

Central Durham Crematorium Joint Committee

26 January 2011

Review of the Effectiveness of the System of Internal Audit



Joint Report of Terry Collins – Corporate Director: Neighbourhood Services; Don McLure – Corporate Director: Resources & Treasurer to the Joint Committee

Purpose of the Report

1. To outline the findings of a review of the effectiveness of the system of internal audit.

Background

2. The Central Durham Crematorium Joint Committee (CDCJC) has a requirement under the Accounts and Audit (Amended) (England) Regulations 2006 to review the effectiveness of its system of internal audit each year.
3. The review helps to inform consideration of the system of internal control, which in turn supports the Joint Committee's Annual Governance Statement (AGS).
4. Guidance produced by the CIPFA Audit Panel defines the system of internal audit as:
“the framework of assurance available to satisfy a body 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.”
5. There is an expectation placed upon the Joint Committee to consider the effectiveness of key elements of the system which include:
 - the process by which the control environment and key controls have been identified - the risk management system and processes;
 - the process by which assurance has been gained over controls – its coverage of the key controls and key assurance providers;
 - the adequacy and effectiveness of the remedial action taken where there are deficits in controls, which will be led by the joint committee and implemented by management; and
 - the operation of the Joint Committee and the Internal Audit function to current codes and standards.

6. Since vesting day, an Internal Audit Service has been provided to the CDCJC by Durham County Council, in continuation of an informal agreement between the former Durham City Council and the CDCJC.
7. A review of Durham County Council's system of Internal Audit was undertaken in March 2010 and reported to the Audit Committee of the County Council, who concluded that the system was "effective". A copy of that review was made available to the external auditor during the conduct of the audit on the 2009/10 Statement of accounts and Annual Governance Statement, but was not presented to the Joint Committee for consideration.
8. To be fully compliant with the Account and Audit Regulations 2006, the Joint Committee should undertake its own independent review of the effectiveness of the internal Audit service. This report aims to address this. Sources of assurance and supporting evidence to assist the Committee in reaching its conclusion are detailed below, drawing on the self-assessment checklist attached at Appendix 2.

Risk Management

9. Separate reports on the Joint Committee's risk management arrangements are presented to the Joint Committee every six months. Arrangements for the identification, monitoring and management of risk, both strategic and operational risk, are considered to be strong and fully embedded.

Internal Audit

10. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 sets the Standard for Internal Audit across 11 key areas of activity.
11. CIPFA has developed a self assessment checklist based on the Code of Practice which sets the minimum standards required to maintain an effective internal audit service.
12. A desktop self- assessment of the Durham County Internal Audit Service has been jointly undertaken by the Head of Finance, HR & Business Support, Neighbourhood Services and the Manager of Internal Audit & Risk (The Head of Internal Audit) against this checklist to inform this review.
13. To enable the Joint Committee to form its own independent view, the checklist has been amended to reflect the specific relationship between the two parties. The resultant assessment is attached for Member consideration at Appendix 2. As can be seen, a number of areas have been improved (compliance achieved) during the current year when compared to 2009/10 and in overall terms the service compares favourably against the CIPFA checklist.

Additional assurance

14. In order to provide some independent assurance of the effectiveness of the Internal Audit Service provided to the Joint Crematorium, a brief review of the service was also undertaken by the external auditor as part of the 2009/10 final accounts audit process.
15. This included a review of the effectiveness of the system of internal audit reported to the Council's Audit Committee. No formal report was issued as a result of this review but some verbal feedback was given as to how the service could be improved. This primarily related to improving the accountability for the audit service to the Joint Committee. This was already in the process of being addressed through the development of an Internal Audit Charter setting out the audit strategy and terms of reference for the service to be provided and the implementation of a formal SLA. Both documents were approved by the Joint Committee at its meeting on 29th September 2010.
16. The external auditor also made recommendations about the need for the Joint Committee to review its own terms of reference to ensure that they included the expected role and responsibilities of an Audit Committee. This will need to be developed.
17. The effectiveness of the internal audit service is also measured through quality assurance questionnaires. At the completion of each audit assignment it is standard practice to issue a customer satisfaction survey to the manager responsible for the activity reviewed. Managers are asked to rate each aspect of the audit review process on a scale of 1-5 (1 very poor, 2 poor, 3 satisfactory, 4 good, 5 very good). During 2009/10 only 1 survey was issued, which was completed and returned by the Superintendent and Registrar, who concluded that the service was considered to be good (level 4).
18. Additional performance indicators have been incorporated into the Internal Charter which will be measured and reported upon in the 2010/11 Annual Internal Audit Report.

Summary and Key Observations

19. It is evident that the informal arrangement for the provision of internal audit services in place between the Joint Crematorium and the former District Council, which continued in 2009/10 within Durham County Council, did not comply with all of the requirements of CIPFA's Code of Practice for Internal Audit.
20. Areas of non compliance in 2009/10 have been substantially addressed in the current year through the formalisation of arrangements to improve accountability.
21. The review of the effectiveness of the System of Internal Audit in operation during 2010/11 (attached at Appendix 2) will be updated and any amendments reported to the Joint Committee as part of the annual audit report.

Recommendation

22. Members are asked to consider the contents of the report and whether, based on the evidence disclosed, they are satisfied with the effectiveness of the system of Internal Audit and therefore whether assurance can be placed on the work of this service.
23. Members are asked to note that the review against the CIPFA checklist will be refreshed and updated, with the resultant outcomes reported in the Annual Report of the Head of Internal Audit in April.

Background Papers

Audit Files & Working Papers
CIPFA Checklist

Contact(s): Paul Darby 0191 383

Appendix 1: Implications

Finance

There are no direct financial implications arising for the Joint Crematorium as a result of this report, although the Internal Audit Service aims, through audit planning arrangements, to review core systems in operation and ensure through the broad programme of work ensure that the Joint Crematorium has made safe and efficient arrangements for the proper administration of its financial affairs.

Staffing

None

Risk

Risk is intrinsic to the system of internal audit and governance.

Equality and Diversity

None

Accommodation

None

Crime and Disorder

None

Human Rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

None