted a report (previously circulated) providing Members with a progress report against the 2018/19 Annual Audit Plan, in accordance with Audit Services' role and terms of reference.

The submitted report outlined the progress to date on audit assignment work, consultancy/contingency activity and performance indicators and it was reported that good progress was being made to date.

RESOLVED – That the progress report against the 2018/19 Annual Audit Plan be noted.

This page is intentionally left blank

ICT STRATEGY – IMPLEMENTATION PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. The Chief Officer's Board (COB) is required to report six monthly to the Audit Committee on progress in relation to the implementation of the ICT Strategy.

Summary

2. The current ICT Strategy focusses on three strategic priorities:
 - ICT Governance and Service Development
 - ICT Strategic Architecture
 - Council Service Development and Transformation
3. This report summarises progress on the main activities within each of these priorities.

Recommendation

4. It is recommended that progress on the implementation of the ICT Strategy be noted.

Reasons

5. The recommendation is supported to provide the Audit Committee with evidence to reflect on progress in delivery of the Council's ICT Strategy.

**Ian Miles
Assistant Director – Xentrall Shared Services**

Background Papers

Darlington ICT Strategy 2017

Ian Miles – Extension 157012

S17 Crime and Disorder	There is no specific crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	Some of the initiatives contained within ICT Strategy will help contribute towards the carbon reduction commitments.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	Financial implications will be considered in the Medium-Term Financial Plan. This report does not affect the policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	The ICT strategy supports the business of the Council in delivering ODPP
Efficiency	There will be efficiency savings generated as a result of implementing the ICT Strategy. The introduction of new technology is key to providing efficiency savings within Council services.

MAIN REPORT

6. Progress on the themes of this revised ICT Strategy are described below.

ICT Governance and ICT Service Development

7. The Systems and Information Governance Group (which is the Chief Officers Board of Assistant Directors, but chaired by the Managing Director for this purpose) undertakes an ICT Strategy monitoring role as well as overseeing and approving the ICT Work Plan, which covers all service based and corporate ICT projects. As well as this forum, regular updates on major ICT projects are also given to the Managing Director and the Xentrall Executive Board on which he sits.
8. Since the last update to Members, ICT Services have continued to pass PCI DSS quarterly tests. These are the Payment Card Industry Data Security Standards. Similarly, the ICT service has again been successfully externally audited and certified to use PSN (the Government's Public Services Network), a precursor of which requires comprehensive penetration health checks of the Council's networks and systems which took place earlier this year.
9. Since the last update to Members in October, ICT Services have also achieved full assurance for a number of internal audits which have covered the following areas of the service:
 - Remote System Access
 - ICT Project Management
 - Active Directory
 - Server Operating Systems
 - Virtualised Server Estate
 - Cloud Computing
10. In terms of ICT service development and also related to the two ISO certifications ICT hold (Information Security Management and Quality Management), all ICT service improvement activities are identified in the ICT Service Improvement Programme and this is managed and monitored by the ICT Management Team, supported by the ICT Process Excellence & Planning Officer. This group reviews the progress and priorities of this extensive and continual programme which is resourced through a combination of business as usual activities and planned projects within ICT. The majority of these activities relate to internal ICT procedures and standards which ultimately deliver improvements to the services ICT users receive.

ICT Strategic Architecture

11. Progress has been made on a number of architecture projects during the last six months, many of which take place behind the scenes. These include:
 - a) Commenced development on the detailed design of a new voice and data network for the Council to be implemented later this year.
 - b) Implemented GovWifi across Council buildings which supplements the existing self-service system. GovWifi is recognised across national and local government as a universal means of connection when visiting other government offices.

- c) Continued with developments surrounding the migration and deployment of the Microsoft Office 365 suite of systems and associated platform.
- d) Implemented measures on the Council's website to help mitigate against distributed denial of service attacks.
- e) Renewed the McAfee security suite.
- f) Implemented performance updates on the Council's server/storage estate.

Council Service Development and Transformation

- 12. The service based Information & Systems Strategies inform the ICT Work Plan and this drives customer projects within the ICT service. As well as the management and monitoring of individual projects, the overall ICT Work Plan is monitored on a monthly cycle at the Systems and Information Governance Group (as described in paragraph 7 above). These ICT projects underpin many of the Council's business change activities.
- 13. As well as the central ICT architecture projects listed above, a further thirteen service specific projects have been completed since the last progress report to this committee.
- 14. In addition to the above, ICT also undertook a simulated phishing attempt across all IT users to gauge their awareness to spam emails and the risks these present. The outcomes were presented to COE/COB and information was circulated wider via the weekly Briefing and management cascade.

Outcome of Consultation

- 15. There has been no formal consultation in the preparation of this report.

**AUDIT COMMITTEE
17 APRIL 2019**

ETHICAL GOVERNANCE AND MEMBER STANDARDS – UPDATE REPORT

SUMMARY REPORT

Purpose of the Report

1. To update members on issues relevant to member standards and ethical governance.

Summary

2. The report gives members an update of information about issues relevant to member standards since matters were reported to the Committee in October 2018.
3. Also set out in the report are a number of datasets of ethical indicators to assist in monitoring the ethical health of the Council. By reviewing these indicators it is hoped to be able to identify any unusual or significant trends or changes in the volume of data recorded for the relevant period that might provide an alert to any deterioration in the ethical health of the authority.
4. Commentary is included for some data sets to give analysis and explanation for some of the more notable variations. There are no particular issues of concern that have been identified from reviewing the data.

Recommendation

5. Members are asked to note the information presented and to comment as appropriate.

Reason

6. By having information of this nature:
 - (a) Members will be assisted to perform their role.
 - (b) Members will be able to get a better picture of the ethical health of the authority.

**Paul Wildsmith
Managing Director**

Background Papers

None – save as mentioned in the text
Luke Swinhoe: Extension 5490

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	There is no specific health and wellbeing impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's ethical governance arrangements.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Update on matters relevant to Ethical Governance and Member Standards

Committee on Standards in Public Life (CSPL)

Review of Local Government Ethical Standards

7. The CSPL has completed the review of Local Government Ethical Standards which was begun in 2018. The report was published on 30 January 2019 and is available from <https://www.gov.uk/government/publications/local-government-ethical-standards-report>

8. The key recommendations include:
 - An updated model Code of Conduct – to enhance consistency and quality
 - Parish Councils being required to adopt the Code of Conduct of the principal authority
 - Parish Clerks being required to hold an appropriate qualification to support their work on governance
 - Clearer rules on declaring interests, gifts and hospitality
 - Local authorities to retain ownership of their own Codes of Conduct
 - Local authorities to have the discretionary power to establish a standards committee with voting independent members.
 - A new power for local authorities to suspend councillors without allowances for up to six months (providing the Independent Person agrees)– as current sanctions are considered insufficient
 - A right of appeal for suspended councillors to the Local Government Ombudsman
 - Abolishing criminal offences re disclosable pecuniary interests – as viewed as being disproportionate.
 - A strengthened role for the Independent Person

- Greater transparency about the number and nature of complaints

The Committee did not consider there was a need to re-introduce a central body to act as a strategic regulator for local government standards (Members will recall that the Standards Board for England was abolished in 2013).

9. In launching the report, Lord Evans, Chair of the Committee on Standards in Public Life, said:

“The evidence we received supports the view that the vast majority of councillors and officers maintain high standards of conduct. There is, however, clear evidence of misconduct by some councillors. Most of these cases relate to bullying or harassment, or other disruptive behaviour. There is also evidence of persistent or repeated misconduct by a minority of councillors. “We are also concerned about a risk to standards under the current arrangements, as a result of the current rules around declaring interests, gifts and hospitality, and the increased complexity of local government decision-making.”

“We believe that the benefits of devolved arrangements should be retained, but that more robust safeguards are needed to strengthen a locally determined system. We are also clear that all local authorities need to develop and maintain an organisational culture which is supportive of high ethical standards. A system which is solely punitive is not desirable or effective; but, in an environment with limited external regulation, councils need the appropriate mechanisms in place to address problems when they arise.”

“Our recommendations would enable councillors to be held to account effectively and would enhance the fairness and transparency of the standards process. Introducing a power of suspension and a model code of conduct will enable councillors to be held to account for the most serious or repeated breaches and support officers to address such behaviour, including in parish councils. Strengthening the role of the Independent Person and introducing a right of appeal for suspended councillors will enhance the impartiality and fairness of the process, which is vital to ensure that councillors are protected from malicious or unfounded complaints. And greater transparency on how complaints are assessed and decided in a system which is currently too reliant on internal political party discipline will provide a safeguard against opaque decision-making and provide reassurance to the public.”

10. For the recommendations set out in the report to be adopted, changes will be required to both primary and secondary legislation. At this moment it is unclear if and when this is likely to happen. Members will be kept updated of developments.

Intimidation in Public Life

11. Members will recall that the CSPL reported on their review of the intimidation of Parliamentary candidates. The report was published in December 2017 and the recommendations (which also included a number of recommendations relevant to local government) were set out with background information in the update report to this Committee of 28 March 2018.
12. A news update on the work that has been undertaken by Government to address the recommendations is set out in a letter from Chloe Smith MP, Minister for the
-

Constitution, dated 7 March 2019. For further details see
[:https://www.gov.uk/government/publications/intimidation-in-public-life-letter-from-the-minister-for-the-constitution](https://www.gov.uk/government/publications/intimidation-in-public-life-letter-from-the-minister-for-the-constitution)

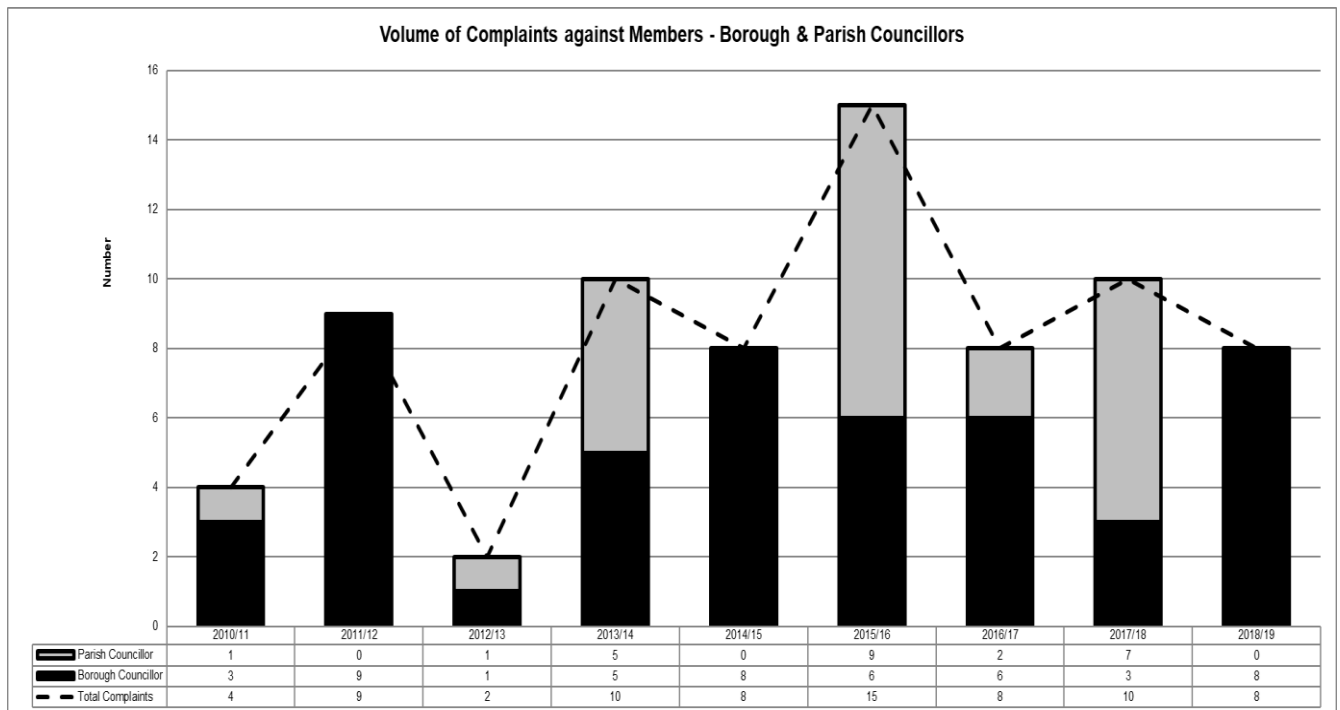
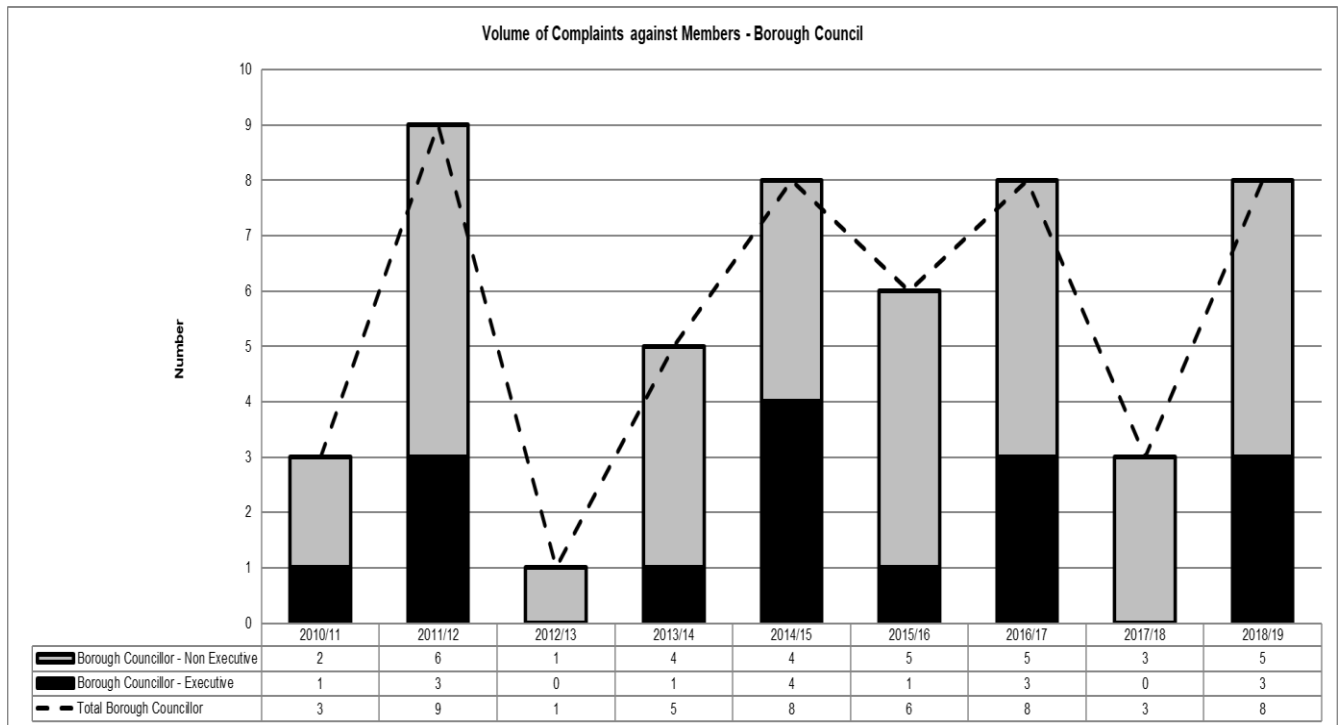
New Members Training

13. Work on a training programme for all Members who come into office following the May elections is underway. All Members will have briefing sessions all major areas of local authority services. There will be specific sessions dealing with the Members Code of Conduct, decision making (including constitutional and procedural issues), corporate parenting as well as specific sessions for members who serve on Planning and Licensing Committees.
14. Induction packs will be given out to all newly elected members at the count and they will be invited to attend the Town Hall shortly after election, to meet Chief Officers and other key staff, and to address specific issues related to taking up office. A members web page is also being devised which will incorporate essential member information, including access to reports, key service information, a calendar of training events.

Ethical Indicators

15. Set out in **Appendix 1** are a range of data sets that it is hoped will to assist in monitoring the ethical health of the Council. By reviewing the indicators it will be possible to identify any unusual or significant changes in the volume of data recorded for the relevant period that might provide an alert to any deterioration in the ethical health of the authority.
16. Member's observations about this information are invited.

Member Complaints



Comments

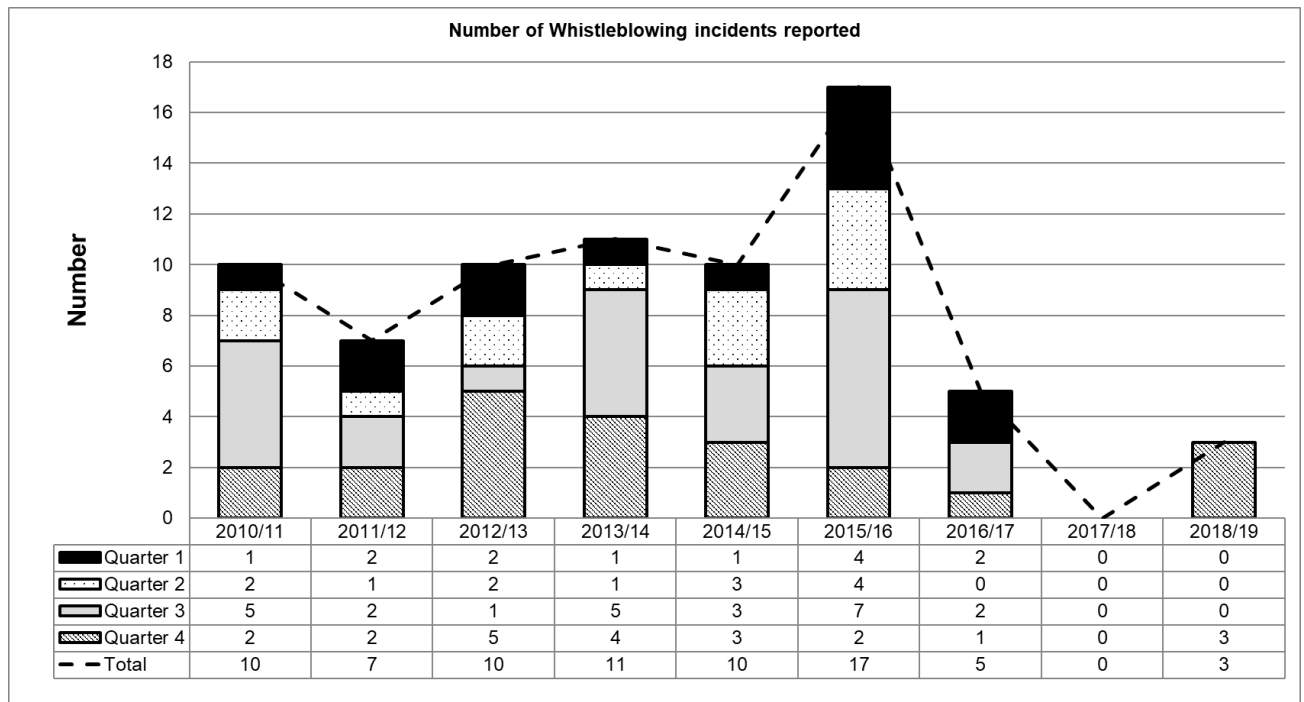
The average number of complaints per year from 2010/11 to 2018/19 is 8.22 per year.

Interpreting the information needs a degree of caution due to low volumes. It is also a factor that in some years spikes in complaints occur due to particular circumstances which account for the rise.

The increase in complaints received for 2015/16, related to one Parish Council alone which accounted for all of the 9 complaints attributed to Parish Councils. This has very significantly impacted on the total complaints received for 2015/16. The number of complaints from 2016/17 on, has been more in line with the overall average.

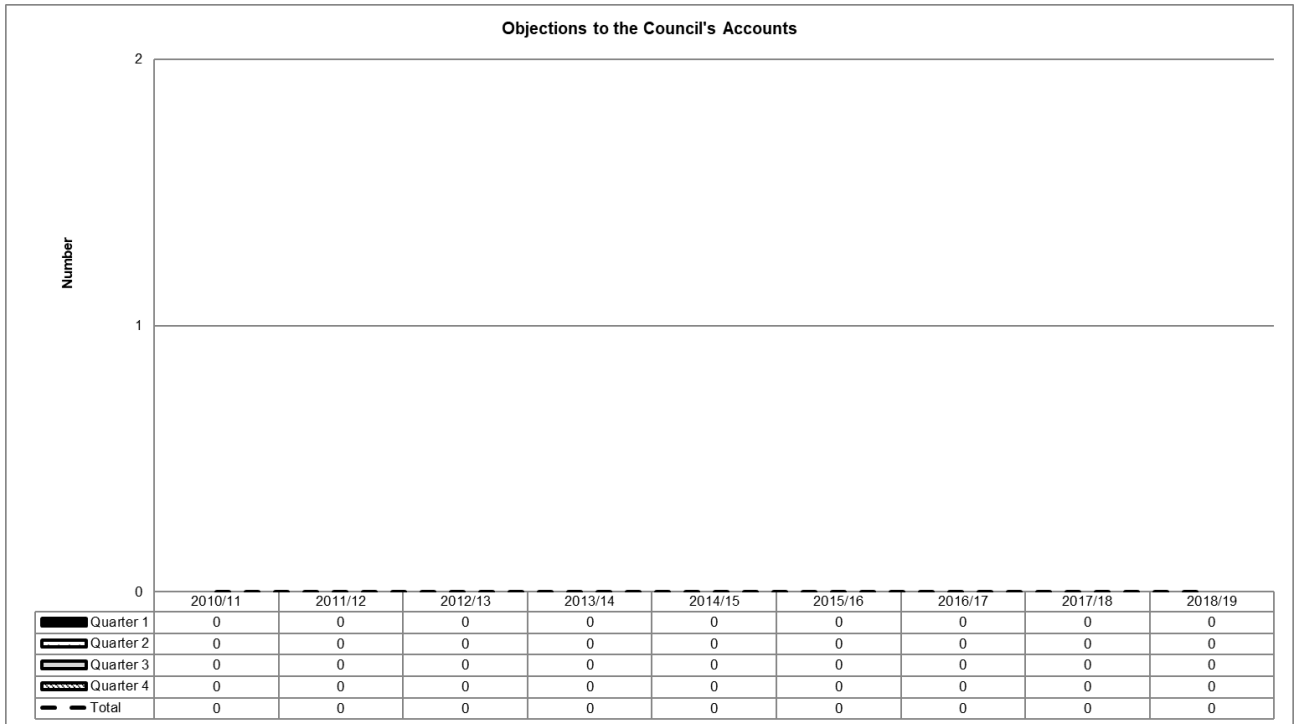
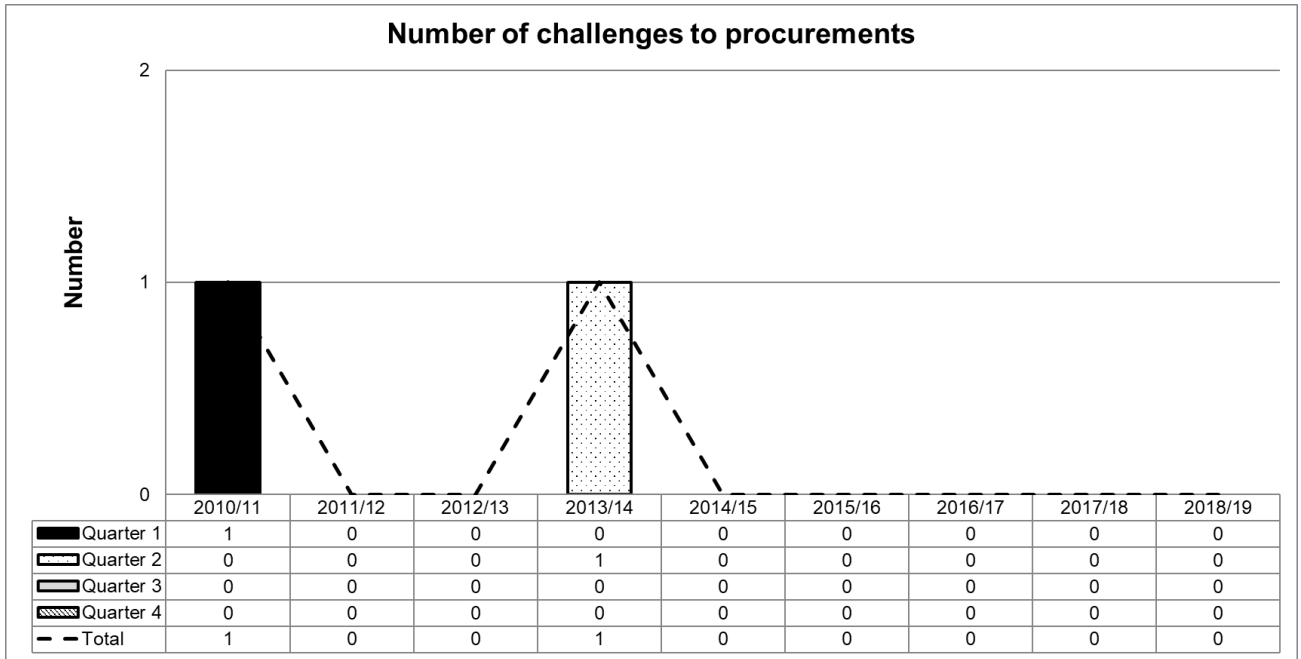
Over the period 2010/11 to 2018/19 there have been 25 complaints made in respect of Parish Councillors and for the same period 49 complaints relating to Borough Councillors. The fact that there are more complaints in respect of Borough Council members is perhaps unsurprising given the types of decisions they are involved in making and the more prominent role that they play compared to Parish Councillors.

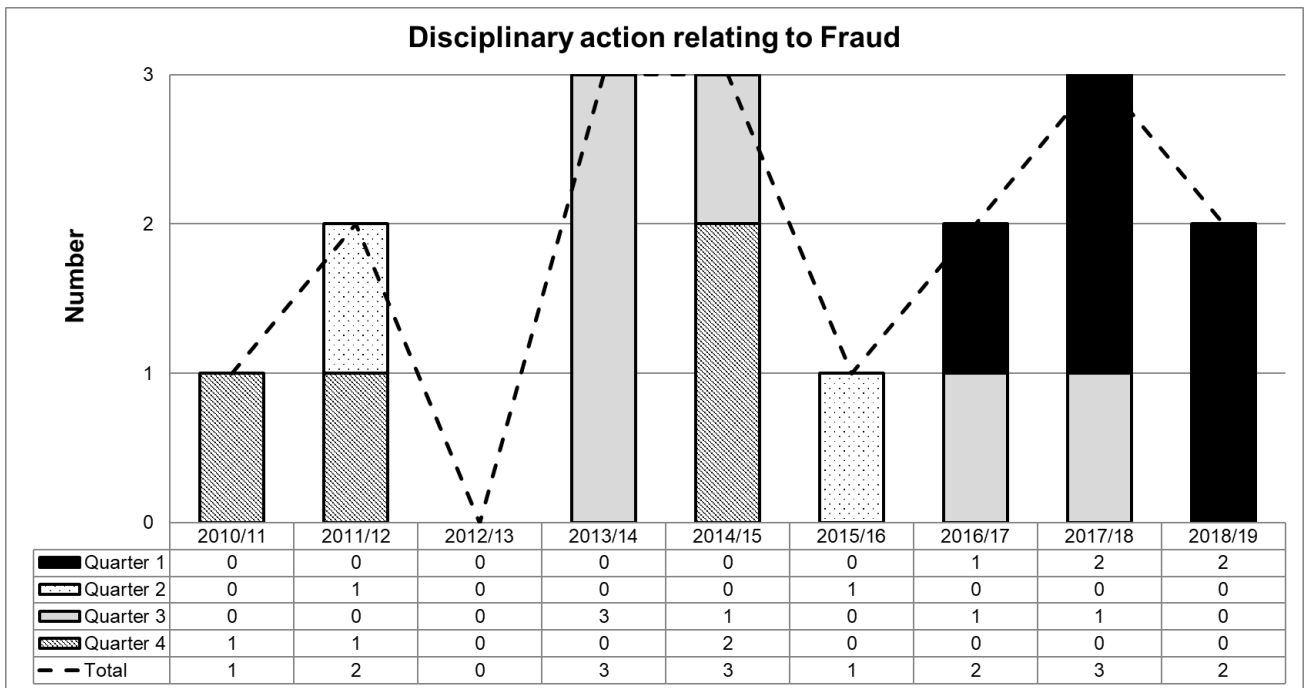
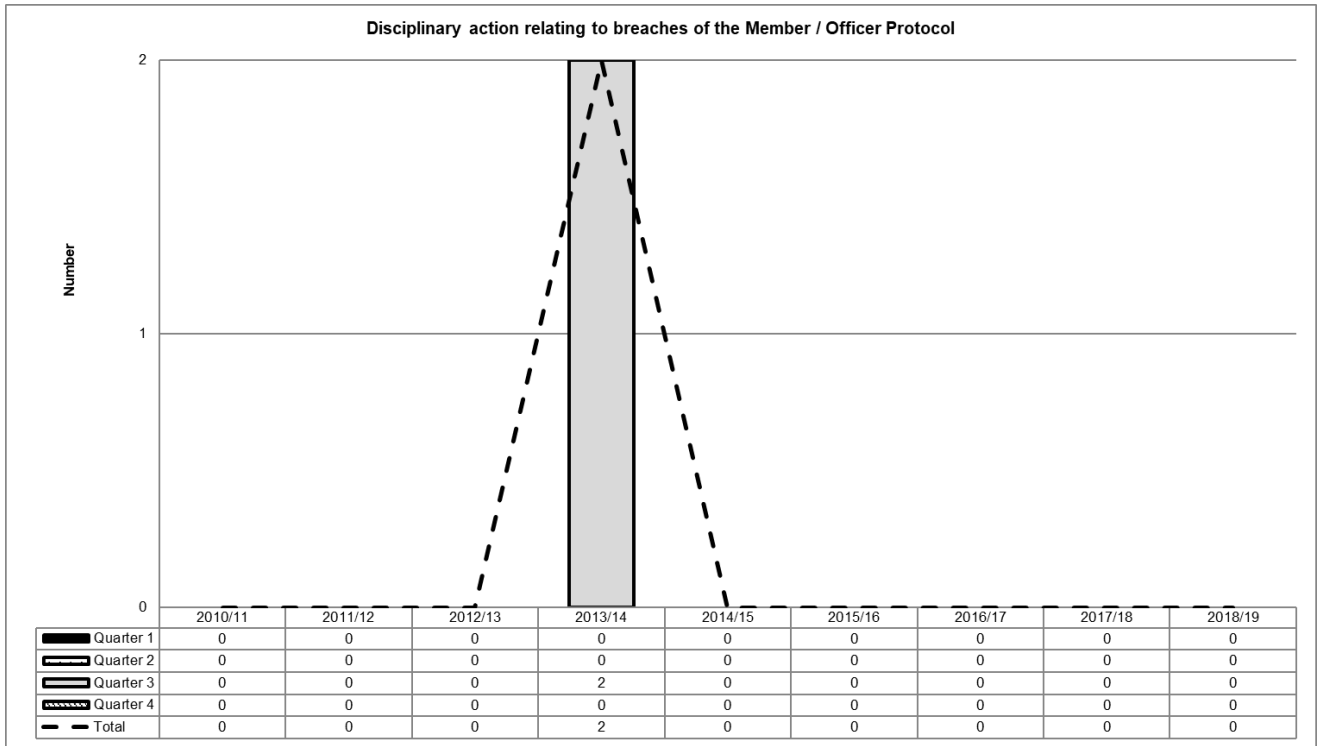
Whistleblowing



Comments

Publicity about the whistleblowing policy took place in the Autumn of 2018. Work was also undertaken to highlight the Council’s Anti-Fraud and Corruption Strategy. There has been a slight increase in reported incidents.

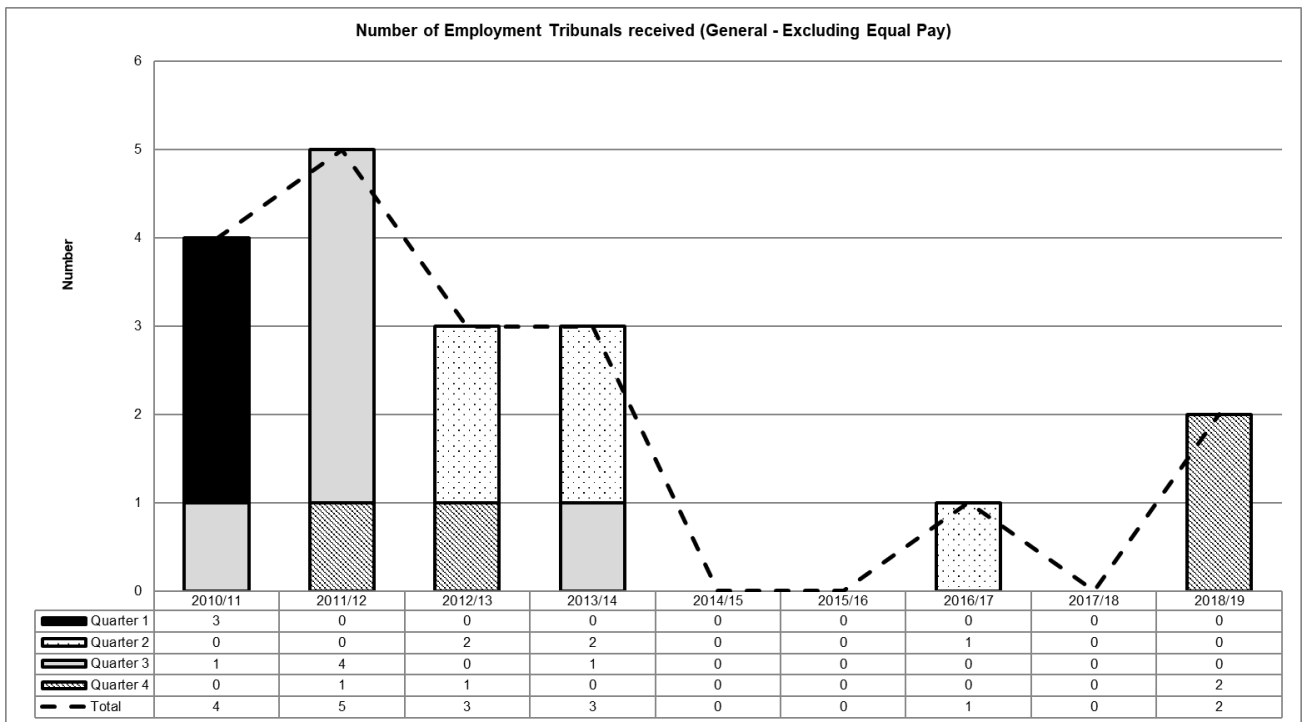
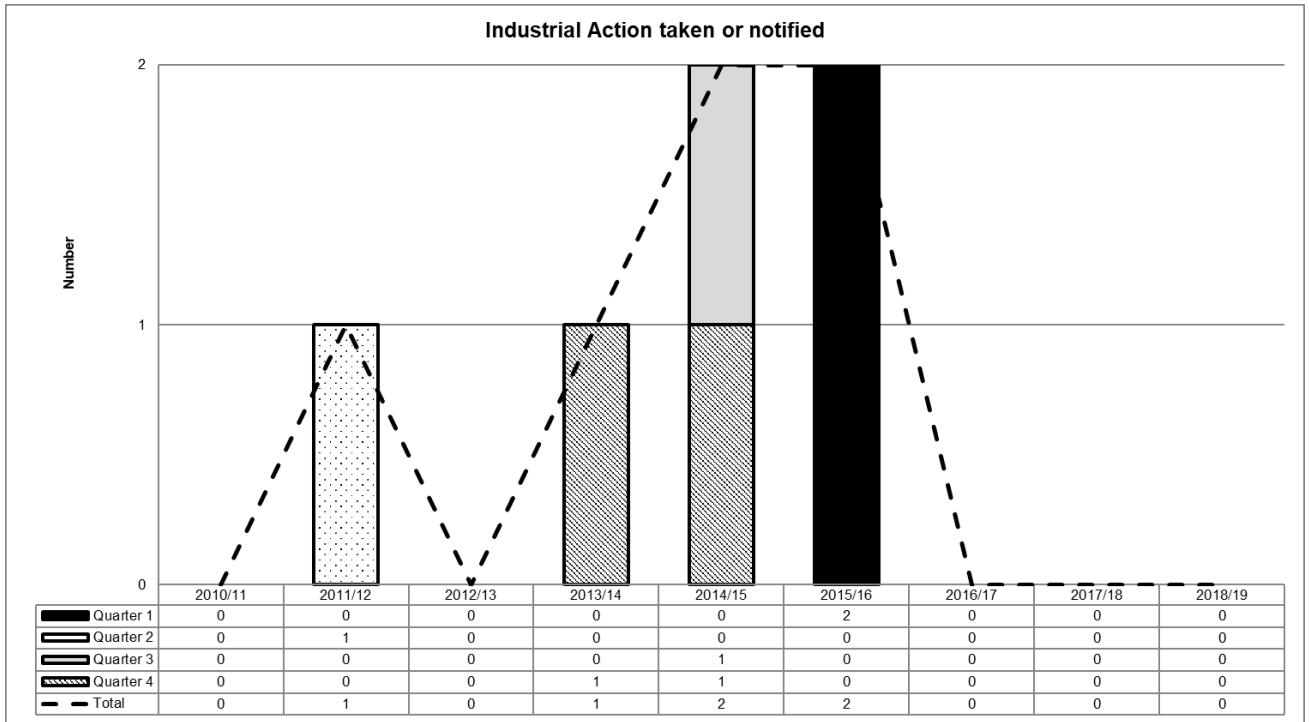




Comments

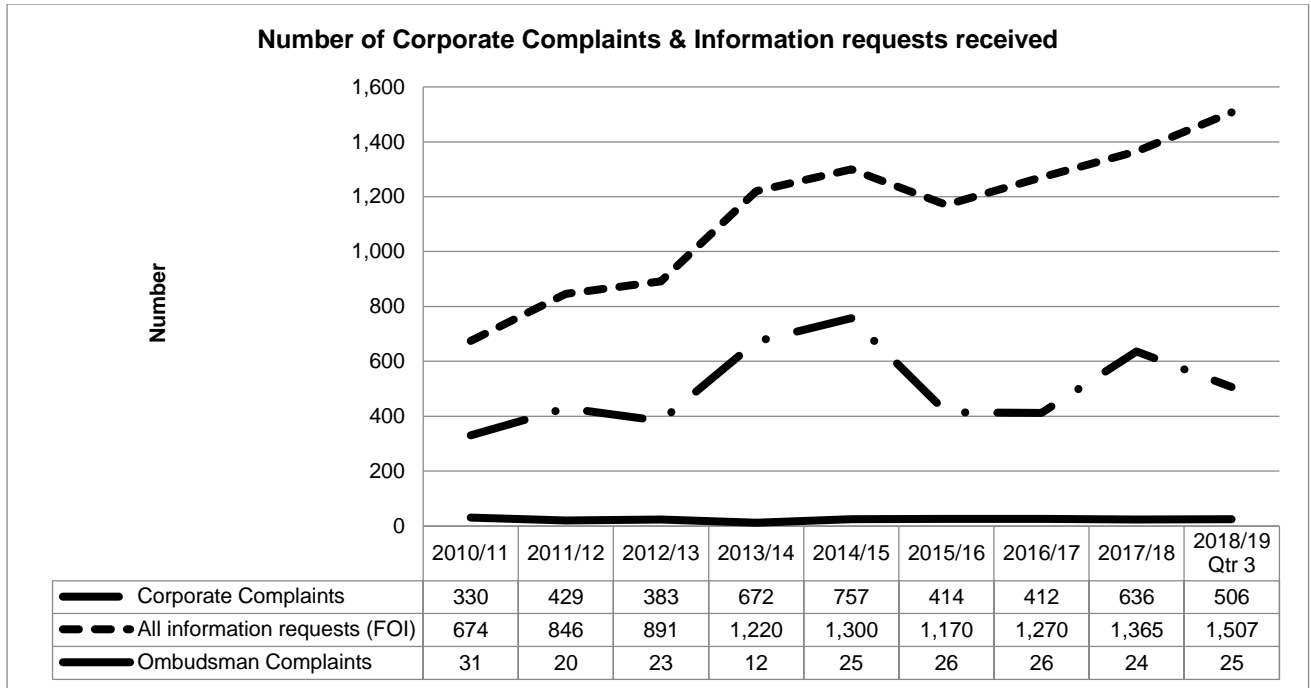
In 2008 a publicity campaign was launched and the Fraud Hotline set up.

Changes in volumes may have some linkage to increasing awareness of how to report concerns and the current financial climate.



Comments

Fees for issuing Employment Tribunal; claims were introduced in July 2013, but held to be unlawful by the Supreme Court on 26 July 2017.



Comments

2010/11 - the reduction in the number of complaints received is, in part, attributed to the organisational learning resulting from complaints being handled effectively and in line with the procedure. This has resulted in a reduction in individuals having to contact the Council regarding the same issue(s).

2011/12 - the increase in the number of complaints received was anticipated in light of the increased pressure on Council services in the current financial climate.

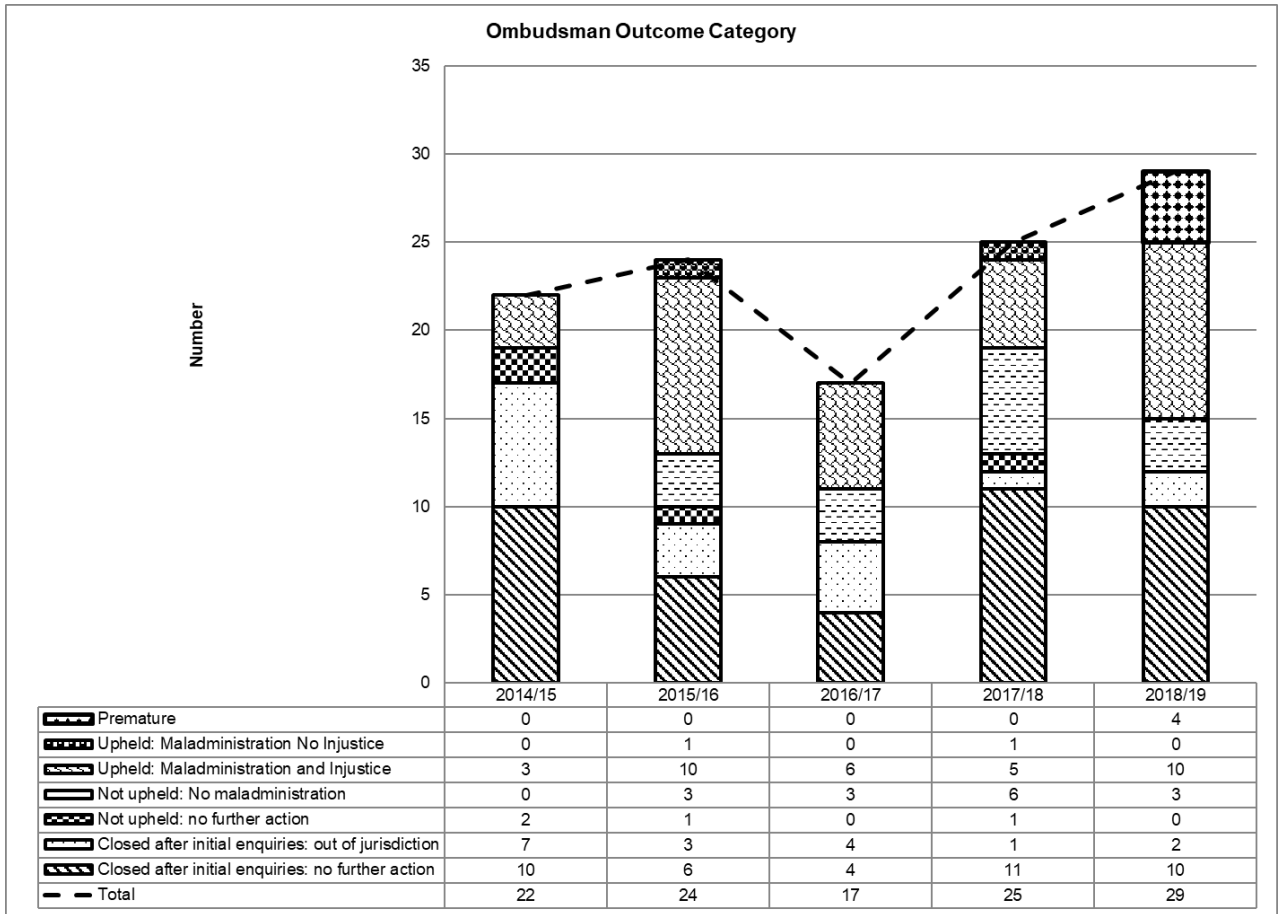
2012/13 - while there was a decrease in the number of complaints received compared to the previous year the Council still received more complaints than it did in 2010/11.

2013/14 - this increase in complaints can be attributed primarily to problems people experienced with their refuse collection, following the introduction in wheeled bins.

2014/15 - this increase in complaints can be attributed primarily to problems people experienced with their refuse and recycling collections, following the introduction of alternate weekly collections.

2015/16 – this decrease in complaints can be attributed primarily to the reduction in complaints about problems people initially experienced with their refuse and recycling collections following the introduction of alternate weekly collections.

2016/17 – the number of Corporate Complaints and Ombudsman Complaints received was similar to the number received in 2015/16, while there was an increase of 100 information requests.



This page is intentionally left blank

**AUDIT COMMITTEE
17 APRIL 2019**

INFORMATION GOVERNANCE PROGRAMME PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. The Systems and Information Governance Group (SIGG) is required to report six monthly to the Audit Committee on progress and planned developments of the information governance programme.

Summary

2. At present information governance remains an 'above the line' risk on the Corporate Risk Register. Delivery of our information governance programme will provide the assurance required and will reduce our information risks to an acceptable level.
3. The Council continues to make steady progress on the implementation of the information governance programme. Recent work includes:
 - (a) ongoing implementation of a compliance programme for the General Data Protection regulations (GDPR).
 - (b) Changes to secure email following the Government's withdrawal of GCSx.
 - (c) Implementation of information classification and handling functionality across emails and Microsoft documents as part of the Microsoft 365 upgrade.
 - (d) Work to achieve our target for the completion of on-line mandatory information governance training courses.
4. The areas of highest priority in the information governance programme are
 - (a) the delivery of the compliance programme for GDPR.

Recommendation

5. It is recommended that progress on the implementation of the Information Governance Programme be noted.

Reasons

6. To provide the Audit Committee with a status report on the delivery of the Council's Information Governance Programme.

**Paul Wildsmith
Managing Director**

Lee Downey, Complaints & Information Governance Manager: Extension 5451

Background Papers

S17 Crime and Disorder	There is no specific crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	For the purposes of the 'call-in' procedure this does not represent an urgent matter.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	Implementation of effective information governance systems and procedures has a positive impact on efficiency.

MAIN REPORT

Background

7. Information governance remains an 'above the line' risk on the Corporate Risk Register. This is a reflection of the improvements required in some areas to evidence that we meet all of the relevant information assurance requirements set out by government and industry standards and best practice.

Current Position

General Data Protection Regulations (GDPR)

8. Further to the report to Audit Committee on 15 October 2018 the Council has now implemented its GDPR compliance programme, with the exception of completing a review of CCTV to ensure it is compliant with the GDPR, the advice of Surveillance Camera Commissioner and reasonable expectations of privacy. This work is ongoing.
9. While the Council has now implemented the vast majority of its GDPR compliance programme it must be recognised that the data processing activities of the Council continually evolve and Information Asset Registers (IAR), Privacy Notices and Information Sharing Agreements (ISAs) are live documents that require periodic review to ensure they accurately reflect the Council's processing activities. The processes implemented by the Council include a review mechanism.
10. Full details of progress against the GDPR compliance programme are contained in Appendix 1.

CCTV

11. The Data Protection Officer (DPO) issued advice to Information Asset Owners (IAOs) on 20 November 2018 setting out the necessary steps to ensure the Council's CCTV was GDPR compliant. The DPO also advised IAOs that as a data controller the Council must take into account the Surveillance Camera Commissioner's advice and provided a link to the Data Protection Impact Assessment Template developed by the Surveillance Camera Commissioner and the Information Commissioner's Office (ICO).
12. Subsequently the Surveillance Camera Commissioner wrote to the Managing Director, the DPO and the CCTV Manager providing some additional advice. The DPO intends to update the advice issued on 20 November 2018 to include this and convene a meeting to progress the work required to ensure the Council's CCTV complies with the relevant legislation.

Information sharing

13. The Multi-Agency Information Sharing Protocol Covering North East and North Yorkshire Area has now been reviewed and was signed off by the DPO and the Caldicott Guardian on 13 November 2018.

14. The Complaints and Information Governance (CIG) Team will continue to work with services and key public sector partners to review existing and implement new service-level ISAs where required.
15. The Council's secure information sharing system (Egress Secure Workspace) continues to be successfully adopted by key services with a need to share sensitive personal information securely with partners and third parties.

Training and awareness

16. The table in Appendix 2 shows the position at the beginning of April with regard to the completion of the mandatory on-line information governance courses. Completion rates of over 95% for all of the courses is the Council's target and represents an acceptable level of take up which must be maintained.
17. The current position shows this target has been met for the Information Security and Social Media courses. While we remain slightly below target for the DPA 2018 course, at 92.81%, this is a significant increase from 52.44% at the time of the last report and it is anticipated we will achieve the target over the coming weeks.
18. As noted in the previous report, the decrease in the completion rate for this particular course can be attributed the fact it is a relatively new course, introduced to reflect the changes in data protection legislation during 2018.

Connection to the Health and Social Care Network (HSCN)

19. The link to the HSCN has now been installed and will provide a method of 'seamlessly' sharing information with our Health Service partners.
20. The NHS has requested the Council completes the latest NHS Data Security and Protection Toolkit (DSPT) to allow the NHS to share NHS numbers with the Council in order to improve data quality and the effectiveness of commissioning arrangements in relation to Special Educational Needs (SEN).

Secure Email

21. As of 1 April 2019, the Government withdrew the GCSx email service. Xentrall ICT Services have ensured that the required security measures are in place for our darlington.gov.uk email addresses to be used securely moving forward with partner organisations. This has been communicated to all GCSx users and public sector partners.

Information Classification and Handling

22. In January 2019 SIGG agreed the following options would be made available for all employees when classifying emails and Microsoft documents as part of the Microsoft 365 upgrade. The options are based on the Local Government Association document 'Understanding Secure Email' with two additional options to meet the Council's need:

OFFICAL

This option should be used to classify the majority of Council emails and documents with the exception of those that contain sensitive personal or sensitive business information.

OFFICAL-SENSITIVE

This option should be used to classify emails and documents that contain sensitive personal or sensitive business information. For example, a report under Part 3, Schedule 12 A of the Local Government Act 1972 or the minutes of a Child Protection Conference.

INTERNAL EMAIL ONLY

This option is for emails only. It can be used to send “*Official-sensitive*” information and “*Official*” information that contains personal data. This option will prevent emails being inadvertently sent to people outside of the organisation.

NOT WORK RELATED

This option should be used to classify any documents or emails that do not relate to Council business.

During the implementation period if the user does not select an appropriate option, emails and documents will be automatically labelled as OFFICAL, except when attaching an OFFICAL-SENSITIVE document to an email, in which case the email will automatically be labelled OFFICAL-SENSITIVE.

23. The Council’s Information Classification and Handling Guidelines will be updated to reflect these changes.

Conclusion

24. The Council’s information governance programme clearly sets out key objectives, roles and responsibilities and priorities. Having implemented the majority of its GDPR compliance programme, which was based on the advice of the ICO, it is reasonable to conclude the Council has significantly reduced the risks associated with information governance.

Outcome of Consultation

25. No formal consultation was undertaken in production of this report.

Appendix 1

What	Who	When	Status
Audit To assist Council as data controller in demonstrating compliance (accountability).			
Internal Audit	Internal Audit	Post 25/05/2018	DONE - Questions now included in Internal Audit Work Programme Template
Agree scope of audit	DPO/Audit Manager	25/05/2018	DONE - Questions now included in Internal Audit Work Programme Template
Awareness Make sure that decision makers and key people are aware that the law is changing and appreciate the impact this is likely to have.			
Briefing, loo news, screens in collaboration	DPO	30/09/2017	DONE
SMTs and Team meetings	DPO	Ongoing	DONE
Report to COB, COE, SIGG, Audit Committee	DPO	Ongoing	DONE
SMN Session	DPO	31/03/2018	DONE
Update AC10 course	DPO	25/05/2018	DONE
CCTV Ensure CCTV is reviewed on an annual basis and has regard to advice of Surveillance Camera Commissioner and reasonable expectation of privacy.			
CCTV inc. Public spaces (Control Room); Body Worn Video Cameras; Refuse and Recycling Collection Vehicles; Children's Residential Care Homes; Council buildings, for e.g. Customer Services; Depot; Dolphin Centre; Eastbourne Sports Complex, Head of Steam, Hippodrome and the Town Hall.	DPO/ relevant officer	Ongoing	DPO issued advice to IAOs on 20 November 2018 and raised the matter at SIGG. DPO to update advice following letter from the Surveillance Camera Commissioner and progress work.

Children Ensure enhanced rights for children detailed in GDPR are met.			
Consider whether we need systems in place to verify individuals' ages and to obtain parental or guardian consent for any data processing activity	DPO	21/03/2019	DONE
Compile a list of on-line services the Council provides to children	DPO	01/03/2018	DONE
Consent Establish where we rely on consent at present, consider whether there are more appropriate conditions for processing on which we can rely. Where it is necessary to obtain consent, refresh to ensure it meets the requirement on the GDPR.			
Clarify condition for processing personal / special categories of personal data	Information Asset Owners (IAOs) with support from DPO	01/03/2018	DONE
Contracts Revise contracts in light of Articles 28 and 29 to ensure compliance and transfer liabilities to data processors as appropriate.			
Issue advice on GDPR compliance to contracts	DPO	31/03/2018	DONE
Share good practice from Regional IG forum with contracts	DPO	Ongoing	DONE
Alert contracts to any standard clauses adopted by the Commission or ICO	DPO	Ongoing	ICO consultation on contract and liabilities between controller and processors to closed on 10 Oct 2017
Update tender documentation	Head of Procurement and Principal Lawyer (Commercial)	25/05/2018	DONE
Update the Special and Standard Contract Terms and the Contract Particulars	Head of Procurement and Principal Lawyer (Commercial)	25/05/2018	DONE
Vary existing contracts	Head of	Ongoing	DPO issued

	Procurement and Principal Lawyer (Commercial)		instruction to IAOs to issue variations to existing contracts. Template letters provided. Numerous variations issued and received from data processors and controllers.
Data Breaches Ensure Council has appropriate procedures in place to manage information security incidents, including data breaches.			
Revisit Information Security Incident Procedure	DPO	25/05/2018	DONE
Data Flow Mapping Map data flows in and out of organisation.			
To be done with individual services as part of review of IAR/ privacy notice/Information Sharing Agreements (ISA)	Service areas with support from DPO	21/03/2019	DONE
Data Protection by Design Ensure data protection is considered at the conception of new projects.			
Embed GDPR into project management process	DPO	31/01/2018	DONE
Embed into ICT procurement documentation	Information Security Manager	Done	DONE
Add to front cover of Committee Reports	DPO	01/04/2018	DONE
Agree a DPA Impact Assessment Tool	DPO	13/12/2018	DONE – DPIA tool approved by SIGG and Surveillance Camera Commissioner’s DPIA tool made available for staff in relation to CCTV
Data Protection Officer			

Designate a suitably qualified Data Protection Officer (DPO)	Complaints & Information Governance Manager	01/04/2017	DONE
DPO must have direct reporting line to highest level of senior management	Senior Information and Risk Owner (SIRO)	01/04/2017	DONE
Resources required – time, financial resources, infrastructure (premises, facilities, equipment) and staff	DPO	31/03/2019	DONE - DPO forms part of existing role. Supported by Information Governance Officer as part of existing role
<p>Individual Rights Check procedures to ensure they cover all the rights individuals have, including deleting personal data or providing data electronically and in a commonly used format.</p>			
Update SAR Procedure	DPO	25/05/2018	DONE
Consider producing Corporate 'Information Rights Procedure'	DPO	25/05/2018	DONE
Establish and document service specific rights – privacy notice	DPO	25/05/2018	DONE
<p>Information Sharing Agreements (ISAs)</p>			
Review existing ISAs	Service areas with support from DPO	21/03/2019	DONE – Multi Agency Information Sharing Protocol for North East Region updated and signed November 2018. Numerous ISAs reviewed following implementation of GDPR although they remain live documents that require periodic review.
ISAs need implementing in those areas that do not currently have one	Service areas with support from DPO	21/03/2019	DONE – DPO advice issued to IAOs regarding the need to have up to date ISAs in place.
Develop central record of ISAs	DPO	21/03/2019	DONE

<p>Information we hold (Information Asset Register/Privacy Notices) Need to maintain records of processing activities - document the personal data held, where it came from and who it is shared with, etc.</p> <p>Review current privacy notices and put a plan in place for making any necessary changes in time for GDPR implementation.</p> <p>Organise information audits where necessary.</p>			
Agree Corporate Information Asset Register (IAR) Template	SIGG	16/11/2017	DONE - Agreed and rolled out. Draft IAR completed by almost all service areas.
Rolled out across Council	DPO	17/11/2017	DONE
Review existing privacy notices on web	Service areas with support from DPO	21/03/2019	DONE- Advice issued to IAOs on what needs to be included in privacy notice. Privacy notices completed by large proportion of service areas.
Privacy notices need implementing in those areas that do not currently have one	Service areas with support from DPO	21/03/2019	DONE - Advice issued to IAOs on what needs to be included in privacy notice. Privacy notices completed by large proportion of service areas.
<p>Joint Controllers Identify any joint data controllers in order to comply with Article 26 of GDPR.</p>			
To be done with individual services as part of review of IAR/ privacy notice/ISAs	Service areas with support from DPO	21/03/2019	DONE
<p>Public Task Document the Council's public task to identify those areas of processing which are undertaken on the basis it is '... necessary for the performance of a task carried out in the public interest or in the exercise of official authority vested in the controller' – GDPR Article 6 (e)</p>			
Document public task and have approved by SIGG	DPO	25/05/2018	DONE - Statement of Public Task approved by SIGG on 5 March 2018 and uploaded to web site.

Appendix 2

03/04/2019	Info Sec 2015		Social Media		DPA 2018		Computer Users
	Comp	%age	Comp	%age	Comp	%age	
Children & Adult's Services	526	96.69	528	97.06	512	94.46	544
Adult Services	125	99.21	125	99.21	122	96.83	126
Children's Services	211	92.95	213	93.83	203	90.22	227
Commissioning, Performance & Transformation	100	100.00	100	100.00	99	99.00	100
Educational Services	86	98.85	86	98.85	84	96.55	87
Public Health	4	100.00	4	100.00	4	100.00	4
Economic Growth & Neighbourhood Services	496	96.31	497	96.50	467	90.68	515
Community Services	168	94.92	167	94.35	160	91.43	177
Capital Projects, Transport and Highways	63	92.65	65	95.59	46	67.65	68
Development	25	96.15	25	96.15	24	92.31	26
Housing and Building Services	213	98.61	214	99.07	211	97.69	216
Place Policy	12	100.00	12	100.00	12	100.00	12
Property Services and Business Investment	15	93.75	14	87.50	14	87.50	16
Resources	159	95.21	159	95.21	157	94.01	167
D'ton P'ship & Creative D'ton	3	100.00	3	100.00	2	66.67	3
Finance, HRM, Systems & Strat, Perf & Comms	82	96.47	82	96.47	82	96.47	85
Law & Governance	74	93.67	74	93.67	73	92.41	79
Total	1181	96.33	1184	96.57	1136	92.81	1226

This page is intentionally left blank

**AUDIT COMMITTEE
17 APRIL 2019**

EXTERNAL AUDIT PLAN 2018-19

SUMMARY REPORT

Purpose of the Report

1. To present the External Audit Plan for 2018-19.

Information and Analysis

2. Attached at **Appendix A** is a copy of the External Audit Planning Report for 2018-19 prepared by the Council's appointed external auditors, Ernst & Young (EY).
3. A representative from EY will attend the meeting to present the Plan.

Recommendations

4. It is recommended that the External Audit Plan for 2018-19 be noted.

Reason

5. The recommendation is supported to enable the Audit Committee to consider the content of the External Audit Plan 2018-19.

**Paul Wildsmith
Managing Director**

Background Papers

External Audit Plan 2018-19

Peter Carrick: Extension 5401

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

A photograph of a meeting table with documents and hands pointing at them. The table is white, and there are several sheets of paper with text on it. A person's hand is pointing at a document on the left, and another person's hand is pointing at a document on the right. A smartphone is visible on the table. The background is slightly blurred, showing a person in a yellow shirt.

**Darlington Borough
Council**
Audit Planning Report
Year ended 31 March 2019

March 2019

Private and Confidential
Audit Committee
Darlington Borough Council
Town Hall
Feethams
Darlington
DL1 5QT

March 2019

Dear Audit Committee Members

Audit Planning Report

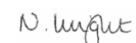
We are pleased to attach our Audit Planning Report which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments Ltd (PSAA), auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 17 April 2019, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Nicola Wright
Associate Partner
For and on behalf of Ernst & Young LLP

Contents

01

Overview of our 2018/19 audit strategy



02

Audit risks



03

Value for money risks



04

Audit materiality



05

Scope of our audit



06

Audit team



07

Audit timeline



08

Independence



09

Appendices



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Darlington Borough Council in accordance with the Statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Darlington Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Darlington Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



Page 38

01

Overview of our 2018/19 audit strategy



Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from prior year	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	No change in risk or focus	Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Misstatements due to fraud or error	Fraud risk/ Significant risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Valuation of land and buildings and investment properties	Significant risk	Increased risk from prior year	Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings is subject to a number of assumptions and judgements. A small movement in these assumptions could have a material impact on the financial statements. In the previous year, we reported material audit differences in the Council's valuations, which were amended in the final accounts. As in previous years, this risk primarily relates to investment properties and other hard to value assets.
Pension liability valuation	Inherent risk	No change in risk or focus	The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions can have a material impact on the balance sheet.
Group accounts	Inherent risk	New area of focus	The Council is working in conjunction with Esh Homes Limited to develop four housing projects in the borough. The Council owns a 50% share in these projects, which are at various stages of completion. It is expected that these projects will deliver in excess of £3.6 million of pre-tax profits by 2026/27. The CIPFA code requires the Council to consider both qualitative and quantitative factors of its joint arrangements to assess if group accounting is required to reflect the Council's share of the joint ventures in the financial statements.

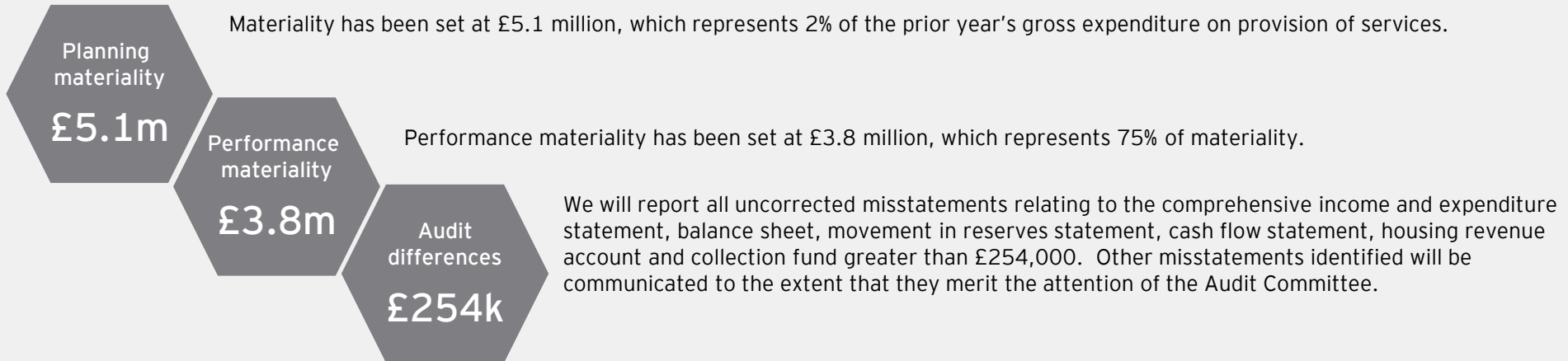
Overview of our 2018/19 audit strategy

Audit risks and areas of focus (continued)

Risk / area of focus	Risk identified	Change from prior year	Details
Implementation of new accounting standards	Inherent risk	New area of focus	The 2018/19 CIPFA Code of Practice on Local Authority Accounting has adopted the requirements of International Financial Reporting Standard (IFRS) 9 - financial instruments and IFRS 15 - Revenue from contracts with customers. These standards may impact the way in which the Council accounts for its financial instruments and revenue, as well as introducing a number of new disclosure requirements for consideration.

Overview of our 2018/19 audit strategy

Materiality



Audit scope

This Audit Planning Report covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Darlington Borough Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.



02 Audit risks



Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition*

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. These accounts had the following balances in the 2017/18 financial statements:

Gross Income: £252.1m

Gross Expenditure: £253.1m

What is the risk?

Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Local authorities have a statutory duty to balance their annual budget, and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.

What will we do?

We plan to perform the following procedures to address the risk:

- ▶ Review and test revenue and expenditure recognition policies;
- ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- ▶ Develop a testing strategy to test material revenue and expenditure streams, including testing revenue and capital expenditure to ensure it has been correctly classified;
- ▶ Review and test revenue cut-off at 31 March 2019; and
- ▶ Review and test the completeness of expenditure at 31 March 2019.

We have considered the revenue and expenditure streams of the Council and our assessment for 2018/19 is that the risk of fraud is attached to:

- ▶ Inappropriate capitalisation of revenue expenditure;
- ▶ Application of capital funding to revenue expenditure; and
- ▶ Omission of expenditure from the financial statements.

Our response to significant risks (continued)

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What will we do?

- ▶ Identify fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.



Audit risks

Our response to significant risks (continued)

Valuation of land, buildings and investment properties

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Adjustments have been made to these balances following audit procedures in previous years.

What will we do?

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample testing of key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

We have identified other areas of the audit that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Pension liability valuation

The Code of Practice on Local Authority Accounting and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Durham County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018, this totalled £168.4 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Group accounts

In 2018/19 investment in joint venture arrangements with Esh Homes Limited has increased, with the number of such arrangements increasing from one to four. The Council owns 50% of the share capital of the joint ventures.

To assess if group accounting is required, the CIPFA Code requires an assessment of these arrangements on a qualitative basis first, and then on a quantitative basis. Management should revisit this assessment annually based on the most up-to-date information to determine if the group financial statements require additional entities to be incorporated within the consolidation.

What will we do?

We will:

- ▶ Liaise with the auditors of Durham County Council Pension Fund to obtain assurances over the information supplied to the actuary in relation to Darlington Borough Council;
- ▶ Assess the work of the Pension Fund actuary (Aon) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We will:

- ▶ Review the Council's group boundary assessment to ensure that it is complete and all group entities have been identified;
- ▶ Review the Council's assessment of qualitative factors such as whether the Council is exposed to any commercial risk through its involvement with the potential group entities, in order to ensure the assessment is appropriate; and
- ▶ Test the Council's quantitative assessment by agreeing all values included in the assessment to audited financial statements for each of the potential group entities.

Other areas of audit focus (continued)

What is the risk/area of focus?

What will we do?

IFRS 9 Financial instruments

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:

- ▶ How financial assets are classified and measured;
- ▶ How the impairment of financial assets is calculated; and
- ▶ The disclosure requirements for financial assets.

There are transitional arrangements within the standard, and the 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 9.

IFRS 15 Revenue from contracts with customers

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of local government revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However, where that standard is relevant, the recognition of revenue will change and new disclosure requirements are introduced.

We will:

- ▶ Assess the Council's implementation arrangements, that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- ▶ Consider the classification and valuation of financial instrument assets;
- ▶ Review new expected credit loss model impairment calculations for assets; and
- ▶ Check additional disclosure requirements.

We will:

- ▶ Assess the Council's implementation arrangements, that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This should include local authority trading companies consolidated into the Council's group accounts;
- ▶ Consider application to the Council's revenue streams, and where the standard is relevant, test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- ▶ Check additional disclosure requirements.



03

Value for money risks





Value for money risks

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

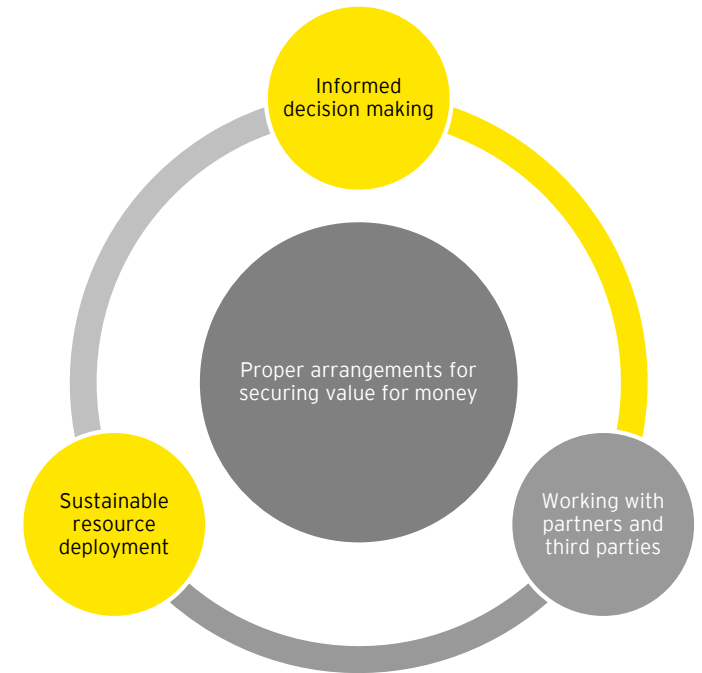
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks, there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of one significant risk noted on the following page which we view as relevant to our value for money conclusion.





Value for money risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Financial sustainability	<p>The Council continues to operate in a challenging financial environment. The main risks to the Council's finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and increasing demands for services.</p> <p>In February 2019, the Council published its Medium Term Financial Plan (MTFP) for 2019/20 to 2022/23. The plan includes £9.1m of net pressures, which includes delivery of savings totalling £5.1m, over the duration of the plan.</p> <p>There is therefore significant pressure on the Council's finances over the coming years.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Select a sample of cost reduction plans and assess their reasonableness, including testing of the assumptions used; ▶ Review the level of reserves to ensure they are sufficient to cover the Council's assessment of the minimum required to provide its statutory services; and ▶ Review the medium term financial plan and test the reasonableness of a sample of the assumptions used.



04

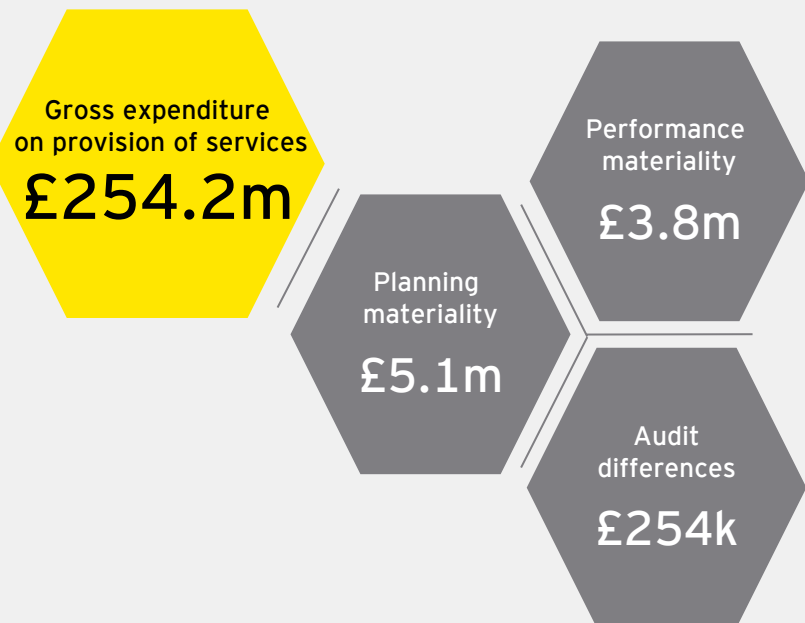
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £5.1m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £3.8m which represents 75% of planning materiality. We have used a threshold of 75% as our experience from prior year audits means that we do not anticipate identifying a significant number of audit adjustments.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and the collection fund greater than £254k.

Component performance materiality range - we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.



05

Scope of our audit



Our audit process and strategy

Objective and scope of our audit

Under the Code of Audit Practice, our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statements audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources.

Our audit process and strategy (continued)

Audit process overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2018/19, we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

We will regularly meet with the Audit and Risk Manager, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



06

Audit team



Audit team

Audit team

The engagement team is led by Nicola Wright, who will have responsibility for ensuring that our audit delivers high quality and value to the Council. She will be supported by Mark Outterside, who will be the manager responsible for the day-to-day direction of audit work and is the key point of contact for the finance team. This will be the fourth year that Nicola, and first year that Mark, have worked on the audit of Darlington Borough Council.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of land and buildings	EY Valuations Team
Pensions disclosure	EY Actuaries

Page 57

In accordance with auditing standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

From time to time, matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit Committee timetable	Deliverables
Planning - Risk assessment and setting of scopes	October		
	November		
	December		
	January		
Walkthrough of key systems and processes and interim audit testing	February		
Interim audit testing continues	March		
	April	Audit Committee	Audit Planning Report
	May		
Year end audit testing	June		
Audit completion procedures	July	Audit Committee	Audit Results Report Audit opinions and completion certificates



08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance” require us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence; and
- ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Written confirmation that all covered persons are independent;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Nicola Wright, your audit engagement associate partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you.

Page 22
At the time of writing, there are no long outstanding fees, no non-audit fees other than those relating to claims and returns and no business relationships, therefore no additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards (continued)

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.
There are no other threats at the date of this report.

Other communications

EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>



09

Appendices



Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government and police bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Fee - Code work	71,813	71,813	93,264
Fee - Housing Benefit certification work	9,500	9,500	8,911
Total audit	81,313	81,313	102,175
Non audit work - Teachers' Pensions certification work	TBC	-	3,200
Non audit work - Housing Pooling certification work	TBC	-	3,000
Non audit work - Homes England Rent and Sale Checklist review	TBC	-	5,000
Total other non-audit services	TBC	-	11,200
Total fees	81,313	81,313	113,375

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

All fees exclude VAT




Fees which are 'TBC' have not yet been agreed with management

Appendix B

Required communications with the Audit Committee



We have detailed the communications that we must provide to the Audit Committee.

Our reporting to you



Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties	The Statement of Responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The Statement of Responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified	Audit Planning Report
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report

Appendix B

Required communications with the Audit Committee (continued)




		Our reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit Results Report
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report

Required communications with the Audit Committee (continued)

			Our reporting to you
Required communications	 What is reported?	 When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Audit Results Report	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report and Annual Audit Letter	

Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report	
Auditor's report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report	
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning Report Audit Results Report	
Certification work	Summary of certification work undertaken	Certification Report	
Group audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit Planning Report Audit Results Report	

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in Section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements.
- ▶ Maintaining auditor independence.



Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2019 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com

**AUDIT COMMITTEE
17 APRIL 2019**

ANNUAL GRANTS CERTIFICATION REPORT 2017/18

SUMMARY REPORT

Purpose of the Report

1. To present the external audit Annual Grants Certification Report on the results of their grants testing.

Information and Analysis

2. Attached is a copy of the report produced by Ernst & Young (EY) that summarises the high level results of their grants certification testing.
3. A representative from EY will attend the meeting to present the report.
4. From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns was delegated to Public Sector Audit Appointments Limited (PSAA). For 2017/18, these arrangements required only the certification of the housing benefits subsidy claim.
5. The external audit work identified that the claim certified, worth a net total of £36,173,967, required a qualification letter although no amendment was made to the claim. The certified claim form was submitted to the DWP by the deadline of 30 November 2018.
6. The Council also engaged EY to audit 2 claims that fall outside of the PSAA arrangements but never the less require certification. The 2 claims in question were the Teachers' Pension and the Housing Pooling return.
7. EY did not identify any significant issues that required being brought to the attention of Members from either of these claims.

Recommendation

8. It is recommended that the Committee note the contents of the report.

Reason

9. The recommendation is supported as it comprises part of the Council's corporate governance arrangements.

**Paul Wildsmith
Managing Director**

Background Papers

Certification of Claims and Returns Annual Report to those charged with governance 2017/18

Peter Carrick: Extension 5401

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

Certification of claims and returns annual report 2017/18

Darlington Borough Council

April 2019

Page 75

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world



Audit Committee
Darlington Borough Council
Town Hall
Feethams
Darlington
DL1 5QT

April 2019

Dear Audit Committee Members

This report summarises the results of our work on Darlington Borough Council's 2017/18 claims.

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies, and must complete returns providing financial information to government departments. In some cases, these grant-paying bodies and government departments require appropriately qualified reporting accountants to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to Public Sector Audit Appointments Ltd ("PSAA") by the Secretary of State for Communities and Local Government. For 2017/18, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this claim, we followed a methodology determined by the Department for Work and Pensions.

In addition to this, we also acted as reporting accountants in relation to the Council's Teachers' Pensions and Housing Pooling returns, which are outside the PSAA's regime.

This report is intended solely for the information and use of the Audit Committee and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you at the Audit Committee meeting on 17 April 2019.

Yours faithfully



Nicola Wright, Associate Partner
For and on behalf of Ernst & Young LLP

Contents



This report is made solely to the Audit Committee and management of Darlington Borough Council. Our work has been undertaken so that we might state to the Audit Committee and management of Darlington Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Audit Committee and management of Darlington Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Housing benefits subsidy claim



Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£36,173,967
Amended/Not amended	Not amended
Qualification letter	Yes
Fee - 2017/18	£8,911
Fee - 2016/17	£11,525

Findings from 2016/17

We set out below the findings from the 2016/17 certification work, along with information as to whether these issues were also identified in 2017/18.

1. War Pensions

In 2016/17, it was identified that the Council does not review actual evidence of war pension income on an annual basis, instead the Council increases each war pension by a set percentage. Therefore there is a risk that war pension income is misstated.

Our testing in 2017/18 did not identify any similar errors.

2. Misclassification of expenditure (Rent Rebates)

Testing in 2016/17 identified one case where expenditure was misclassified and, as a result, was incorrectly included in the affordable rents scheme cell in the claim form.

Our testing in 2017/18 did not identify any similar errors.

Findings from 2017/18

We set out below the findings from the 2017/18 certification work.

1. Import of ESA Income (Rent Allowances)

Our testing identified one case where ESA Income had been imported into the Housing Benefits system twice in error, and therefore caused an overstatement of the claimant's income, and an underpayment of benefit. Although this error resulted in an underpayment, an issue in the import of ESA could lead to overpayments, and therefore additional testing of 40 cases containing ESA income was completed. No further issues were identified from the additional testing performed.



02 Other assurance work





Other assurance work

During 2017/18, we also acted as reporting accountants in relation to the following returns:

- ▶ Housing Pooling return; and
- ▶ Teachers' Pensions return.

We have provided separate reports to the Council in relation to both returns. This work has been undertaken outside the PSAA regime. The fees for this are included in Section 3. They are referred to here to ensure Members have a full understanding of the returns on which we provide some form of assurance.

We did not identify any issues from our certification of the Housing Pooling return that require reporting to members.

During our review of the Teachers' Pensions return, we identified one finding which was reported to Teachers' Pensions:

1. A number of arithmetical differences were identified when we recalculated the employer and teacher contributions values disclosed in the claim form. Employer contributions were overstated by £0.13 and teachers contributions were understated by £623.94. We performed additional procedures to understand the reason for the difference in teacher contributions, as a result of the size of the difference. We identified that it related to two teachers who have multiple contracts, and having their contracts combined leads to them paying contributions at a higher rate than they would have done had the contracts been treated separately, as is required by the Teachers Pensions' guidance. The Council identified this issue during the year and as a result have manually amended the total pensionable salary to the correct banding in the claim form. However, as the contributions have been deducted at a higher rate than should have been used, employee contributions deducted are higher than we would have expected based on the pensionable salary disclosed in the claim form.



03

2017/18 certification fees





2017/18 certification fees

The PSAA determine a scale fee each year for the certification of the housing benefits subsidy claim. For 2017/18, these scale fees were published by PSAA and are available on their website (www.psaa.co.uk).

Claim or return	2017/18	2017/18	2016/17
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	8,911	8,911	11,525
Teachers' Pension return*	3,200	N/A	3,200
Housing Pooling return *	3,000	N/A	3,000

*Certification fees in respect of the Teachers' Pension return and Housing Pooling return are outside of the PSAA regime.



04

Looking forward



Looking forward

2018/19 and beyond

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we are pleased that from 2018/19 the Council has appointed us to act as reporting accountant in relation to the Housing Benefit assurance process.

We welcome this opportunity to continue undertaking this work for the Council, providing a seamless quality service, drawing on our vast array of experienced and knowledgeable public sector professionals, whilst realising the efficiencies that are achieved by undertaking both the audit and grant work.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2019 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com

AUDIT COMMITTEE 17 APRIL 2019

AUDIT SERVICES – AUDIT CHARTER, ANNUAL AUDIT PLAN 2019-20 AND QUALITY ASSURANCE AND IMPROVEMENT PROCESS

SUMMARY REPORT

Purpose of the Report

1. To present Audit Services' Audit Plan for 2019-20, associated performance indicators and Audit Charter.

Information and Analysis

2. The requirement for the Council to have an internal audit function is outlined in Section 151 of the Local Government Act 1972. More specific requirements are detailed in the Accounts and Audit (England & Wales) Regulations 2015 which requires the Council to:
 - a. "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
 3. Relevant standards or guidance are set out in the Public Sector Internal Audit Standards which were revised in March 2016.
 4. On the 1 April 2017 a shared service was established to deliver the Internal Audit function to Darlington Borough Council and Stockton-on-Tees Borough Council.
 5. A charter has been developed that outlines how the service will meet these requirements and is detailed at **Appendix A**. Specifically the charter outlines how the Audit Plan will be developed.
 6. A strategic plan has been developed and can be found at **Appendix B**.
 7. A requirement of the regulations is for a service to maintain compliance with the standards and to look to improve. To this end a Quality Assurance and Improvement Programme (QAIP) has been devised. Details of the QAIP can be found in **Appendix C**.
 8. Progress against the Plan and performance measures will be reported to the Audit Committee during the course of the year.
 9. One significant change to the plan and delivery of the service is that we will no longer be providing an internal audit service to the Tees Valley Combined Authority.
-

Recommendation

10. It is recommended that :-

- a. That the Audit Committee approves the Internal Audit Charter (**Appendix A**) and the rights of access conferred within.
- b. That the Audit Committee approves the proposed Audit Plan for 2019-2020 (**Appendix B**).
- c. That the Audit Committee notes the indicative strategic Audit Plan for 2019-2023 and the estimated resources available to deliver that plan (**Appendix B**).
- d. That the Audit Committee note the Quality, Assurance and Improvement Programme (QAIP) (**Appendix C**) which will be used to monitor the service throughout the year.

Reason

11. The recommendation is supported as it comprises part of the Council's corporate governance arrangements.

Andrew Barber
Audit and Risk Manager

Background Papers

- (i) Audit Risk Assessment Information
- (ii) Corporate and Group Risk Management Information

Andrew Barber : 01642 526176 Internal : 156176

S17 Crime and Disorder	Other than any special investigation work required there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.

One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Public Sector Internal Audit Standards

12. The Public Sector Internal Audit Standards were published on 18th December 2012 and updated in March 2016. These standards, which are based on the requirements of the Institute of Internal Auditors (IIA), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They are mandatory and apply to all internal audit service providers, whether in-house, shared or outsourced.

13. There are three distinct areas covered by the standards:-

- a. A definition of Internal Auditing;
- b. A Code of Ethics designed to promote an ethical, professional culture; and
- c. The International Standards for the Professional Practice of Internal Auditing.

14. CIPFA has provided guidance on the application of Public Sector Internal Audit Standard in the form of an Application Note. The Internal Audit Charter (attached) has been prepared in accordance with the Public Sector Internal Audit Standards and this guidance.

Internal Audit Charter

15. Under the standards, the Procurement and Governance Manager is required to prepare an Internal Audit Charter. This is a high level statement of how the Internal Audit Service will be delivered to meet the requirements of the legislation and the standards.

16. The revised charter attached sets out the approach for the period 2019-2023 and gives details of:

- a. Purpose of the Internal Audit Service
- b. Scope of Internal Audit work
- c. Access to Information
- d. Resourcing of the Service
- e. Future Development of the Service

17. The Internal Audit Charter is attached at **Appendix A**. The main change to the charter is the recognition that the service will no longer be delivering internal audit to the Tees Valley Combined Authority.

Audit Plan

18. The standards state that a risk based plan designed to implement the audit charter and allow an annual internal audit opinion to be prepared should be produced. As part of the process for considering how we would deliver a shared service we reviewed our approach to assessing risk and prioritising the work we will undertake. The new approach utilises a process of assessing the risk posed in each area taking account of other forms of assurance as well as a periodic review of a sample of data to establish if there is any evidence to suggest our previous opinion may no longer be valid. This approach allows us to monitor more frequently than we currently do whilst spending less time undertaking detailed testing programmes on areas where there is no evidence to suggest there have been any changes from the previous audit.
 19. The risk assessment uses a number of factors to determine the likelihood of issues occurring including an understanding of the full scope of systems in operation, major change, concerns/external interest and results of previous audit work. It then assesses the impact any issues may have on the council's strategic objectives, reputation, financial plans, assets and also the potential impact on individuals and/or the environment. This process will be further refined to take account of the monitoring work mentioned in para 17.
 20. The structure of the plan has also been updated to reflect the fact it serves more than one authority with different management structures.
 21. To aid members' understanding of when they can expect an area to be reviewed next the full strategic plan for the period 2019-2023 is included at Appendix B.
 22. As part of the process, the plan is subject to consultation with the Council's external auditors. High priority is given to key financial systems, any significant corporate projects and specific areas requested by Management. A lower priority is given to systems which, although very important to stakeholders, have less impact corporately. All areas of activity are tested in their entirety at least once in a five year period.
 23. In addition to any potential changes in the plan to reflect development work it is likely that changes will be made to the plan to reflect changes in the councils' risk profile. This will be achieved through ongoing review and amendment in consultation with the AD HR and Finance. The Audit Committee will be informed of any significant changes to the plan.
 24. The proposed level of resources within the service can be identified as gross audit days based on 7.6 FTE's with 2 officers part-time. This is equivalent to 1976 audit days in 2019-2020. Allowances have been made for annual leave, bank holidays, sickness, training and administrative duties. No allowance has been made for staff turnover. The productive audit days to deliver the 2019-2020 Audit Plan is shown in the table below (**Appendix B**).
-

25. The proposed Internal Audit Plan for 2019-20 and indicative plans for 2020-21, 2021-2022 & 2022-23 are attached at **Appendix B**. The plan for 2019-20 is largely in line with the indicative plan presented in March 2018.
26. It has been assumed at this time that the same level of annual resources shown above will be available for the entire period 2019-2023. Based on this assumption despite a minor shortfall in available days in the latter years it is felt this will be manageable as some contingencies are likely to decrease and therefore there is sufficient resources available to achieve the strategic plan as shown in **Appendix B**.

Development of the Audit Service

27. The service is continuously striving to improve the way it operates and the following actions have been identified to further enhance the service:
- a. Implement the changes required for the shared service itself updating procedures as appropriate.
 - b. Review how to maximise the effectiveness of audits using technology and implement continuous auditing.
 - c. Establish how the service can place reliance on other sources of assurance.
 - d. Continue to update monitoring and reporting procedures.
 - e. Improved promotion of the service to provide managers and individuals with more information about the audit service and the audit process itself.
 - f. The service will be the subject of an external peer review during the year in accordance with Public Sector Internal Audit Standards.

Internal Audit Charter

Introduction

This document will outline how the internal audit service to Stockton-on-Tees Borough Council and Darlington Borough Council will be delivered to ensure it is compliant with the relevant standards and statutory requirements currently in place.

Purpose of the Service

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Authority to Undertake the Function

Each authority is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

This requirement is set out in the Accounts & Audit Regulations 2015. The regulations also state that any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit make available such documents/records and supply such information/explanations as are considered necessary by those conducting the internal audit.

Internal Audit's Responsibilities

The service will be delivered in accordance with the purpose outlined above and by ensuring it:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focussed
- Promotes organisational improvement

The service will ensure it complies with the IIA International Standards for Internal Audit by adopting the Public Sector Internal Audit Standards.

For the purposes of applying these standards “the board” are represented by the Audit Committee through the scheme of delegation in place within each authority. “Senior Management” is the Head of Paid Service, Section 151 Officer & Monitoring Officer who undertake statutory functions. Each authority will have senior management teams, which will include each of these officers. The service will report the results of audit work individually to each relevant member of this senior management team.

The service will report the findings of its work to the board and to senior management a minimum of 3 times per year in line with the Audit Committee schedule. Where there is any attempt to apply undue influence on the findings of its work the service will seek to make either senior management or the board aware of any such attempts and reserves the right to report without prejudice to any member of the board or senior management.

Recommendations will be made where it is considered the control environment could be improved. This could either be addressing a particular weakness or identifying efficiencies/improvements within processes.

Functionally the service will be based within Stockton-on-Tees Borough Council in the Finance and Business Services Department. The “Chief Audit Executive (CAE)” role as specified by the standards is undertaken by the Audit & Risk Manager. An annual report will be produced giving an overall audit opinion of the control environment to be used as part of the assurance gathering process for the annual governance statement in each authority.

Day-to-day line management for the service will be provided by the Procurement and Governance Manager with the Finance and Business Services Department of Stockton-on-Tees Borough Council.

In order to maintain the actual or perceived independence of the function, where audit work is to be conducted on any function where the Procurement and Governance Manager has operational responsibility, the Audit & Risk Manager has the right to agree the scope of/report findings of this work to any member of senior management. The Audit & Risk Manager has a responsibility to report any attempt to unduly influence/interfere with the scope or outcome of this audit work to relevant members of senior management/the board.

The service will conform to a code of ethics. Annually auditors will sign a declaration that they will conform to a code of ethics that addresses:

- Integrity
- Objectivity
- Competence
- Confidentiality
- Conflicts of Interest

Failure to abide by this code will result in action being taken against individuals through either the Council’s disciplinary process, professional disciplinary process or a combination of both.

An opinion will be provided on the entire control environment each year, one for each authority by 30 June. Frequency and scope of testing will be determined by an audit risk assessment, which will be kept up to date. A plan of work will be agreed with the board and senior management, which is considered sufficient to enable this opinion to be given.

In addition to auditing the control environment, the service has a role in preventing, detecting and investigating possible fraudulent or corrupt activity. It is a requirement that the service will be made aware of any such activity either suspected or proven. In addition to this, audit testing will be conducted on the basis that fraud and corruption is a risk within any system and auditors will be aware of the potential for this to be taking place.

Because of the breadth of skills and knowledge possessed by auditors, the service may be approached to provide advice and guidance to managers outside of the normal audit process. Any such consultancy engagement will be managed appropriately and will only be undertaken where the agreed scope of the engagement is consistent with the purpose of the service and where the requisite skills are available. Such assignments will be added to the audit plan.

The service will ensure it has sufficient resources to deliver a risk based audit plan with adequate coverage to enable an overall opinion to be given. A competency framework will be maintained to ensure auditors have the required skills to deliver the plan. Auditors will be assessed against this framework as part of the annual appraisal process. In addition, to ensure auditor's skills remain current they will be required to undertake Continual Professional Development (CPD). Where it is believed there will be insufficient resources (either in terms of capacity or in terms of competence) this will be brought to the attention of the board through the audit committee.

Delivery of the Service

An audit portfolio will be maintained which will encompass the entire control environment of the authority. The portfolio will be kept up to date with consultation taking place with senior management on a regular basis.

Each audit in the portfolio will be risk assessed to determine frequency and priority of audit work. The risk assessment will be kept up to date and as risk changes the plan will be amended to reflect the changing risk. The service will utilise continuous monitoring techniques as part of the risk assessment process, which, will incorporate feedback from a number of sources. This approach will include schools where the primary source of feedback will be the Schools Financial Value Standard Self-Assessment returns and where applicable the schools risk action groups.

Before presenting the plan to the board for agreement managers within each authority will be consulted on the content of the plan to ensure the work will meet the needs of the authority. The plan will be presented to the board before the 31 March in each financial year.

The scope of each audit review will be risk assessed to ensure the coverage is appropriate.

A manual will be maintained which will document the audit process, the way in which results of audit work will be presented (this will be subject to consultation with senior management/the board) and the standard of working papers required to support the audit opinion.

The service will maintain an intranet page in each Council which will include basic contact details and any other relevant information.

Monitoring the Service

A Quality Assurance and Improvement Programme (QAIP) will be developed, updated annually and will be presented to the board for agreement prior to 31 March each year.

The QAIP will detail:

- Performance measures for assessing the service
- Complaints procedure
- Process for reviewing compliance with the Standards.

Regular reports will be presented to the board on the outcomes of the QAIP

Appendix B

Name	Risk Rating	2019/2020	2020/2021	2021/2022	2022/2023
Absence Management	3.6	10	10	10	10
Active Directory	0.6	6	6	6	6
Adult Education	3.5	15	-	-	-
Adult Safeguarding	8.4	-	20	-	20
Anti-Fraud Management	15.2	35	35	35	35
Asset Register/Asset Management	7.2	7	7	7	7
Bank Reconciliation	17.6	12	12	12	12
Better Care Fund	15.2	-	20	20	20
Building Control	1.4	7	7	7	7
Business Continuity & Emergency Planning	15.0	10	10	10	10
Business Support & Development	11.5	-	25	-	25
Car Parking	11.2	-	10	-	10
Cash Offices & Cash Holdings	4.4	-	-	25	-
Catering & Cleaning	3.5	20	-	-	-
Change Control	2.4	4	4	4	4
Child Placement - Adoption	2.6	7	7	7	7
Children's Secure Accommodation	4.5	10	-	-	-
Client Financial Services	5.3	12	12	12	12
Cloud Computing	4.0	5	5	5	5
Communications Unit	1.4	-	-	-	15
Community Transport	3.8	7	7	7	7
Complaints Review	1.2	9	9	9	9
Concessionary Travel Scheme	6.7	-	-	15	-
Council Plans	16.0	5	5	5	5
Creditors	7.0	20	20	20	20
Customer Services	5.2	-	-	25	-
Data Protection	8.4	10	-	10	-
Day Centres, Residential & Supported Living	3.6	30	-	-	-
DBS Procedures	1.2	6	6	6	6
Debtors	6.2	18	18	18	18
Declaration of Interests/Gifts & Hospitality	0.7	20	-	-	-
Democratic & Development Services	2.6	-	-	-	10
Design & Print Service	1.7	-	5	-	-
Desktop Management	0.6	-	10	-	-
Development Services	3.9	8	8	8	8
Dolphin Centre Catering	3.5	-	10	-	10
Dolphin Leisure Centre	3.5	-	15	-	15
Early Years & Complex Needs	2.2	8	8	8	8
Early Years, Children's Centres & Childcare	1.6	8	8	8	8
Eastbourne Sports Complex	4.8	5	-	-	5
Education Improvement Service	1.2	15	-	-	-
Elections	3.6	-	-	-	20
Emergency Duty Team	2.2	3	3	3	3
Employee Benefits	2.6	10	-	-	-

Employee Protection	1.0	-	10	-	-
Employee Therapy Services	3.1	7	-	-	-
Enforcement	1.9	7	7	7	7
Environmental Controls	0.6	-	-	10	-
Environmental Health	5.0	6	6	6	6
Festivals and Events	6.8	-	-	15	-
Financial Management	15.4	5	5	5	5
Firewalls	0.4	4	4	4	4
First Contact	2.0	3	3	3	3
Fleet Management	7.7	-	20	-	-
Flooding Risk Management	3.5	-	5	5	5
Freedom of Information	6.0	-	15	-	-
Fuel Poverty Reduction	3.6	7	-	-	-
Hardware Controls	0.3	-	-	-	10
Harewood Hill Lodge	2.2	-	-	-	5
Health & Safety	5.6	-	-	15	-
Heating, Ventilation, Electrical & Building Services	7.0	-	-	20	-
Highways Inspection	3.8	-	7	7	7
Highways Maintenance Management	15.0	10	10	10	10
Highways Maintenance Operational	2.2	-	13	13	13
Home Ownership Assistance	1.1	-	10	-	-
Horticultural Services & Allotments	2.0	15	-	-	-
Housing Benefits	6.7	18	18	18	18
Housing Building Maintenance	4.2	25	-	-	25
Housing Maintenance	7.2	-	20	-	-
Housing Management	11.0	20	-	20	-
Housing Rents	3.0	15	15	15	15
ICT Backup & Recovery / Disaster Recovery	1.6	-	-	15	-
ICT Project Management	1.6	-	-	-	10
Independent Living	5.0	-	-	35	-
Independent Living - Remote Monitoring	7.2	-	-	20	-
Independent Sector Assessment & Payments	9.1	-	15	-	15
Information Management	16.0	10	10	10	10
Insurance	7.2	-	-	15	-
Internet	1.3	-	-	10	-
Inventories	0.1	-	-	-	10
Land Charges	0.3	6	6	6	6
Leaving Care	5.4	7	7	7	7
Legal Charges & Court Costs	3.4	-	-	-	15
Libraries	6.0	-	25	-	-
Licensing	4.2	30	-	-	30
Local Development Plan	0.8	-	-	10	-
Looked After Children	1.7	12	12	12	12
Markets Management	2.0	-	25	-	-
Mayor's Charity Fund	< n/a >	2	2	2	2
Members Payments and Allowances/Travel and Subsistence	4.2	-	-	20	-

Mental Health	6.9	-	15	-	-
Museums, Theatres & Arts Venues	7.8	-	30	-	-
Network Management	3.4	-	-	-	10
Officer Payments - Mileage	3.1	8	8	8	8
Officer's Travel & Subsistence	1.0	-	-	-	10
Outlook/Email	0.8	-	-	10	-
Parks & Countryside	0.7	-	15	-	-
Partnership Arrangements	12.6	-	10	-	-
Payroll & Absence Recording	17.3	26	26	26	26
PCI Compliance	10.0	-	-	10	-
Pension Payments/Early Retirement	9.0	-	10	-	10
Performance Management Framework	15.0	15	15	15	15
Personal Budgets & Direct Payments	3.0	11	11	11	11
Physical Disability & Sensory Impairment	0.0	-	-	-	10
Planning & Partnerships Team	2.5	-	-	-	15
Planning School Places & School Asset Management	7.2	-	15	-	-
Private Finance Initiative	0.9	-	4	4	4
Private Sector Housing	5.3	-	10	-	-
Property Management	7.2	-	30	-	-
Recruitment Services	5.4	8	8	8	8
Referral & Assessment - Adults	5.4	12	12	12	12
Referral & Assessment - Childrens	5.4	15	15	15	15
Registration & Bereavement Services	4.4	15	-	-	15
Remote Access	0.6	-	-	-	10
Safeguarding Children	7.0	15	-	15	-
Sale of Council Houses	2.6	-	-	-	10
Scheme of Delegation	3.9	15	-	-	-
Section 17 Payments	3.4	-	-	16	-
Security & Surveillance	7.7	-	-	20	-
Server Operating Systems	1.0	5	5	5	5
Software Controls	1.7	10	-	-	-
Sponsorship	0.0	-	-	-	5
Sports Development	2.6	-	-	-	5
Stockton Collections	8.4	5	-	5	-
Street Lighting	7.8	-	-	15	-
Taxation	6.4	12	12	12	12
Tees Valley Music Service	2.4	10	-	-	-
Trading Standards	4.8	-	30	-	-
Traffic Management & Road Safety	1.9	15	-	-	-
Treasury Management	3.2	7	7	7	7
Troubled Families Initiative	21.1	20	20	20	20
VAT	4.8	6	6	6	6
Virtualisation	1.0	6	6	6	6
Visitor Information Services	1.4	-	-	10	-
Voluntary Sector	5.8	-	-	-	10
Waste Management	5.6	-	-	-	30
Website & Intranet	0.6	-	-	10	-

Welfare Rights	7.9	-	-	7	-
Workforce Development	0.4	-	-	-	12
Xentrall Governance	2.0	-	-	4	-
Youth Offending and Prevention	3.1	8	8	8	8
Advice & Guidance		50	50	50	50
Audit Liaison and Planning - Not Audit Specific	< n/a >	20	20	20	20
Audit Recommendations Follow Up	< n/a >	40	40	40	40
Continuous Monitoring Contingency	< n/a >	200	75	75	75
Grants	15.0	30	30	30	30
ICT Individual Systems	< n/a >	66	66	66	66
Procurement/Contract Management	< n/a >	62	62	62	62
Risk Management	< n/a >	35	35	35	35
Schools	< n/a >	25	25	25	25
Provision for new unplanned audits during the period	< n/a >	50	50	50	50

Days	1373	1373	1375	1375
-------------	-------------	-------------	-------------	-------------

Audits	80	87	90	93
---------------	-----------	-----------	-----------	-----------

Available Resources

Standard Days	1998	1989	1990	1989
Admin	268	268	268	268
Annual Leave	219	219	219	219
Sickness	24	24	24	24
Staff Appraisals	17	17	17	17
Statutory Holiday	64	64	64	64
Training	24	24	24	24

Available Days	1382	1373	1374	1373
-----------------------	-------------	-------------	-------------	-------------

Balance	9	0	-1	-2
----------------	----------	----------	-----------	-----------

Internal Audit Quality Assurance and Improvement Process

Understanding the Purpose of Internal Audit

The requirement to have an internal audit function is set out in the accounts and audit regulations 2015. They state:

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

The proper practices referred to are the Public Sector Internal Auditing Standards (PSIAS) and they have applied the following definition:

“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

These requirements can be broken down into the following three areas:

- Adding Value & Improving Operations
- Adequate Coverage of all Risk Management, Control and Governance Processes (i.e. the system of internal control)
- Processes that are Systematic and Disciplined

In order to ensure the service is able to achieve these requirements we need to ensure our people are managed effectively.

The service has developed a balanced scorecard which is supported by an action plan to measure and monitor our achievement of these objectives.

Internal Audit Balanced Scorecard

Stewardship - Adequate Coverage

- Portfolio reviewed including senior management by 31 December
- Plan of audit work for the financial year agreed by 31 March
- Annual report produced by 30 June giving an independent audit opinion supported by sufficient, reliable, relevant and useful information.
- Percentage of audit portfolio covered in year. Target 45%.
- Anti-Fraud and Corruption Strategy reviewed annually and published by 30 June.
- NFI matches reviewed. High Priority - 3 Months, Remainder - 9 Months
- Performance updates presented at each Audit Committee meeting

Stakeholders - Add Value and Improve

- Portfolio reviewed including senior management by 31 December
- Plan of audit work and Audit Charter for the financial year agreed by 31 March
- Overall satisfaction rating. Target 90%
- Time to issue draft report following completion of fieldwork. Target 14 Days
- Time to issue final report following client response. Target 3 Days
- 3* and 4* recommendations implemented by original due date. Target 90%
- Cost of assurance audits completed within 15% of budget time. Target 90%

Purpose - To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

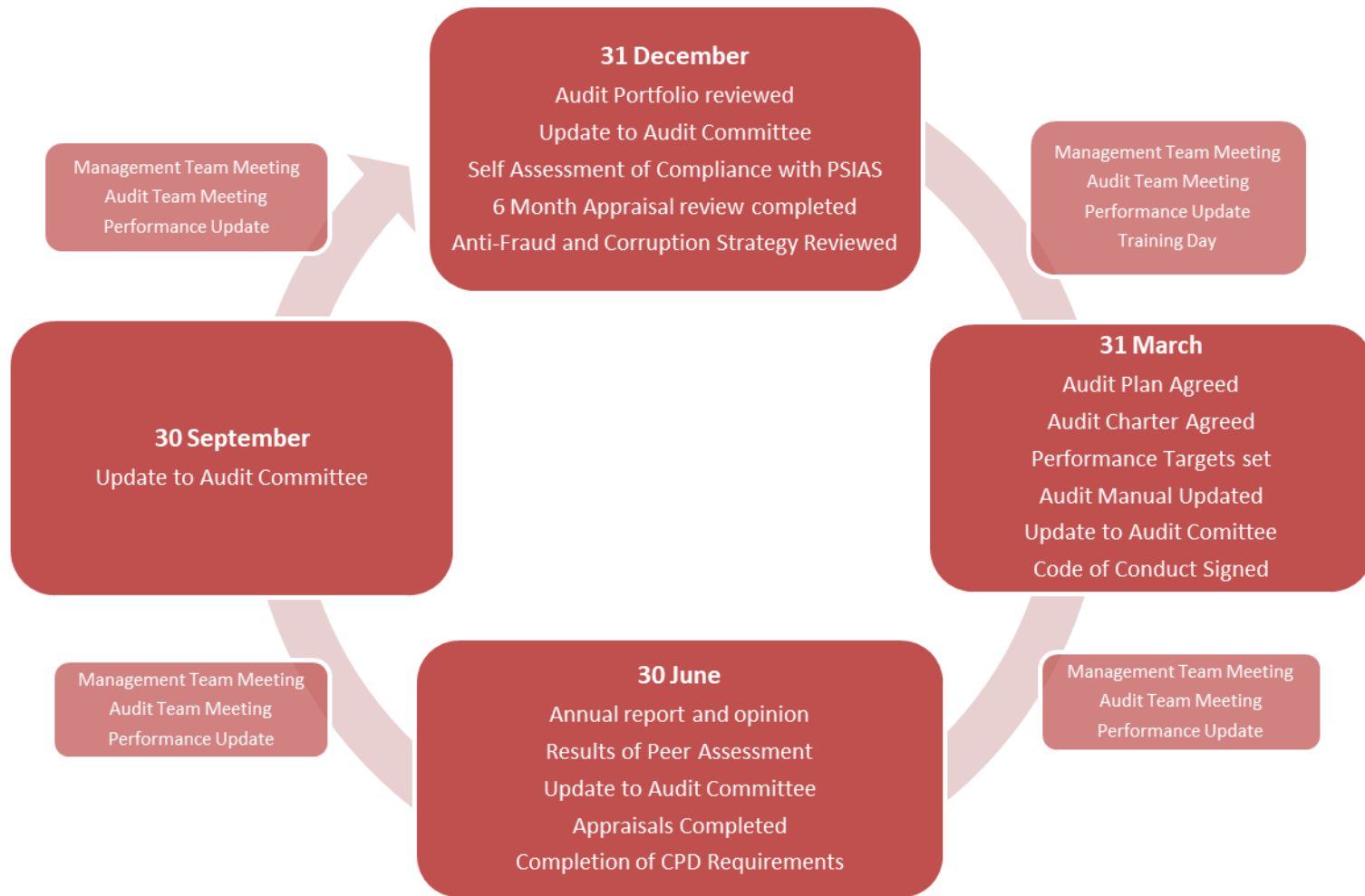
Process

- Assessed as complying with the Public Sector Internal Audit Standards by a group of peers
- Management of the audit process, number of audits released for review prior to planned release date. Target 90%
- Management meetings undertaken at least every 2 months.
- Audit manual reviewed and updated by the 31 March each year.
- Accuracy of final reports, number of final reports needing to be re-issued. Target < 5

People

- Completion of CPD requirements. Target 100% of staff with a minimum of 20 Hrs.
- Annual training day delivered by 31 December
- Audit team meetings held at least every 2 months
- Appraisals undertaken by 30 June with a 6 month review
- 100% of auditors agree to abide by the auditor code of conduct
- Time lost to sickness/vacancies. Target 23 days

Internal Audit Assurance Cycle



AUDIT COMMITTEE
17 April 2019

AUDIT SERVICES ANNUAL AUDIT PLAN 2018/19 – PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with a progress report against the 2018/19 Annual Audit Plan in accordance with Audit Services' role and terms of reference.

Summary

2. The report outlines progress to date on audit assignment work, consultancy/contingency activity and performance indicators.
3. The shared service was a new service beginning 1 April 2017 and brought together two teams from different organisations as well as a new approach to delivering the audit opinion.
4. In relation to Audit Services' performance a detailed report is provided with good progress to date.

Recommendation

5. It is recommended that the progress report against the 2018/19 Annual Audit Plan be noted.

Reasons

6. The recommendation is supported to provide the Audit Committee with evidence to reflect on the Council's governance arrangements.

Andrew Barber
Audit & Risk Manager

Background Papers

- (i) Internal Audit Charter
-

(ii) Audit Assignment Executive Summaries

Andrew Barber: Extension 156176

S17 Crime and Disorder	Other than any special investigation work there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Information and Analysis

7. The Annual Audit Plan for 2018/19 was approved by the Audit Committee in March 2018 and the Service was formally implemented on 1 April 2017.
8. The report should be considered in the context of fulfilling the function to monitor the adequacy and effectiveness of the Council's internal control environment and the Internal Audit service provided.
9. Appendix 1 provides members with detailed feedback on the performance of the service and the position in relation to completion of the audit plan. The plan is largely complete, those audits on-going the fieldwork is complete there have been some minor delays with exit meetings and minor queries. There are 4 audits where the start has been delayed but these are expected to be complete in the coming weeks.
10. The audit team is now at full capacity with the vacancy filled in May 2018.

11. In line with good practice, at an appropriate time, Audit Services follow up with Managers progress on implementation of audit recommendations agreed in audit reports.
12. In addition, at the request of clients, consultancy work has been undertaken on specific projects. This time is recorded against Advice & Guidance in the attached appendix. So far to date this has been limited to day to day queries
13. The Shared Service has also responded to routine requests from Groups for advice and guidance on operational matters.

Outcome of Consultation

14. There was no formal consultation undertaken in production of this report.

**INTERNAL AUDIT
AUDIT COMMITTEE UPDATE REPORT
2018/19**

1 AUDIT PROGRESS

- 1.1 The plan, approved on 26 March 2018, was based on an audit assessment of risk which uses a number of factors to determine the likelihood of issues occurring including an understanding of the full scope of systems in operation, major change, concerns/external interest and results of previous audit work. It then assesses the impact any issues may have on the council's strategic objectives, reputation, financial plans, assets and also the potential impact on individuals and/or the environment.

Audit Progress by Service Group

Department	Planned Audits	Cancelled Audits	Unplanned Audits	Revised Audits	Completed	In Progress	Under Review	Drafts Issued	Not Started	Ready to Start
Children's and Adult Services	17	0	0	17	4	4	3	4	1	1
Economic Growth & Neighbourhood Services	18	0	0	18	11	2	0	3	0	2
Resources	6	0	0	6	3	1	2	0	0	0
Law & Governance	5	0	0	5	3	2	0	0	0	0
Schools	1	0	0	1	1	0	0	0	0	0
Xentrall	16	0	0	16	10	4	1	1	0	0
Corporate	12	0	0	12	2	7	2	1	0	0
Contingency	8	0	0	8	6	1	1	0	0	0
SBC Only	2	0	0	2	1	0	0	1	0	0
TVCA Only	3	0	0	3	0	2	1	0	0	0
Totals	88	0	0	88	41	23	10	10	1	3

Actual Days Compared to Planned Days

- 1.2 The Audit Plan is constantly revised during the year to take account of changing requirements. Amendments to the Plan agreed on 26 March 2018 can be summarised as follows:

2018/19 Planned Audits Amalgamated/Cancelled/Deferred

None

2018/19 Unplanned Audits Added to the Plan

None

1.3 Counter Fraud

Since the last update both the website and intranet have been updated with a fully revised fraud page. This provides some useful videos and tips on identifying and preventing fraud as well as links to other resources.

The National Fraud Initiative data has been submitted with results received and now being investigated.

The strategy has been updated and is the subject of a separate report.

2 AUDIT OUTPUT

Engagement Opinions

2.1 For each audit carried out Internal Audit provides an overall conclusion as to whether a sound system of internal control is being maintained. Each opinion is either “Full”, “Substantial”, “Moderate”, “Limited”, or “No” assurance depending on the conclusions reached and the evidence to support those conclusions. “Full” and “substantial” assurance normally indicates that the area under review has a reliable system of internal control.

2.2 These individual opinions are summarised below:-

Opinion	Definition	No.	%
Full Assurance	A sound system of internal controls is currently being applied which will ensure the system achieves its objectives. Whilst not essential there may still be scope for these controls to be enhanced in some areas.	18	44
Substantial Assurance	Overall there is a sound system of internal controls that are operating effectively. The system should achieve its objectives but there are areas where internal controls need to be improved.	13	32
Moderate Assurance	A reasonably sound system of internal controls is being applied, however, there are weaknesses which may put some of the system objectives at risk.	0	0
Limited Assurance	There is either a limited system of internal controls being applied, or there are significant weaknesses in the controls in place, which are posing a substantial risk to the achievement of system objectives.	0	0
No Assurance	The system of internal controls in place is failing and system objectives are not being met. Urgent management attention is required.	0	0
N/A	This classification covers audit work within a small part of a system. Providing an opinion on this work would misrepresent the system as a whole.	10	24
Total		41	

2.3 An analysis of the recommendations supporting these opinions by priority is shown below:-

Priority	Definition	No.	%
Critical	Actions that must be taken immediately to manage significant risks that are likely to prevent the Authority achieving one or more of its corporate objectives.	0	0
High	Actions that should be taken as a matter of priority due to the issues identified posing a substantial risk to the achievement of service/system objectives.	8	15
Medium	Required actions to reduce the risk of systems failing to achieve their objectives.	30	58
Low	Beneficial to the improvement of internal controls, which will support the achievement of objectives.	14	27
Total		52	

Details of Audits by Service Group

2018/19

Department	No. of Audits Issued	Opinions						No. of Recs Made	Previous Recommendations			
		Full	Sub	Mod	Lim	None	N/A		Tested	Passed	Failed	N/A
Children's and Adult Services	4	2	2	0	0	0	0	11	6	1	3	2
Economic Growth & Neighbourhood Services	11	3	7	0	0	0	1	18	31	19	12	0
Resources	3	1	2	0	0	0	0	11	0	0	0	0
Law & Governance	3	1	1	0	0	0	1	3	4	2	1	1
Schools	1	1	0	0	0	0	0	0	0	0	0	0
Xentrall	10	9	0	0	0	0	1	0	0	0	0	0
Corporate	2	1	1	0	0	0	0	9	0	0	0	0
Contingency	6	0	0	0	0	0	6	0	0	0	0	0
SBC Only	1	0	0	0	0	0	1	0	0	0	0	0
TVCA Only	0	0	0	0	0	0	0	0	0	0	0	0
Total	41	18	13	0	0	0	10	52	41	22	16	3

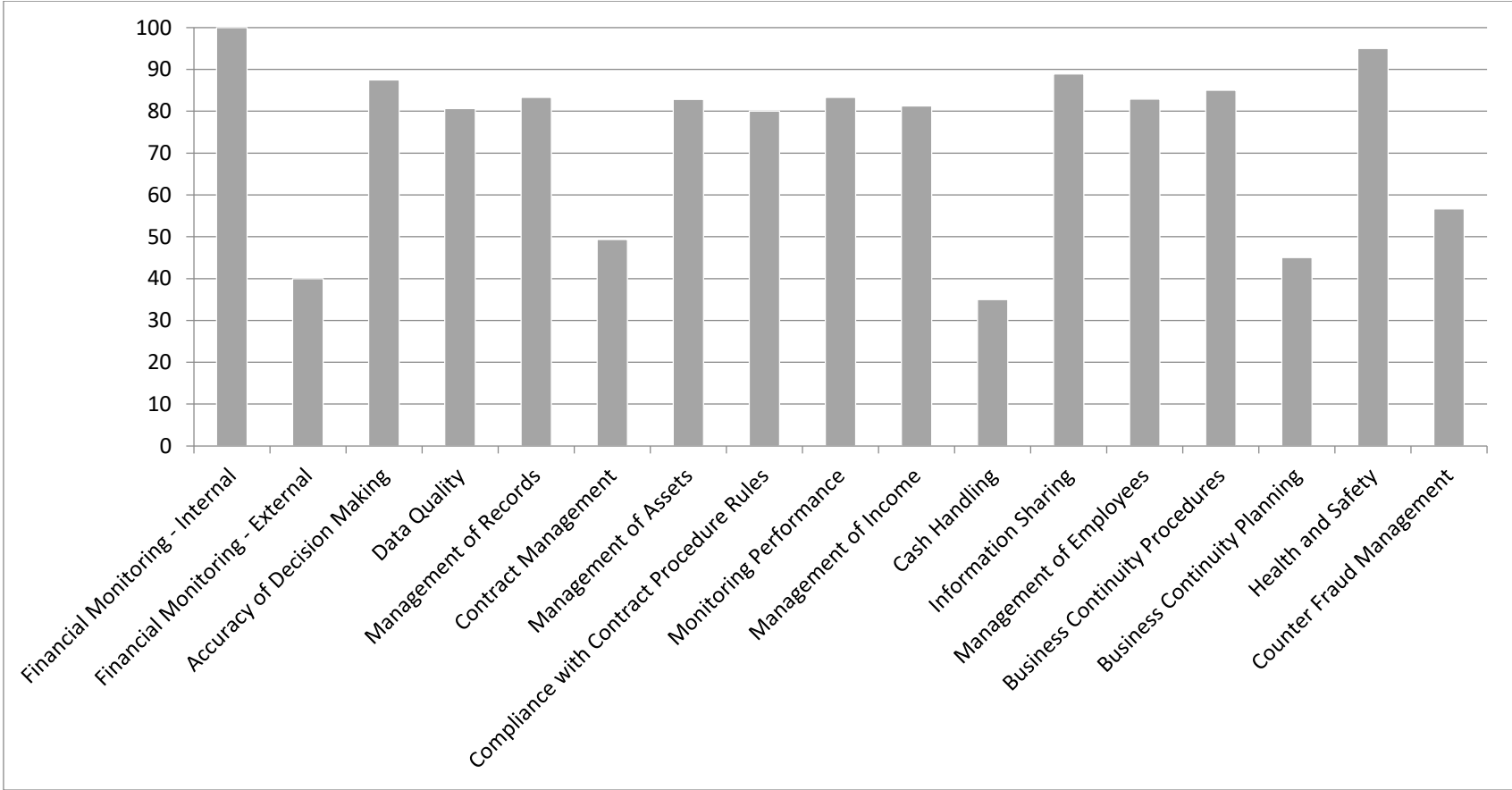
Page 110

2017/18

Department	No. of Audits Issued	Full	Sub	Opinions				No. of Recs Made	Previous Recommendations			
				Mod	Lim	None	N/A		Tested	Passed	Failed	N/A
Children's and Adult Services	15	2	6	0	0	0	6	9	9	3	0	2
Chief Executive	1	0	1	0	0	0	0	0	0	0	0	0
Neighbourhood Services & Resources	23	7	11	0	0	0	3	27	32	22	3	7
Xentrall	13	13	0	0	0	0	0	2	0	0	0	0
Economic Growth	9	2	4	0	0	0	3	8	12	8	2	2
Corporate	3	2	1	0	0	0	0	3	4	3	0	1
Schools	0	0	0	0	0	0	0	0	0	0	0	0
ICT Systems	0	0	0	0	0	0	0	0	0	0	0	0
Total	64	26	23	0	0	0	12	49	57	36	5	12

Trend Analysis

2.4 Below is a graph demonstrating the level of compliance across a number of themed tests. The majority of areas are shown as Substantial Assurance (70%) however there are a number of areas below this level. In part this is caused by a small sample size in those areas however recommendations made will require close monitoring and there will be additional focus on these areas moving into 2019/2020.



2.5 Shown below is a list of all the audit engagements undertaken during the year together with their assurance opinion.

2018/19 Audit Plan Current Position as at 31st March 2019

Department	Audit ID	Name	Status	Assurance	Recommendations						Final Var
					L	M	H	C	Bud	Rem	
Corporate	2602	Financial Management	In Progress						5.0	5.0	
Corporate	2603	Council Plans	In Progress						5.0	5.0	
Contingency	2604	Risk Management	Complete	N/A	0	0	0	0	35.0		22.3
TVCA Only	2605	Concessionary Travel Scheme	In Progress						15.0	11.4	
Corporate	2606	Absence Management	In Progress						10.0	6.1	
Xentrall	2607	Active Directory	Complete	Full Assurance	0	0	0	0	6.0		0.1
Children's and Adult Services	2608	Adult Safeguarding	In Progress						20.0	8.3	
Resources	2609	Communications Unit	Under Review						15.0	0.0	
Economic Growth & Neighbourhood Services	2610	Building Control	Draft						7.0	0.6	
Xentrall	2611	Cloud Computing	Complete	Full Assurance	0	0	0	0	5.0		1.5
Economic Growth & Neighbourhood Services	2612	Asset Register/Asset Management	Draft						7.0	0.5	
Corporate	2613	Business Continuity & Emergency Planning	In Progress						10.0	10.0	
Economic Growth & Neighbourhood Services	2614	Business Support & Development	Ready to Start						25.0	23.8	
Children's and Adult Services	2615	Child Placement - Adoption	Draft						7.0	3.8	
Children's and Adult Services	2616	Independent Living - Remote Monitoring	Complete	Substantial Assurance	3	4	1	0	20.0		-9.9

Xentrall	2617	Creditors	Under Review						20.0	0.0	
Corporate	2618	Cash Offices & Cash Holdings	Complete	Substantial Assurance	2	2	5	0	25.0		-29.2
Children's and Adult Services	2619	Better Care Fund	In Progress						20.0	20.0	
Resources	2620	Client Financial Services	Complete	Substantial Assurance	1	2	0	0	12.0		-0.4
Law & Governance	2621	Complaints Review	Complete	Full Assurance	0	0	0	0	9.0		-5.7
Children's and Adult Services	2622	Community Transport	Under Review						7.0	0.0	
Xentrall	2623	Change Control	Complete	Full Assurance	0	0	0	0	6.0		-1.0
Law & Governance	2624	Democratic & Development Services	In Progress						10.0	0.1	
Economic Growth & Neighbourhood Services	2625	Security & Surveillance	Complete	Substantial Assurance	1	4	1	0	20.0		-8.2
Economic Growth & Neighbourhood Services	2626	Car Parking	Complete	Substantial Assurance	0	1	0	0	10.0		-9.1
Law & Governance	2627	Elections	In Progress						20.0	10.7	
Xentrall	2628	ICT Project Management	Complete	Full Assurance	0	0	0	0	10.0		0.8
SBC Only	2629	Members Payments and Allowances/Travel and Subsistence	Complete	N/A	0	0	0	0	15.0		9.2
Economic Growth & Neighbourhood Services	2630	Dolphin Leisure Centre	Complete	Substantial Assurance	3	6	1	0	15.0		-4.5
SBC Only	2631	Heating, Ventilation, Electrical & Building Services	Draft						20.0	3.7	
Economic Growth & Neighbourhood Services	2632	Housing Benefits	Complete	Substantial Assurance	0	0	0	0	18.0		-3.1
Xentrall	2633	Remote Access	Complete	Full Assurance	0	0	0	0	10.0		0.3
Xentrall	2634	Debtors	In Progress						16.0	3.5	
Economic Growth & Neighbourhood Services	2635	Highways Maintenance Operational	In Progress						13.0	9.6	
Resources	2636	Customer Services	Complete	Substantial Assurance	0	4	0	0	25.0		8.1
Corporate	2637	Information Management	In Progress						10.0	9.3	
Corporate	2638	Inventories	Draft						10.0	0.0	

Children's and Adult Services	2639	Harewood Hill Lodge	Complete	Substantial Assurance	0	3	0	0	5.0		-6.7
Economic Growth & Neighbourhood Services	2640	Housing Rents	Draft						15.0	0.0	
Economic Growth & Neighbourhood Services	2641	Dolphin Centre Catering	Complete	Substantial Assurance	1	5	0	0	10.0		-6.8
Law & Governance	2642	Land Charges	Complete	Substantial Assurance	0	3	0	0	6.0		-6.6
Economic Growth & Neighbourhood Services	2643	Highways Maintenance Management	Complete	Full Assurance	0	0	0	0	10.0		-2.8
Economic Growth & Neighbourhood Services	2644	Highways Inspection	In Progress						7.0	0.4	
Xentrall	2645	Hardware Controls	In Progress						10.0	3.6	
Children's and Adult Services	2646	Leaving Care	Draft						7.0	0.0	
Economic Growth & Neighbourhood Services	2647	Flooding Risk Management	Complete	N/A	0	0	0	0	5.0		5.0
Children's and Adult Services	2648	First Contact	In Progress						3.0	2.9	
Economic Growth & Neighbourhood Services	2649	Sale of Council Houses	Complete	Substantial Assurance	0	4	0	0	10.0		-0.9
Children's and Adult Services	2650	Independent Sector Assessment & Payments	Draft						15.0	0.0	
Contingency	2651	Anti-Fraud Management	Complete	N/A	0	0	0	0	35.0		13.2
Xentrall	2652	Bank Reconciliation	Complete	Full Assurance	0	0	0	0	12.0		6.8
Corporate	2653	DBS Procedures	Under Review						6.0	0.0	
Economic Growth & Neighbourhood Services	2654	Development Services	Complete	Substantial Assurance	0	2	0	0	9.4		-12.1
Children's and Adult Services	2655	Referral & Assessment - Childrens	In Progress						15.0	10.3	
Children's and Adult Services	2656	Early Years & Complex Needs	Not Started						8.0	1.7	
Xentrall	2657	Virtualisation	Complete	Full Assurance	0	0	0	0	6.0		2.2
Children's and Adult Services	2658	Emergency Duty Team	Complete	Full Assurance	0	0	0	0	3.0		0.7

Children's and Adult Services	2659	Looked After Children	Draft						12.0	8.8	
Corporate	2660	Officer Payments - Mileage	Complete	Full Assurance	0	0	0	0	8.0		-1.6
Xentrall	2661	Network Management	In Progress						10.0	1.9	
Xentrall	2662	PCI Compliance	Complete	N/A	0	0	0	0	10.0		9.5
Xentrall	2663	Pension Payments/Early Retirement	Complete	Full Assurance	0	0	0	0	10.0		-0.7
Resources	2664	Treasury Management	Complete	Full Assurance	4	0	0	0	7.0		-0.3
Resources	2665	VAT	In Progress						6.0	0.0	
Economic Growth & Neighbourhood Services	2666	Taxation	Complete	Full Assurance	0	0	0	0	12.0		-16.0
Corporate	2667	Recruitment Services	In Progress						6.0	3.6	
Xentrall	2668	Server Operating Systems	Draft						5.0	3.4	
Corporate	2669	Performance Management Framework	In Progress						15.0	15.0	
Resources	2670	Personal Budgets & Direct Payments	Under Review						7.0	0.0	
Children's and Adult Services	2671	Troubled Families Initiative	Complete	Full Assurance	0	0	0	0	16.0		-3.8
Xentrall	2672	Firewalls	Complete	Full Assurance	0	0	0	0	6.0		-0.6
Children's and Adult Services	2673	Referral & Assessment - Adults	Ready to Start						12.0	8.1	
Xentrall	2674	Payroll & Absence Recording	In Progress						26.0	0.0	
Corporate	2675	Workforce Development	Under Review						12.0	0.0	
Economic Growth & Neighbourhood Services	2676	Environmental Health	Complete	Full Assurance	0	0	0	0	6.0		-1.8
Economic Growth & Neighbourhood Services	2677	Enforcement	Ready to Start						7.0	0.0	
Law & Governance	2678	Mayor's Charity Fund	Complete	N/A	0	0	0	0	2.0		0.0
Children's and Adult Services	2679	Youth Offending and Prevention	Under Review						8.0	2.0	
Children's and Adult Services	2680	Early Years, Children's Centres & Childcare	Under Review						8.0	0.0	
Schools	2681	Schools	Complete	Full Assurance	0	0	0	0	25.0		14.1

Contingency	2682	Grants Contingency	Complete	N/A	0	0	0	0	25.0		-13.7
TVCA Only	2683	Investment Plan	Under Review						13.0	13.0	
TVCA Only	2684	Core Systems	In Progress						7.0	7.0	
Contingency	2685	Procurement/Contract Management	Under Review						62.0	22.6	
Contingency	2686	ICT Individual Systems	In Progress						66.0	47.1	
Contingency	2687	Continuous Contingency	Complete	N/A	0	0	0	0	65.0		28.0
Contingency	2689	Audit Liaison & Planning	Complete	N/A	0	0	0	0	20.0		-15.2
Contingency	2690	Advice & Guidance	Complete	N/A	0	0	0	0	50.0		23.4

This page is intentionally left blank

ANTI-FRAUD AND CORRUPTION STRATEGY 2019-2020

SUMMARY REPORT

Purpose of the Report

1. To advise Members of the Anti-Fraud and Corruption arrangements for the period 2019-2020.

Information and Analysis

2. Estimates suggests in excess of £300m is being lost to fraud in local government. With the pressures faced by our services it is imperative that we are able to ensure the funds we have are not being lost to fraudsters.
 3. The Chartered Institute of Public Finance and Accountancy (CIPFA) take the lead on providing advice and guidance to the sector on managing the fraud risk. They also co-ordinate annual surveys of fraudulent activity detected across local government.
 4. A Code of Practice on Managing the Risk of Fraud and Corruption was published by CIPFA in October 2014. The code has 5 distinct strands:
 - Acknowledge Responsibility
 - Identify Risks
 - Develop a Strategy
 - Provide Resources
 - Take Action
 5. The attached strategy has been developed in line with the code of practice with each of the 5 themes addressed. The format of the strategy has been redefined from previous versions to improve the visual appeal of the strategy and make it more effective.
 6. The strategy is endorsed by senior management with a foreword provided by the Assistant Director - Resources as the responsible finance officer and the Chair of the Audit Committee reflecting the importance of tackling fraud within the authority.
 7. At the core of the code is understanding our fraud risk and ensuring we provide adequate resources to address the areas of greatest risk. A risk has been added to the strategic risk register to facilitate this.
 8. Based on the results of local counter fraud activity and the national estimates of where fraud occurs it would appear the resources we have available and where they are deployed are commensurate with the current level of risk exposure. There are a
-

number of emerging risk areas (specifically social care and procurement), work will be undertaken from existing resources to assess the risk posed and whether there is a need for additional controls in those areas.

9. There are a significant number of promotional materials available to support counter fraud efforts. Included in the strategy are a number of actions around raising awareness and ensuring everyone understands the risk of fraud therefore helping to prevent fraud occurring and where it does to ensure it is reported and appropriate action is taken.
10. The audit plan supports the fraud risk assessment process providing advice and guidance where controls need to be improved. Good practice suggests continuous monitoring is an effective process for detecting fraud early. Much of the work within the audit plan is moving towards continuous monitoring not only to improve the efficiency and effectiveness of the audit service but also to support the early detection of fraud reducing its impact.

Anti-Fraud and Corruption Strategy 2018/2019 Update

11. A number of actions were identified in the 2018/2019 strategy and a position statement is provided below:
 - a. Intranet pages were reviewed and updated during the year. The intranet page includes guidance and training materials for staff.
 - b. Fraud risk assessment has been reviewed at regular intervals during the year.
 - c. The authority participated in the National Fraud Initiative Data Matching exercise.
 - d. Progress has been made on the programme of continuous auditing.
 - e. Audits have considered management arrangements for the prevention and detection of fraud.
 - f. A number of awareness campaigns were undertaken including press releases and social media posts during international fraud awareness week in November and updates to staff via the weekly briefing throughout the year.
 - g. Publication of relevant fraud information is included within the strategy itself.

Recommendation

12. It is recommended that :-

- a. That the Audit Committee approves the Anti-Fraud and Corruption Strategy (**Appendix A**).

Reason

13. The recommendation is supported as it comprises part of the Council's corporate governance arrangements.

Andrew Barber
Audit and Risk Manager

Background Papers

- (i). CIPFA Code of Practice on Managing the Risk of Fraud and Corruption

Andrew Barber : 01642 526176 Internal : 156176

S17 Crime and Disorder	Other than any special investigation work required there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

This page is intentionally left blank

Anti-Fraud & Corruption Strategy

2019/2020

Foreword

Welcome to Darlington Borough Council's Anti-Fraud and Corruption Strategy. Fraud and corruption is estimated to cost the public sector £702m a year in the UK with estimates in the region of £302m in local government alone. Nationally, Council Tax & Housing Fraud continue to be areas where significant fraud occurs and Social Services and Procurement fraud have been identified as the areas of greatest risk. Clearly this is an unacceptable waste of taxpayers money and each of us has a role to play in preventing this waste and ensuring those funds are available to deliver services to our residents.

This document will outline some of the good work that is already taking place as well as looking at ways we can improve our systems and processes to prevent future waste. Despite relatively low levels of fraud detected locally we mustn't rest on our laurels and we will continue our work to tackle Housing Fraud and Council Tax fraud whilst looking to further develop the work we do to tackle fraud in emerging areas such as Social Services and Procurement. With your help and support we can ensure funds go into our vital services rather than lining the pockets of criminals.

Elizabeth Davison - Assistant Director - Resources

As a councillor and chair of the audit committee I see every day the commitment of our staff to ensure services are delivered to the very best of our ability to our residents. It is disheartening that despite all of this effort we could be doing more if funds were not being diverted away from vital services into the hands of criminals. We have in place a robust governance framework to help reduce the risk of fraud but as ever it is you, our staff who have the most vital role to play by being vigilant and conscious of the fact that fraud may be occurring. Together we can ensure funds are used in the right way to continue to deliver the very best services to our residents.

Cllr Paul Baldwin - Audit Committee Chair

Fraud – this is defined by the Fraud Act 2006 "A person shall be guilty of fraud if he

- dishonestly makes a false representation, or
- dishonestly fails to disclose to another person information which he is under a legal duty to disclose, or
- occupies a position in which he is expected to safeguard or not to act against the financial interests of another person and dishonestly abuses that position

AND

- intends to make a gain for himself or another or to cause loss to another or expose another to a risk of loss"

The Council recognises that as well as causing financial loss, fraud is also detrimental to the provision of services, and damaging to the reputation of, and confidence in, the Council, public bodies in general and reputable businesses.

The Council is clear that it will not tolerate any impropriety by employees, elected Members or third party organisations.

Understanding the Fraud Risk

1	Fraud & Corruption	Failure to detect or prevent fraud and corruption.				
Causes	Implications	Risk Status				
<ul style="list-style-type: none"> Breach in standards, corporate policies or procedures. Poor recruitment standards, or vetting of contractors. Economic recession and individual circumstances create pressures and motivate the crime. Bribery or collusion. Opportunity provided by system weakness and poor internal controls. Erosion of ethics. Employee disaffection. 	<ul style="list-style-type: none"> Financial loss. Negative publicity and adverse impact on reputation. Loss or damage to resources or infrastructure. Data loss or breach. Detrimental impact on service provision and local taxpayers. 	<p>The Council has a responsibility to protect public funds for which we are responsible. Fraud on public funds is unacceptable therefore the Council is committed to minimising the risk of fraud, corruption and misappropriation. Development of an anti-fraud culture is part of improving resilience to fraud, through raising awareness, clearly defined responsibilities, robust reporting mechanisms and a suitability resourced anti-fraud strategy.</p> <p>The national picture suggests that whilst the number of cases per individual authority may be relatively low it is likely there are a number of the other categories where we have not detected any to date. The highest level of fraud across the public sector relates to housing, procurement, adult social care and council tax. Welfare benefit cases are referred to the Single Fraud Investigation Service for investigation. Instances of procurement fraud can be costly. Losses in relation to adult social care can also be financially significant, however the average value in the other areas tends to be relatively low. The Council does tend to focus its efforts in the areas where the highest numbers currently exist so the potential value of frauds not currently being actively pursued will be relatively low. We will be looking to develop our work in the areas of procurement and adult social care in the coming 12 months.</p>				
		Current Risk		Desired Outcome		
		Impact	Likelihood	Score	Impact	Likelihood
3	4	12	2	2	4	

Detection

- The Council will use all legal and cost effective means to detect fraud, corruption and bribery including working with other organisations in national data matching schemes e.g. the National Fraud Initiative, Housing Benefit Matching Service, HMRC Taxes Management Act Returns. This may require the lawful sharing of information.
- Risk based Internal Audit Plan that ensures areas with a high risk of fraud are reviewed at least annually.
- Elected Members, staff and external stakeholders are expected to report suspected fraud, corruption or bribery promptly.

Prevention

- The establishment of adequate internal control systems to prevent fraud is the responsibility of Management.
- The Chief Executive, Directors and Assistant Directors are responsible for assessing the effectiveness of internal control systems in relation to fraud, corruption and bribery.
- Internal Audit coverage is sufficient to provide annual assurance to the Council's Audit Committee and supports managers by assessing controls in relation to the prevention of fraud.
- Awareness raising with staff around the importance of maintaining adequate control systems.

How we tackle Fraud

Respond

- All instances of suspected fraud must be notified to Internal Audit service to enable the completion of annual returns and to form evidence to support the Annual Governance Statement.
- Investigation will be conducted by the most appropriate section as detailed below:
 - Fraud involving employees will be investigated in accordance with the Council's Disciplinary Procedures by a nominated Investigation Manager with support from the Internal Audit Service.
 - Allegations of improper conduct made against members will be managed by the Monitoring Officer.
 - Other fraud committed against the council will be considered on a case by case basis to determine the most appropriate section to undertake the investigation.
- The Council will adhere to the provisions of the Regulation of Investigatory Powers Act (RIPA) and Money Laundering Legislation.
- Any decision to involve the Police in any investigation of fraud will be taken by the Section 151 Officer in consultation with the Chief Executive and the Monitoring Officer.
- The outcome of the investigation of fraud against the council will be reported appropriately to ensure systems and procedures are amended and to act as a deterrent.
- The Council recognises the need to ensure that its investigation process is not misused. Any abuse such as the raising of malicious allegations by officer/members will be dealt with as a disciplinary matter.
- Sanctions - Including recovery of proceeds (POCA, Civil Law, Pensions)

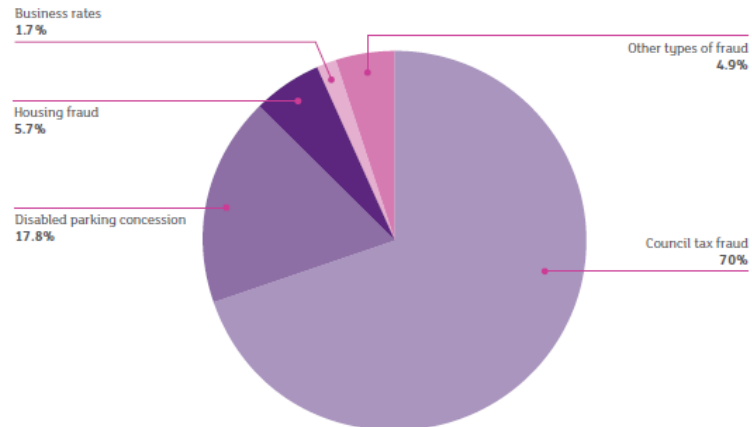
Policy Framework

- Codes of Conduct for Members and Employees;
- Protocol for members on Gifts and Hospitality;
- Confidential Reporting ("Whistleblowing") Policy and Complaints Procedures;
- Contracts Procedure Rules;
- Standing Orders and Financial Procedural Rules;
- ICT Security Policies;
- Robust internal control systems, processes and reliable record keeping;
- Effective Internal Audit;
- Effective Recruitment procedures;
- Disciplinary Policy and Procedures;
- The Regulation of Investigatory Powers (RIPA) Procedure;
- Induction and Training;
- Fraud Response Plan.

Key Facts & Figures

Nationally

Detected fraud by estimated volume



Business Rate fraud has shown the largest growth in the past year, with an estimated £10.4m investigated compared with £4.3m in 2017*

Procurement, adult social care and council tax single person discount are perceived as the three greatest fraud risk areas*

Locally

Actual Detected (£,000s)



■ Council Tax

Investigative Resources Available (2017/2018)

Type	Total FTE	Qualified FTE	Cost of Investigations	No of Investigations
Council Tax, Benefits & Business Rates	0	0	£10,701*	369
Other**	0.3	0	£0	0

* - Northgate run an exercise to identify cases where discount should no longer apply, this cost relates to that exercise.

** - Internal Audit set aside a number of days per year to undertake fraud related work. As no investigations were undertaken during the year there has been no cost as resources were deployed elsewhere.

Types of fraud	Fraud cases	% of the total	Value	% of the total value	Average
Council tax	57,894	70.0%	£26.3m	8.72%	£455
Disabled parking concession	14,714	17.8%	£7.3m	2.43%	£499
Housing	4,722	5.7%	£215.7m	71.43%	£45,677
Business rates	1,373	1.7%	£10.4m	3.45%	£7,580
Other fraud	1,165	1.4%	£10.9m	3.61%	£9,355
Adult social care	737	0.9%	£6.7m	2.23%	£9,124
No recourse to public funds	378	0.5%	£4.3m	1.43%	£11,445
Schools frauds (excl. transport)	285	0.3%	£0.7m	0.24%	£2,537
Insurance claims	281	0.3%	£3.5m	1.15%	£12,317
Mandate fraud	257	0.3%	£6.6m	2.18%	£25,618
Payroll	167	0.2%	£1.0m	0.33%	£6,030
Pensions	164	0.2%	£0.6m	0.19%	£3,492
Procurement	142	0.2%	£5.2m	1.71%	£36,422
Welfare assistance	109	0.1%	£0.0m	0.01%	£337
Debt	91	0.1%	£0.4m	0.12%	£3,948
Children social care	59	0.1%	£0.9m	0.31%	£15,800
Economic and voluntary sector support	57	0.1%	£0.8m	0.26%	£13,467
Recruitment	52	0.1%	£0.5m	0.16%	£9,510
Expenses	34	0.0%	£0.2m	0.01%	£867
School transport	30	0.0%	£0.1m	0.04%	£3,857
Manipulation of data	23	0.0%	N/A	N/A	N/A
Investments	2	0.0%	£0.0m	-	-

The highest number of investigations related to council tax fraud (70%) with a value of £26.3m*

* - Source: CIPFA Fraud and Corruption Tracker 2018

Required Actions	Owner and Target Date
<p>Anti-Fraud Strategy Develop an effective counter fraud strategy setting out our approach to managing the risk of fraud and defining responsibilities for action.</p> <ul style="list-style-type: none"> • Anti-Fraud Strategy to be updated and presented to Audit Committee for approval. • Progress against the Anti-Fraud Strategy and Action Plan to be reviewed quarterly as informed by the risk assessment process. • Review related policies e.g. Whistleblowing and ensure these are up to date and consistent with the Anti-Fraud Strategy. • Review and update as necessary the Internet and Intranet presence for the updated Anti-Fraud Strategy, linked policies and fraud reporting mechanisms. 	<p>April 2019 - Audit & Risk Manager On-going - Audit & Risk Manager</p> <p>February 2019 - Audit & Risk Manager On-going - Audit & Risk Manager</p>
<p>Fraud Risk Assessment Periodic fraud risk assessment undertaken to understand the scale of corporate fraud risk and the potential implications to the organisation.</p> <ul style="list-style-type: none"> • Fraud and Corruption risk included in the Strategic Risk Register. • Quarterly monitoring and update of identified controls, actions and current status. • Assess the extent to which Senior Management identify and monitor fraud risks and increase senior management ownership as necessary. • Reporting fraud risk to Members in line with the Risk Management policy. 	<p>On-going - Audit & Risk Manager On-going - Audit & Risk Manager On-going - Audit & Risk Manager</p> <p>On-going - Audit & Risk Manager</p>
<p>Data Matching Detection of potential fraud through the use of third party data matching.</p> <ul style="list-style-type: none"> • Participation in NFI data matching exercises and review of potential matches in high risk areas. • Increase resources available to review high priority matches identified. 	<p>On-going - Audit & Risk Manager On-going - Audit & Risk Manager</p>
<p>Continuous Audits and the Use of Data Analytics Employ data analytic tools for the purpose of preventing and detecting fraud.</p> <ul style="list-style-type: none"> • Expand the use of IDEA and the programme of continuous auditing. • Increased sharing and matching of internal and/or cross boundary data to develop local counter fraud exercises. 	<p>On-going - Audit & Risk Manager On-going - Audit & Risk Manager</p>
<p>Audit Work Internal Audit assists management in determining whether effective internal controls are in place to manage the risk of fraud.</p> <ul style="list-style-type: none"> • Results of the Fraud and Corruption risk assessment to inform the work of Internal Audit, including systems audit work, proactive fraud and corruption checks (compliance) and fraud awareness activities. • More probing and directed audits to be conducted in key areas of fraud risk. • Fraud Audits to consider management controls over fraud. • Consider fraud as part of every audit. • Issue annual audit opinion on the internal controls related to fraud. 	<p>April 2019 - Audit & Risk Manager</p> <p>On-going - Audit & Risk Manager On-going - Audit & Risk Manager On-going - Audit & Risk Manager June 2019 - Audit & Risk Manager</p>

Required Actions	Owner and Target Date
<p>Awareness Campaigns Employee and Member training and awareness sessions and campaigns to provide information relating to what constitutes fraud and the means to report suspected fraud.</p> <ul style="list-style-type: none"> • Develop e-learning fraud awareness package for Employees and Members. • Establish and deliver a leaflet and poster campaign. • Continue to develop use of Social Media to promote fraud awareness. • Undertake specific fraud awareness training for priority service areas. • Use of briefings, to publish awareness campaigns, particularly during national fraud awareness weeks. 	<p>September 2019 - Audit & Risk Manager July 2019 - Audit & Risk Manager On-going - Audit & Risk Manager On-going - Audit & Risk Manager On-going - Audit & Risk Manager</p>
<p>Publication of Fraud Information Create transparency through the annual publication of public fraud data.</p> <ul style="list-style-type: none"> • Develop a register for recording fraud information. • In line with requirements of the Local Government Transparency Code 2015 the following should be reported on an annual basis: <ul style="list-style-type: none"> • Number of occasions the authority has used powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers. • Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud. • Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists • Total amount spent by the authority on the investigation and prosecution of fraud. • Total number of fraud cases investigated. 	<p>March 2019 - Audit & Risk Manager March 2019 - Audit & Risk Manager</p>

Key Contacts

Internal Audit

Stockton on Tees Borough Council
16 Church Road (Room 135)
Stockton on Tees
TS18 1TX

01642 526176

internalaudit@darlington.gov.uk

Role:

Investigate employee fraud.
Investigate fraud in schools.
Collate statistics.
Maintain the Anti-Fraud & Corruption Strategy.

Revenue Services

Town Hall
Feethams
Darlington
County Durham
DL1 5QT

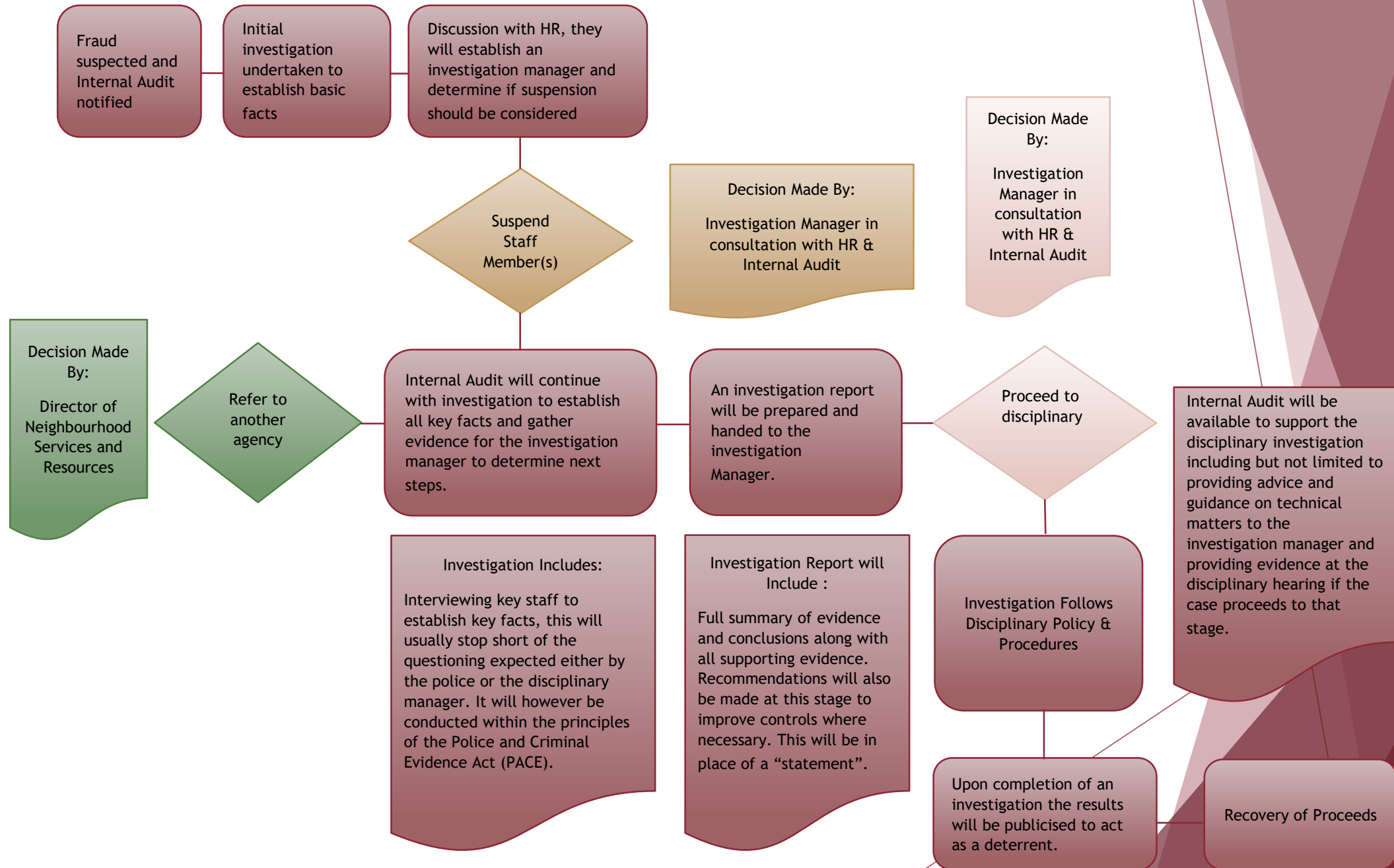
0800 854 440

HBEnquiries@darlington.gov.uk

Role:

Investigate Council Tax Support Fraud.
Liaise with Department for Work and Pensions.

Appendix A - Fraud Response Flowchart (Employee Fraud)



This page is intentionally left blank

**AUDIT COMMITTEE
17 APRIL 2019**

ACCOUNTING POLICIES TO BE APPLIED TO THE 2018/19 FINANCIAL STATEMENTS

SUMMARY REPORT

Purpose of the Report

1. To update Members on the accounting policies to be applied in the preparation of the 2018/19 Statement of Accounts (SoA).

Summary

2. This report confirms that the majority of the Accounting Policies used in the preparation of the 2017/18 Statement of Accounts remain appropriate although there are 2 policies that require updating.
3. Due to the increased activity in the Joint Venture market, the Council will be required to produce Group Accounts for the first time which means that the SoA will need to reflect the Council's share of the joint ventures in the financial statements.

Recommendation

4. The Committee reviews the accounting policies and approves their use in the preparation of the 2018/19 financial statements.

Reasons

5. The recommendations are supported to provide the Audit Committee with evidence to reflect on progress in delivery of the 2018/19 Statement of Accounts.

**Paul Wildsmith
Managing Director**

Background Papers

Code of Practice on Local Authority Accounting In the UK 2018/19

Peter Carrick: Extension 5401

S17 Crime and Disorder	There is no specific crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	Some of the initiatives contained within ICT Strategy will help contribute towards the carbon reduction commitments.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

MAIN REPORT

6. The Accounts and Audit Regulations 2015 and the Local Government Act 2003 require that the Statement of Accounts is produced in accordance with proper accounting practices.
7. One of the responsibilities of the Audit Committee is:
8. *'To review the annual statement of accounts prior to approval. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council'.*
9. Accounting policies are defined in the CIPFA Code of Practice for Local Authority Accounting in the UK 2018/19 as the 'specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements'.
10. The proposed accounting policies are in line with those used in the preparation of the 2017/18 accounts, with the exception of the following that have been updated:
 - (a) b) **Accruals of Income and Expenditure** – amended due to the adoption of IFRS 15 Revenues from Contracts with Customers. This Standard has been introduced to ensure that income is accounted for in the year in which the service has been provided. The impact is not anticipated to have any material effect on our accounts as we account for income and expenditure on an accruals basis.
 - (b) i) **Financial Instruments** – amended due to the adoption of IFRS 9 Financial Instruments – this standard introduces changes to the way in which we classify financial instruments. It will mainly impact upon how we account for our equity instruments and for impairment.
11. Although work is ongoing to establish the effect of IFRS 9 on the Council's accounts there is a statutory override introduced by the Government that enables the Council to take advantage of it in its treatment of its property funds. This statutory override is in place for a minimum of 5 years.
12. The full list of accounting policies the Council proposes to disclose in its Statement of Accounts notes are detailed in **Appendix 1**.

Statement of Accounting Policies

a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. The principal accounting policies have been applied consistently throughout the year.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

b) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance is written down and a charge made to revenue for the income that might not be collected. The Council has adopted a de minimis level of £500 for year-end accruals which means that they are not included in the accounting statements.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

The only exceptions to these principles where costs are not apportioned between years are:

- housing rents are shown in whole weeks
- quarterly accounts e.g. electricity are reflected on the basis of four payments per year

This policy is consistently applied each year and does not materially affect the accounts.

c) **Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions, including on-call accounts and deposits with Money Market Funds, repayable without penalty on notice of not more than 24 hours held to meet short-term cash commitments. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

d) **Prior Period Adjustments, Changes In Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

e) **Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off, and
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

f) **Council Tax and Non-Domestic Rates**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund

(i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Financing and Investment Income an Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

g) Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexi time or time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the relevant service line or, where applicable, to a corporate service line at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards although it is the Council's policy not to award any such enhancements.

Post Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by NHS Pensions
- The Local Government Pensions Scheme, administered by Durham County Council.

The schemes provide defined benefits to members (retirement lump sums and pensions) earned as employees of the Council.

However, the arrangements for the teachers' and the NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Childrens' and Adults Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year as is the employer's contributions payable to the NHS Pension scheme in the year.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Durham County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on high quality corporate bonds).
- The assets of Durham County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
 - current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

- past service cost - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
 - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising
 - the return on plan assets - excluding amounts included in net interest on the net defined liability (asset) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - Contributions paid to the Durham County Council pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

h) Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

i) **Financial Instruments**

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Council has the facility to make loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the recipients of the loans, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the Comprehensive Income and expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains or losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has a portfolio of a number of loans to local businesses. It does not have reasonable and supportable information that is available without undue cost or effort to support the measurement of lifetime losses on an individual instrument basis. It has therefore assessed losses for the portfolio on a collective basis.

Financial Assets Measured at Fair Value through Profit and Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair Value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices - the market price
- other instruments with fixed and determinable payments - discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs - inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs - unobservable inputs for the asset.

Any gains or losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

An equity instrument can be elected into a FVOCI treatment rather than a FVPL treatment if it is not held for trading. The Council has reviewed its assets that would be measured at FVPL on the basis of the business model and has elected to classify instruments as either FVPL or FVOCI on an instrument by instrument basis based on the assessed benefit to the Council from the chosen classification.

As far as Durham Tees Valley Airport shares are concerned the Council has elected to treat them as an equity instrument which is not held for trading and therefore will be utilising the FVOCI treatment.

Instruments entered into before 1st April 2006

The Council has two financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that they are shown in contingent liability note 27.

j) Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and

- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset received in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement.

Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

k) Interests in Companies and Other Entities

The Code of Practice on Local Authority Accounting 2018/19 requires local authorities to produce group accounts to reflect significant activities provided to council taxpayers by other organisations in which an authority has an interest. The Council has reviewed its interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures against the criteria in the Code and concluded that there are no such material interests that require the preparation of group accounts. In the Council's own single-entity accounts, the interest in companies and other entities are recorded as financial assets at cost, less any provision for losses.

l) Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value, with the exception of stores held at Allington Way Depot, which are valued at last price paid. This is a departure from the Code of Practice but the effect of the different treatment is not material. Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus any profit reasonably attributable to the works.

m) Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the

Financing and Investment Income and expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

n) **Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent upon the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the

Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

o) Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

p) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rentals to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Capital expenditure under £5,000 is classified as de-minimis and is charged to the Comprehensive Income and Expenditure Statement. The de-minimis expenditure is financed using existing capital resources or by borrowing, this is posted out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement so there is no impact on the levels of council tax.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but that does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction - depreciated historical cost;
- dwellings - current value, determined using the basis of existing use value for social housing (EUV - SH);
- school buildings - current value, but because of their specialised nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- surplus assets - the current value measurement basis is fair value, estimated at highest and best use from a market participant's perspective;
- all other assets - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market-based evidence of current value because of the specialised nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer;
- infrastructure - straight-line allocation over 30 years.

Where an item of property, plant and equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Assets valued higher than £1m that are made up from different components and whose cost is significant in relation to the total cost of the item are depreciated on a component by component basis. The components used are host (structure), externals, services and roof. Once separated, depreciation is charged across each components useful life as appropriate.

Revaluations gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the

lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

q) **Private Finance Initiative (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the assets used under the contract on its Balance Sheet as part of property, plant and equipment (unless the PFI scheme is a school that has subsequently transferred to Academy status and then it will be removed from the Council's Balance Sheet).

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into three elements:

- fair value of the services received during the year - debited to the relevant service in the Comprehensive Income and Expenditure Statement,
- finance cost - an interest charge of 4.77% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

r) **Provisions, Contingent Liabilities and Contingent Assets**

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council has an obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in note 27 to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential although at present the Council doesn't have any Contingent Assets.

s) **Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

t) **Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

u) **Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue & Customs. VAT receivable is excluded from income.

If the Council was unable to recover exempt input tax it would be included as an expense in the Comprehensive Income and Expenditure Statement.

v) **Schools**

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority.

The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

w) **Heritage Assets**

A heritage asset is defined as an asset with 'historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture'.

Heritage assets are accounted for in accordance with the Council's accounting policies on property, plant and equipment except 'where it is not practical to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets shall be measured at historic cost.' Valuations may also be made by any method that is appropriate and relevant.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment (see page 62). If any heritage assets are disposed of then the proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

x) **Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in highest or best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

- Level 3 - unobservable inputs for the asset or liability.

y) **Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the financial statements, depending on how significant the items are to an understanding of the Council's financial performance.

This page is intentionally left blank

**AUDIT COMMITTEE
17 APRIL 2019**

FINAL ACCOUNTS TIMETABLE FOR THE YEAR ENDED 31 MARCH 2019

SUMMARY REPORT

Purpose of the Report

1. To provide Members with the Final Accounts Closedown Timetable for 2018/19. This timetable details the target dates for key actions in order to complete the Statement of Accounts (SoA) in line with statutory deadlines.

Summary

2. It is the responsibility of the Assistant Director Resources to sign and certify the unaudited SoA 2018/19 by no later than 31 May 2019 and it is also the responsibility of the Audit Committee to approve the audited set of accounts on or before 31 July 2019.
3. The final accounts timetable serves as a tool for monitoring progress against the target dates to ensure compliance with the statutory deadlines.

Recommendation

4. Members are asked to note the key dates in the Final Accounts Timetable for 2018/19 detailed in Appendix 1.

Reasons

5. The recommendations are supported to provide the Audit Committee with evidence to reflect on progress in delivery of the 2018/19 Statement of Accounts.

**Paul Wildsmith
Managing Director**

Background Papers

Code of Practice on Local Authority Accounting in the UK 2018/19

Peter Carrick: Extension 5401

S17 Crime and Disorder	There is no specific crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	Some of the initiatives contained within ICT Strategy will help contribute towards the carbon reduction commitments.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

MAIN REPORT

6. The Accounts and Audit Regulations 2015 require that the responsible financial officer, by no later than the 31 May, signs and certifies that the SoA presents a true and fair view of the financial position of the Council for the year to 31 March previous, subject to the views of the External Auditor, Ernst & Young (EY).
7. The Regulations then require that on or before 31 July, approval needs to be given to the SoA by resolution of a committee, which for Darlington is the Audit Committee. This approval will take into account the views of the External Auditor.
8. The Final Accounts timetable (**Appendix 1**) is a tool for the effective management and monitoring of the process of closing the Council's accounts.
9. The timetable is compiled annually by Finance with input from services to ensure that deadlines are achievable and will lead to completion of a SoA for signing by the Section 151 Officer (the responsible financial officer) by the statutory deadline. New and amended processes are considered for the impact on the achievement of dates, as well as reference to the previous year's problems and meeting of deadlines.
10. The Finance Manager closely monitors the achievement of the dates in the timetable throughout the final accounts period, following up delays and missed deadlines. This helps to ensure that the overall timetable will be achieved and to identify improvements that can be made to the process.

2018/2019 Accounts - General Closure Timetable

<u>Date for Completion</u>	<u>Item</u>
March	29 On-line goods receipting of orders relating to 2018/2019 to be completed (including order authorisation).
	29 End of facility for on-line processing of purchase invoices in Business World On! relating to 2018/2019 to be posted to period 12 of that year.
	29 Capital Charges to revenue accounts
April	5 All interface files posted to Council's General Ledger
	5 Petty cash and stock valuation certificates, certified by authorised signatories, sent to Financial Services.
	5 Details of purchase invoices and sundry debtor accounts relating to 2018/2019 not paid by 31/03/2019 to be given to Departmental Finance Teams for provision in 2018/2019 accounts (invoice values above £500 only).
	10 Bank reconciliation to be completed
	17 Work in progress, Retentions & Income in Advance from Building Services included in accounts for both trading and client accounts. Expenditure provisions and provision for future losses for Trading Accounts in Place based Services.
	17 All expenditure and income relating to 2018/2019 identified and included in accounts to enable progress of next stages of process.
	17 Control accounts balanced and all holding accounts cleared.
	17 Internal recharges completed including inter-departmental recharges.
	18 Intra-departmental apportionments and reallocations completed
	26 Comparison of out-turn income and expenditure with approved budgets - including analysis of significant variances and any resulting corrective action including coding corrections.
	26 Departmental Financing of capital expenditure.
	30 Accounts Closed
May	1 Commence process of consolidation of individual cost-centre and subjective level accounts into statutory format for Statement of Accounts (SoA).
	31 Produce signed Statement of Accounts.
	31 Publication of unaudited Accounts on website.
July	31 Audit Committee Meeting – approval of Statement of Accounts
	31 Publication of audited Statement of Accounts

This page is intentionally left blank