
**REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL
AUDIT 2006/07**

Purpose of Report

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

Background

2. 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.
3. The findings of the review should be part of the system of internal control that supports the annual Statement of Internal Control (SIC), in turn supporting the authority's financial statement.

Information and Analysis

4. This section covers the following issues:
 - (a) the approach taken;
 - (b) what the review covers;
 - (c) evidence sources used:
 - (i) Code of Practice for Internal Audit in Local Government;
 - (ii) Assessing the effectiveness of the Audit Committee;
 - (iii) Lloyd's Register Quality Assessment;
 - (iv) Use of resources assessment on Internal Control 2006;
 - (v) Audit Services Annual Report 2006/07.

The approach taken

5. There is no definitive guidance that informs how an authority is to undertake this review; only that it is the authority's responsibility and not that of any external auditor. External Audit will review elements of internal audit's work to assess what reliance can be placed upon it for the robustness of the audit of accounts, for example. However, such reviews do not cover all elements and as such, in the view of the Audit Commission, cannot be relied upon to fulfil the requirements of the regulations.
6. In terms of the approach taken to the review this year, three options were considered:
 - (a) seeking a peer review from another neighbouring authority:

- Advantages: independent, cost effective, and a similar service could be offered in return;
 - Disadvantages: likely to be time consuming, with initial set up time necessary and would have an adverse affect on delivery of the Council’s audit plan if arrangements were reciprocated.
- (b) Charging an officer group independent of the function and department to conduct the review:
- Advantages: independent, in house control, cost effective and systems and protocols known, led by senior management.
 - Disadvantages: Lack of detailed technical knowledge in respect of the audit function, opportunity cost on officer’s duties.
- (c) Appointing an external consultant to conduct a review on behalf of the authority:
- Advantages: wholly independent;
 - Disadvantages: expensive and would still require additional officer time.
7. The Director of Corporate Services considered that option (b) would be the most appropriate mechanism to review the effectiveness of Internal Audit in the first year.
8. Andrew Robinson, Policy Manager, 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

9. The Department for Local Government and Communities (DCLG) guidance to the Accounts and Audit Regulations offers little practical advice on how relevant bodies should go about carrying out the annual review and as a result the CIPFA Finance Advisory Network has issued a rough guide on the matter. This review follows such guidance for example, in respect of 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

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

10. A detailed self assessment checklist completed by the Chief Internal Auditor against the Code of Practice is set out in **Appendix 1**. Hyperlinks where appropriate are listed to support evidence. Following a review of the self assessment and discussions with the Chief Internal Auditor, it is concluded that the self assessment is factual and materially complies with the Code. Minor recommendations have been made to strengthen the audit function in respect of its compliance to the code and these are detailed at **Appendix 6**.

Assessing the effectiveness of the Audit Committee

11. A self-assessment checklist from the CIPFA document *Audit Committees – practical guidance for local authorities* was completed by the Chief Internal Auditor (**Appendix 2**). Hyperlinks where appropriate are attached to support evidence that the authority complies with the guidance.

Lloyd's Register Quality Assurance Report

12. A routine surveillance visit verified that Darlington Borough Council's Audit Services continue to meet the requirements of the ISO 9001:2000 International Quality Standard by maintaining and improving its Management System. The visit took place during March 2007, and considered compliance to the quality system. A positive outcome was achieved with no specific issues identified. The assessors report is appended at **Appendix 3**.

Use of Resources Assessment on Internal Control

13. The Use of Resources judgement by the Audit Commission is a key element of the Comprehensive Performance Assessment. As part of the Use of Resources judgement, Internal Control is scored and the auditor judgement for 2006 was a 3 out of 4 "Performing well – consistently above minimum requirements" (**Appendix 4**).

Audit Services Annual Report 2006/07

14. The June Audit Committee was presented with the Audit Services' Annual Report 2006/07. Along with the other documents, this report was considered as part of evaluating the effectiveness of the Audit function. Pertinent to this review are the following key points:
 - The annual chargeable time in total was 96% of that planned;
 - 44 out of 50 planned audit assignments were completed (88%);
 - Following key work carried out jointly with Children's Services staff to support secondary schools to gain DFES Financial Management Standard accreditation; all seven secondary schools achieved the standard;
 - Developments to improve corporate governance arrangements, including the establishment of the Audit Committee were put in place;
 - The Internal Audit team actively support corporate wide improvement activity including service planning, business re-engineering, performance management, etc.;
 - Internal Audit are a lead contributor to the Statement of Internal Control.
15. A schedule of the Section's performance indicators detailing the outturn for 2006/7 is appended at **Appendix 5**. In respect of the PIs numbers 7 and 9 relating to the percentage of audit assignments completed, it was noted that the reason for the targets not being achieved was due largely to an audit manager being seconded to other duties within the department during the latter part of the year. This was reported in year to the Audit Committee, which approved amendments to the original audit plan.
16. For 2007/8 it was noted that the section is intending to further develop its use of new audit software with a view to continuing to streamline the audit process and develop a paperless system.

This will include the migration of the current Audit Risk Assessment system onto the new software system to provide better integration when the opportunity will also be taken to refresh the current risk assessment approach. These proposed service improvements have been incorporated into the outline Improvement Action Plan at **Appendix 6**

17. Internal and external stakeholder opinions have been canvassed and have proved positive; these being:

“We consider that the Council’s Internal Audit function operates 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.”

Paul Harrison – Price Waterhouse Coopers

“I consider that Audit Services is a section operated in accordance with professional standards and that it is held in high regard throughout the Council”

Paul Wildsmith – Director of Corporate Services

Legal Implications

18. This report has been considered by the Borough Solicitor for legal implications in accordance with the Council's approved procedures. There are no issues which the Borough Solicitor considers need to be brought to the specific attention of Members, other than those highlighted in the report.

Section 17 of the Crime and Disorder Act 1998

19. The contents of this report have been considered in the context of the requirements placed on the Council by Section 17 of the Crime and Disorder Act 1998, namely, the duty on the Council to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. It is not considered that the contents of this report have any such effect.

Conclusions

20. 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 provided from external quality assessments and stakeholder opinion, support the opinion given. An improvement Action Plan resulting from this review is appended at **Appendix 6**.

Recommendations

21. It is recommended that the Committee note the contents of this report.

Lorraine O’Donnell
Assistant Chief Executive

Background Papers

- (i) Audit Services' annual report 2006/07;
- (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) CPA Use of Resources Assessment on Internal Audit 2006;
- (vi) Lloyds' Register Quality Assurance Report March 2007.

Andy Robinson – Ext. 2014