
**REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL
AUDIT 2007/08**

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 form part of the system of internal control that supports the Annual Governance Statement alongside the Statement of Accounts for 2007/08.

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 2007;
 - (v) Audit Services Annual Report 2007/08.

The approach taken

5. In the absence of further guidance from CIPFA in respect of the methodology to be adopted for undertaking the review, the approach taken for the 2006/7 review has once again been adopted. 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.
6. 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.

7. This review follows the guidance from the CIPFA Finance Advisory Network 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

8. A detailed self-assessment checklist completed by the Head of Corporate Assurance 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 Head of Corporate Governance, it is concluded that the self-assessment is factual and materially complies with the Code. Minor recommendations made last year to strengthen the audit function in respect of its compliance to the code have been implemented and are detailed at **Appendix 6**.

Assessing the effectiveness of the Audit Committee

9. A self-assessment checklist from the CIPFA document *Audit Committees – practical guidance for local authorities* was completed by the Head of Corporate Assurance - **Appendix 2**. Hyperlinks where appropriate are attached to support evidence that the authority complies with the guidance.

Lloyd’s Register Quality Assurance Report

10. 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 December 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

11. 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 2007 was a 3 out of 4 “Performing well – consistently above minimum requirements” **Appendix 4**.

Audit Services Annual Report 2007/08

12. The June Audit Committee was presented with the Audit Services’ Annual Report 2007/08. 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:

- Actual chargeable time in total during the year was some 85% of that planned. This shortfall resulted largely from staff vacancies during the course of the year and this also explains an increase in non-productive time.
- 47 out of 52 planned audit assignments were completed (90%).
- Following key work carried out jointly 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 twelve primary schools reviewed were considered to have attained the Standard.
- Developments to improve the Council’s corporate governance arrangements included the adoption of a revised Local Code of Corporate Governance based upon the latest guidance publication from CIPFA/ SOLACE. In addition Council approved a refreshed Officers Code of Conduct and revised Contract Procedure Rules in November 2007 and February 2008 respectively.
- The Internal Audit team actively support corporate wide improvement activity including service planning, business re-engineering, performance management, etc.
- Internal Audit is a lead contributor to the Annual Governance Statement.

13. A schedule of the Section’s performance indicators detailing the outturn for 2007/8 is appended at **Appendix 5**. All operational targets were achieved with the exception one (PI number 8) the percentage of pre-determined audit assignments completed within the year relative to the agreed initial audit plan. The percentage attained was slightly below target largely as a result of staff vacancies during the course of the year.

14. For 2008/09 it was noted that the section aims to deliver against its set targets and objectives that incorporate the more stringent key lines of enquiry requirements of the revised CPA methodology and establish an appropriate audit assurance framework for the services carried out by Xentrall, in conjunction with audit colleagues from Stockton Borough Council, the District Audit Service and Pricewaterhouse Coopers.

15. Internal and external stakeholder opinions 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.”

Paul Harrison – 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.”

Paul Wildsmith – 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.”

Cliff Brown – Director of Community Services

Conclusions

16. 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.

Recommendations

17. 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 2007/08.
- (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 2007.
- (vi) Lloyds' Register Quality Assurance Report December 2007.

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