
**REVIEW OF THE EFFECTIVENESS OF THE
SYSTEM OF INTERNAL AUDIT 2009/10**

SUMMARY REPORT

Purpose of the Report

1. To enable the Audit Committee to consider the outcome of the annual review undertaken on the effectiveness of the system of internal audit.

Summary

2. The report defines the system of internal audit, details the statutory requirement to undertake an annual review and outlines the approach taken as well as the sources of evidence relied upon.
3. The review concludes that the Council has an effective system of internal audit.

Recommendation

4. It is recommended that the contents of the report be noted.

Reasons

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

Ada Burns
Chief Executive

John Bosson: Extension 2016

Background Papers

- (i) Audit Services' Annual Report 2009/10 reported to Audit Committee June 2010.
- (ii) The Accounts and Audit (Amendment) (England) Regulations 2006.
- (iii) CIPFA Publication 'Audit Committees - Practical Guidance for Local Authorities.'
- (iv) CIPFA Code of Practice for Internal Audit in Local Government.
- (v) Lloyds' Register Quality Assurance Report April 2010.

- (vi) Annual Audit Letter reported to Audit Committee December 2009.
- (vii) Progress reports on Xentrall Audit Plan to Audit Committee September 2009, December 2010, March 2010 and June 2010.
- (viii) Overview Report on Managers Assurance Statements reported to Audit Committee June 2010.
- (ix) Risk Management Reports to Audit Committee September 2009 and March 2010.
- (x) Corporate Governance Update Reports to Audit Committee December 2009 and June 2010.
- (xi) Anti-Fraud and Corruption Arrangements Reports to Audit Committee December 2009 and June 2010.
- (xii) Corporate Health and Safety Report to Audit Committee September 2009.
- (xiii) ICT Strategy Progress Report to Audit Committee March 2010.
- (xiv) Combined Financial and Service Performance Reports to Cabinet July 2009, December 2009 and March 2010.
- (xv) Prudential Indicators and Treasury Management Strategy Report to Audit Committee January 2010 and to Cabinet and Council February 2010.
- (xvi) Annual Review of Significant Partnerships Report to Cabinet September 2009.
- (xvii) Comprehensive Area and Organisation Assessments reported to Cabinet January 2010.
- (xviii) Audit of Accounts Report to Audit Committee September 2009.
- (xix) Annual Report of the Standards Committee to Council March 2010.

S17 Crime and Disorder	Other than any reported frauds there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Sustainability	There is no specific sustainability 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

Background

6. The Accounts and Audit (Amendment) Regulations 2006 require councils to review the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by a committee of the Council.
7. The findings of the review should form part of the system of internal control that supports the Annual Governance Statement alongside the Statement of Accounts for 2009/10.

Information and Analysis

8. This section covers the following issues:
 - (a) Definition of the system of internal audit
 - (b) The approach taken to the review
 - (c) What the review covers
 - (d) Evidence sources relied upon:
 - (i) System of internal audit – reports to members flowing from the Council’s Framework of Assurance 2009/10
 - (ii) Code of Practice for Internal Audit in Local Government
 - (iii) Assessing the Effectiveness of the Audit Committee
 - (iv) Lloyd’s Register Quality Assessment
 - (v) Use of Resources Auditor Scored Judgements 2009
 - (vi) Audit Services Annual Report 2009/10

Definition of the System of Internal Audit

9. The system of internal audit was a term introduced by the Department for Communities and Local Government (CLG) in 2006. The term did not have a commonly understood meaning until, after lengthy consultation among practitioners, the CIPFA Audit Panel interpreted it as follows in early 2009:-

“The framework of assurance established to satisfy a local authority that the risks to its objectives and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation.”
10. The Council’s system of internal audit or framework of assurance therefore, comprises a variety of sources and not only the internal audit service and has been documented at **Appendix 1**. The framework identifies key risks, the assurance provider, sources of assurance, links to the Internal Audit Work Plan and the reporting regime to members.

The approach taken to the review

11. The approach adopted for undertaking the review is similar to the previous year and is reflective of the wider definition of the system of internal audit. This approach was perceived to have been reasonably robust, worked well and stood scrutiny. It consists of an officer group independent of the function being charged to conduct the review.
12. John Bosson, Policy Advisor, from within the Chief Executive's Office was asked to lead the review. In this, he was supported by Pauline Mitchell (Assistant Director – Housing) and Bill Westland (Assistant Director – Public Protection).

What the review covers

13. The review follows guidance from CIPFA in terms of the assurance framework established and outputs from it; adherence to the CIPFA Code of Practice for Internal Audit in Local Government; and positive responses to the checklist on measuring the Effectiveness of the Audit Committee contained in the CIPFA publication "Audit Committees – Practical Guidance for Local Authorities".

Evidence sources used

System of Internal Audit – Framework of Assurance

14. The Framework of Assurance documented by the Head of Corporate Assurance is set out in **Appendix 1**. The review examined supporting documentation that provided assurance on the management of each risk area of the framework i.e. reports to members etc and concluded that adequate assurance is referenced with no omissions or cause for concern identified.

The Code of Practice for Internal Audit in Local Government in the UK 2006

15. A detailed self-assessment checklist completed by the Head of Corporate Assurance against the Code of Practice is set out in **Appendix 2**. Hyperlinks where appropriate are listed to support evidence. Following a review of the self-assessment and discussions with the Head of Corporate Assurance, it is concluded that the self-assessment is factual and materially complies with the Code.

Assessing the effectiveness of the Audit Committee

16. A self-assessment checklist from the CIPFA document *Audit Committees – practical guidance for local authorities* was completed by the Head of Corporate Assurance - **Appendix 3**. Hyperlinks where appropriate are attached to support evidence that the authority complies with the guidance.

Lloyd's Register Quality Assurance Report

17. An annual surveillance visit from Lloyds Register Quality Assurance verified that Darlington Borough Council's Audit Services meets the requirements of the ISO 9001:2008 International Quality Standard by maintaining and improving its Management System. The visit took place during April 2010 and considered compliance to all aspects of the quality management system in respect of special investigation work undertaken and the Service's migration from the 2000 standard to the 2008 standard. A positive outcome was achieved with only one minor issue identified for management attention and corrective action agreed. The assessors report is appended at **Appendix 4**.

Use of Resources Assessment (Comprehensive Area Agreement)

18. The Council scored 3 out of 4 for Use of Resources and 3 out of 4 for Managing Performance in the CAA Organisational Assessment (December 2009). Full copy at **Appendix 5**. In it the Audit Commission states "The Council provides good leadership across the borough and partnership working with other organisations is strong. It works well with local people to understand their needs, and reflects these in the plans it makes and the way it delivers services. Performance is well managed and the Council provides good value for money."

Audit Services Annual Report 2009/10

19. The June Audit Committee is also presented with Audit Services' Annual Report 2009/10. Along with the other documents, this report was considered as part of evaluating the effectiveness of the system of internal audit. Pertinent to this review are the following key points:
- (a) Confirmation by the Head of Corporate Assurance that overall the Council continues to operate within a control environment that is generally sound and that this opinion is consistent with the outcomes from the broader assurance framework as documented in **Appendix 1**.
 - (b) Actual chargeable time in total during the year was some 95% of that planned. The shortfall resulting from an instance of long term sickness and the granting of a request by an Audit Manager to work reduced hours.
 - (c) Variations to the audit assignment element of the plan were discussed at the Audit Committee during the year and the range of activity undertaken on consultancy work and contingency tasks were agreed with Directors.
 - (d) 46 out of 54 planned audit assignments were completed (85%) due to the reasons mentioned in (b) above.
 - (e) Following joint work carried out with Children's Services staff to support primary schools to gain/ maintain accreditation under the national Financial Management standard, all eleven schools reviewed were considered to have attained the Standard.
 - (f) Developments to improve governance arrangements included updating of anti fraud policy documentation and a refresh of the Council's Risk Management Strategy.

- (g) The Internal Audit team also actively support corporate improvement activity, eg service planning, business re-engineering and performance management.
 - (h) Internal Audit is a lead contributor to the Annual Governance Statement.
20. A schedule of the Section's performance indicators detailing the outturn for 2009/10 is appended at **Appendix 6**. All operational targets were met or exceeded with the exception of one (PI number 7) i.e. 'the percentage of planned pre-determined audit assignments completed within the year relative to the agreed audit plan.' This was due to an instance of long term sickness within the Section and the granting of a request by an Audit manager to work reduced hours.
21. Under the Use of Resources – Governing the Business theme for the 'Council manages its risks and maintains a sound system of internal control' (PI number 1) a score of 3 was achieved that equates to 'performs well – exceeds minimum requirements'.
22. Internal and external stakeholder opinions on Audit Services have been canvassed and have proved positive:

"We consider that the Council's Internal Audit function continues to operate in accordance with the CIPFA Code of Practice for Internal Audit in Local Government and we are able to place reliance on its work in relation to the key financial system controls."

Price Waterhouse Coopers

"I consider that Audit Services provides great benefit to the Council by working in partnership with management to improve the control environment."

Director of Corporate Services

"I find that the Internal Audit Section offer high standards of service – they agree their work programme with me well in advance and are very responsive to the unscheduled needs of operational divisions whilst maintaining the quality of planned work."

Director of Community Services

Conclusion

23. The review team consider that the Council has an effective system of internal audit. The review team agreed that the self-assessments appended are factual, essentially satisfy all the key requirements and taken together with evidence produced from the assurance framework and those provided from external quality assessments and stakeholder opinion, support the opinion given.

Outcome of Consultation

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