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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 an 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.

**Ian Williams  
Director of Economic Growth**

Bill Westland: Extension 6303

**Background Papers**

- (i) Audit Services' Annual Report 2016/17 reported to Audit Committee March 2017.
- (ii) The Accounts and Audit Regulations 2015.
- (iii) Public Sector Internal Audit Standards (PSIAS) and the Application Note to local government.

- (iv) CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations.
- (v) Annual Review of Audit Services' Quality Management System.
- (vi) Annual Audit Letter reported to Audit Committee December 2016.
- (vii) Progress reports on Xentrall Audit Plan to Audit Committee December 2016 and March 2017.
- (viii) Overview Report on Managers Assurance Statements reported to Audit Committee July 2016.
- (ix) Risk Management Reports to Audit Committee December 2016.
- (x) Corporate Governance Update Report to Audit Committee July 2016.
- (xi) Anti-Fraud and Corruption Arrangements Reports to Audit Committee March 2017.
- (xii) Corporate Health and Safety Report to Audit Committee September 2016.
- (xiii) ICT Strategy Progress Reports to Audit Committee September 2016 and March 2017.
- (xiv) Information Governance Programme Progress Report to Audit Committee September 2016 and March 2017.
- (xv) Revenue Budget Monitoring Reports to Cabinet November 2016 and February 2017.
- (xvi) Project Position Statement and Capital Programme Monitoring Reports to Cabinet November 2016 and February 2017.
- (xvii) Prudential Indicators and Treasury Management Reports to Audit Committee December 2016 and January 2017 and to Council January 2017.
- (xviii) Annual Review of Significant Partnerships Report to Audit Committee July 2016.
- (xix) Audit of Accounts Report to Audit Committee September 2016.

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 2015 require councils to review the effectiveness of their system of internal control once a year and for the findings of the review to be considered by a committee of the Council. The Regulations no longer contain the requirement for an annual review of internal audit effectiveness but this was again completed in advance of the five-yearly independent external assessment required by the Public Sector Internal Audit Standards and due for completion by the end of March 2018.
7. The findings of the reviews underpin the Annual Governance Statement to accompany the Statement of Accounts for 2016/17.

### 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 2016/17;
    - (ii) Public Sector Internal Audit Standards and the Application Note to local government;
    - (iii) Assessing the Effectiveness of the Audit Committee;
    - (iv) Audit Services’ Quality Management System;
    - (v) Audit Services Annual Report 2016/17.

### 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. Bill Westland, Assistant Director Regulatory Services, from the Economic Growth Group led the review supported by Pauline Mitchell, Assistant Director for Housing and Building Services.

### **What the review covers**

13. The review examined outputs from the assurance framework established; adherence to Public Sector Internal Audit Standards and the Application Note to 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 cause for concern identified.

#### **Public Sector Internal Audit Standards and the Application Note to Local Government**

15. A detailed self-assessment checklist completed by the Head of Corporate Assurance against the Standards and Application Note is set out in **Appendix 2**. 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 Audit Services materially complies with the Standards and Application Note.

#### **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**. The evidence in support of the self-assessment demonstrates that the authority complies with the guidance.

#### **Audit Services' Quality Management System**

17. Audit Services operate to a quality management system for all aspects of business that complies with the principles of the ISO 9001:2008 Quality Management Standard. Until recently the system was formally accredited under the Standard following external scrutiny by an accreditation body. However, given budget pressures and the fact that over many years external scrutiny had confirmed the

system as effective with few, if any, areas for improvement, it was decided to cease formal accreditation.

18. The system entails a quality review of each assignment undertaken to ensure that the documented audit approach is consistently applied. In addition, on an annual basis, the Audit Manager reviews the system and the outcome from the review is discussed with and signed off by the Head of Corporate Assurance. The latest annual review concluded that the system was still fit for purpose. The review report is appended at **Appendix 4**.

### **Audit Services Annual Report 2015/16**

19. The March Audit Committee is also presented with Audit Services' Annual Report 2016/17. 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 23 person days resulted from less sickness than estimated.
- (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) 36 out of 38 planned audit assignments were completed (95%).
- (e) The Internal Audit team also actively support corporate improvement activity e.g. the change agenda.
- (f) Internal Audit is a lead contributor to the Annual Governance Statement.

20. A full schedule of the Section's performance indicators detailing the outturn for 2016/17 is appended at **Appendix 5**. All operational targets were met or exceeded.

21. Internal stakeholder opinions on Audit Services has been canvassed from the Director of Neighbourhood Services and Resources , the Council's Statutory Chief Financial Officer, who is prepared to re-state:

"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."

## **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 stakeholder opinion, support the opinion given.

## **Outcome of Consultation**

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