
**ANNUAL REVIEW OF THE EFFECTIVENESS OF THE
SYSTEM OF INTERNAL CONTROL INCORPORATING THE ANNUAL REVIEW OF
INTERNAL AUDIT EFFECTIVENESS**

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 control incorporating the annual review of internal audit effectiveness.

Summary

2. The report defines the system of internal control, 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 control and an effective 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.

Richard Alty
Director of Place

John Bosson: Extension 2016

Background Papers

- (i) Audit Services' Annual Report 2010/11 reported to Audit Committee July 2011.
- (ii) The Accounts and Audit (England) Regulations 2011.
- (iii) CIPFA Publication 'Audit Committees - Practical Guidance for Local Authorities.'
- (iv) CIPFA Code of Practice for Internal Audit in Local Government.

- (v) CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations.
- (vi) Lloyds' Register Quality Assurance Report January 2011.
- (vii) Annual Audit Letter reported to Audit Committee December 2010.
- (viii) Progress reports on Xentrall Audit Plan to Audit Committee September 2010, December 2010, April 2011 and July 2011.
- (ix) Overview Report on Managers Assurance Statements reported to Audit Committee July 2011.
- (x) Risk Management Reports to Audit Committee September 2010 and April 2011.
- (xi) Corporate Governance Update Reports to Audit Committee December 2010 and July 2011.
- (xii) Anti-Fraud and Corruption Arrangements Reports to Audit Committee December 2010 and July 2011.
- (xiii) Corporate Health and Safety Report to Audit Committee September 2010.
- (xiv) ICT Strategy Progress Reports to Audit Committee September 2010 and April 2011.
- (xv) Combined Financial and Service Performance Reports to Cabinet January 2011 and April 2011.
- (xvi) Revenue Budget Monitoring Reports to Cabinet July 2010, November 2010 and February 2011.
- (xvii) Project Position Statement and Capital Programme Monitoring Reports to Cabinet July 2010, November 2010 and February 2011.
- (xviii) Prudential Indicators and Treasury Management Reports to Audit Committee September 2010, December 2010 and January 2011 and to Cabinet February 2011 and Council March 2011.
- (xix) Annual Review of Significant Partnerships Report to Cabinet June 2011.
- (xx) Audit of Accounts Report to Audit Committee September 2010.
- (xxi) Annual Report of the Standards Committee to Council April 2011.
- (xxii) Annual Assessment of Darlington Children's Services Reported to Cabinet January 2011.
- (xxiii) Adults Social Services Annual Performance Assessment Reported to Cabinet January 2011.

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.
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

Background

6. The Accounts and Audit (England) Regulations 2011 require councils to review the effectiveness of their system of internal control and internal audit once a year and for the findings of the reviews to be considered by a committee of the Council.
7. The findings of the reviews underpin the Annual Governance Statement to accompany the Statement of Accounts for 2010/11.

Information and Analysis

8. This section covers the following issues:
 - (a) The system of internal control;
 - (b) The approach taken to the review;
 - (c) What the review covers; and
 - (d) Evidence sources relied upon:
 - (i) System of internal control – reports to members flowing from the Council’s Framework of Assurance 2010/11
 - (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) Audit Services Annual Report 2010/11

The System of Internal Control

9. The system of internal control is based upon an ongoing process designed to satisfy the Council 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 control or framework of assurance 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 that carried out in previous years. This approach was perceived to have been reasonably robust, worked well and stood scrutiny. It consists of an officer group independent of the internal audit function being charged to conduct the review.
12. John Bosson, Strategy and Performance Manager, from the Place Group led the review supported by Pauline Mitchell, Assistant Director Adult Social Care and Housing, and Bill Westland, the Head of Regulatory Services.

What the review covers

13. The review examined outputs from the assurance framework established, 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 Control – 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 January 2011. The Management System was shown to be an effective mechanism for understanding and delivering stakeholders' requirements and no specific areas were identified during the visit for management attention. The assessors report is appended at **Appendix 4**.

Audit Services Annual Report 2010/11

18. The July Audit Committee is also presented with Audit Services' Annual Report 2010/11. Along with the other documents, this report was considered as part of evaluating the effectiveness of the system of internal control as well as the effectiveness 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 91% of that planned. The shortfall resulting largely from maternity leave.
- (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) 43 out of 49 planned audit assignments were completed (88%) due to the reason mentioned in (b) above and the time required for special investigation cases.
- (e) The Internal Audit team also actively support corporate improvement activity eg the transformation agenda.
- (f) Internal Audit is a lead contributor to the Annual Governance Statement.

19. A schedule of the Section's performance indicators detailing the outturn for 2010/11 is appended at **Appendix 5**. 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' and the reason is explained in paragraph 18(d) above.

20. Following the Government's announcement in 2010 to abolish Comprehensive Area Assessment all work on Use of Resources by PricewaterhouseCoopers (PwC), the Council's external auditors, ceased and the work was not completed. However, PwC did comment in their Annual Audit Letter for 2009/10 that from the work undertaken there was no significant matters arising that they felt should be reported to Members.

21. 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 Audit Services to be a well regarded and respected function across the Council that assists me in fulfilling my statutory role as Chief Financial Officer.”

Director of Resources

Conclusion

22. The review team consider that the Council has an effective system of internal control and 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

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