
**REVIEW OF THE EFFECTIVENESS OF THE
SYSTEM OF INTERNAL AUDIT 2008/09**

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 evidence to reflect on the Council's governance arrangements

Ada Burns
Chief Executive

Background Papers

- (i) Audit Services' Annual Report 2008/09 reported to Audit Committee 26 June 2009.
- (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 September 2008.

- (vi) Annual Audit and Inspection Letter reported to Audit Committee 27 March 2009.
- (vii) Progress reports on Xentrall Audit Plan to Audit Committee 26 September 2008, 19 December 2008, 27 March 2009 and 26 June 2009.
- (viii) Overview Report on Managers Assurance Statements reported to Audit Committee 26 June 2009.
- (ix) Risk Management Reports to Audit Committee 26 September 2008 and 27 March 2009.
- (x) Corporate Governance Update Reports to Audit Committee 19 December 2008 and 26 June 2009.
- (xi) Anti-Fraud and Corruption Arrangements Reports to Audit Committee 19 December 2008 and 27 March 2009.
- (xii) Use of Resources Auditor Scored Judgements reported to Audit Committee 27 March 2009.
- (xiii) External Audit Report on Data Quality Reviews – Management Arrangements and Spot Checks reported to Audit Committee 19 December 2008.
- (xiv) Corporate Information, Governance Policy - Implementation Progress Reports to Audit Committee 19 December 2008 and 26 June 2009.
- (xv) Combined Financial and Service Performance Reports to Cabinet on 8 July 2008, 6 January 2009 and 3 March 2009.
- (xvi) Annual Review of Significant Partnerships Report to Cabinet on 6 January 2009.
- (xvii) Corporate Health and Safety Report to Resources Scrutiny on 1 May 2008 and 13 November 2008.
- (xviii) Prudential Indicators Update and Treasury Management Half Year Review to Cabinet on 6 January 2009.
- (xix) Review of the Treasury Management Strategy to Cabinet on 4 November 2008.
- (xx) Annual Report of the Standards Committee to Council on 26 March 2009.

John Bosson : Extension 2016

S17 Crime and Disorder	Other than the 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 2008/09.

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 2008/09
 - (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 2008;
 - (vi) Audit Services Annual Report 2008/09.

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. In light of the latest guidance from CIPFA, the approach adopted for undertaking the review is similar to that applied in previous years but reflective of the wider definition of the system of internal audit. These arrangements were perceived to have been reasonably robust, worked well and stood scrutiny. They consist 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. This 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 Governance, 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. A certificate renewal visit from Lloyds Register Quality Assurance 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 September 2008 and considered compliance to all aspects of the quality management system. A positive outcome was achieved with only one minor issue identified and corrective action agreed. The assessors report is appended at **Appendix 4**.

Use of Resources Assessment on Internal Control

18. The Council's Internal Control environment overall was scored at the maximum 4 out of 4 as evaluated through the CPA Use of Resources 'harder test' methodology. This equates to a definition of 'performing strongly – well above minimum requirements'. **Appendix 5**. This was an improvement from the score of 3 received in the previous year and represents a significant achievement against a background in which the assessment once again became more demanding.

Audit Services Annual Report 2008/09

19. The June Audit Committee is also presented with the Audit Services' Annual Report 2008/09. 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 99% of that planned. However, although chargeable time was broadly in line with that planned there were variations between categories.
 - (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) 52 out of 56 planned audit assignments were completed (92%).
 - (e) Following joint work carried out with Children's Services staff to support primary schools to gain accreditation under the new Department for Children, Schools and Families (DCSF) Financial Management Standard, all fourteen primary schools reviewed were considered to have attained the Standard.

- (f) An audit assurance framework has been established in conjunction with audit colleagues for the services carried out by Xentrall, the Darlington and Stockton Partnership.
 - (g) The Internal Audit team actively support corporate wide improvement activity including service planning, business re-engineering, performance management, etc.
 - (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 2008/98 is appended at **Appendix 6**. All operational targets were met or exceeded with the exception of one (PI number 2) i.e. one element of the Key Line of Enquiry (KLOE) around probity and propriety scored three against a target of four. The overall score of four was not however affected.
21. For 2009/10 it was noted that the aim of Audit Services for the year ahead is to deliver against set service targets and objectives which incorporate the much more onerous key lines of enquiry requirement of the revised CAA methodology.
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 is a section operated in accordance with professional standards that is held in high regard throughout the Council.”

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 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.