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

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**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 2011/12 reported to Audit Committee June 2012.
- (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 September 2011.
- (vii) Annual Audit Letter reported to Audit Committee December 2011.
- (viii) Progress reports on Xentrall Audit Plan to Audit Committee September 2011, December 2011, March 2012 and June 2012.
- (ix) Overview Report on Managers Assurance Statements reported to Audit Committee June 2012.
- (x) Risk Management Reports to Audit Committee September 2011 and March 2012.
- (xi) Corporate Governance Update Reports to Audit Committee December 2011 and June 2012.
- (xii) Anti-Fraud and Corruption Arrangements Reports to Audit Committee December 2011 and June 2012.
- (xiii) Corporate Health and Safety Report to Audit Committee September 2011.
- (xiv) ICT Strategy Progress Reports to Audit Committee September 2011 and March 2012.
- (xv) Information Governance Programme Progress Report to Audit Committee March 2012.
- (xvi) Revenue Budget Monitoring Reports to Cabinet July 2011, November 2011 and February 2012.
- (xvii) Project Position Statement and Capital Programme Monitoring Reports to Cabinet September 2011, December 2011 and February 2012.
- (xviii) Prudential Indicators and Treasury Management Reports to Audit Committee September 2011, December 2011 and January 2012 and to Cabinet February 2012 and Council March 2012.
- (xix) Annual Review of Significant Partnerships Report to Cabinet June 2012.
- (xx) Audit of Accounts Report to Audit Committee September 2011.
- (xxi) Annual Report of the Standards Committee to Council May 2012.
- (xxii) Annual Assessment of Darlington Children's Services Reported to Cabinet December 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 2011/12.

### 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 2011/12;
    - (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 2011/12.

### 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. A certificate renewal visit by Lloyds Register Quality Assurance verified that Darlington Borough Council's Audit Services continues to meet the requirements of the ISO 9001:2008 International Quality Standard. The visit took place during September 2011. The Management System operated was shown to be well managed and effective in supporting the Audit team in delivery of their objectives and no issues were identified for management attention. The assessors report is appended at **Appendix 4**.

## Audit Services Annual Report 2011/12

18. The June Audit Committee is also presented with Audit Services' Annual Report 2011/12. 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 slightly higher than that planned. The increase of 31 person days resulted from an employee returning to work sooner than anticipated 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 48 planned audit assignments were completed (90%) due to the reasons mentioned in paragraph 19 below.
- (e) The Internal Audit team also actively support corporate improvement activity e.g. 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 2011/12 is appended at **Appendix 5**. All operational targets were met or exceeded with the exception of completed audit assignments relative to the agreed Audit Plan where an out-turn of 90% was attained against a target of 92%, explained by certain schools scheduled for audit converting to academy status and time required for special investigation cases; and audit assignments completed within 10% of the planned time allocated where an outturn of 88% was attained against a target of 92%, explained by additional work required on particular audits that resulted in limited assurance opinions.

20. Internal and external stakeholder opinions on Audit Services have been canvassed and have proved positive with contributors prepared to restate:

“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**

21. 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**

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