

# Central Durham Crematorium Joint Committee

25 January 2012

## Review of the Effectiveness of the System of Internal Audit



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

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#### Purpose of the Report

1. To provide an update to members on the Review of the effectiveness of the system of Internal Audit.

#### Background

2. As Members will recall from previous reports, the Accounts and Audit (Amended) (England) regulations 2006 required that the Central Durham Crematorium Joint Committee review the effectiveness of its system of Internal Audit.
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. The revised Accounts and Audit Regulations 2011 has removed the statutory requirement for a review of the effectiveness of Internal Audit, however in order to provide assurance to the Joint Committee of the work undertaken by the Internal Audit Service, the Joint Committee should continue to undertake its own independent review.
7. This report aims to address.

### **Risk Management**

8. 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**

9. 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.
10. 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.
11. A further desktop self- assessment of the Durham County Internal Audit Service has been jointly undertaken by the Head of Finance (Financial Services) and the Manager of Internal Audit & Risk (The Head of Internal Audit) against the checklist to inform this review. The assessment takes into account the significant progress made during the last year.
12. To enable the Joint Committee to form its own independent view, the checklist has been completed and reflects the specific (and now formalised) relationship between the two parties. The resultant assessment is attached for Member consideration at Appendix 2. As can be seen, further areas have been improved (compliance achieved) from the last review. These are mainly as a result of the production and presentation of the formal Annual Report and Audit Opinion along with staff training and progression processes being further embedded within the Internal Audit Section. In addition a formalised agreement has now been made with Price Waterhouse Coopers for the provision of Specialised Audit requirements.

### **Additional Assurance**

13. As members will recall, 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 were considered and approved by the Joint Committee at its meeting on 29 September 2010.
14. 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. Following the consideration of the Annual Report and Audit Opinion at the June 2011 meeting, members now need to consider this.

15. Due to the nature and size of the Joint Committee members may wish to consider the expected role being that of the Joint Committee as a whole rather than a sub-committee.
16. 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). The 2010/2011 reported that the service as good (level 4).
17. A comprehensive suite of performance indicators have been incorporated into the Internal Charter and will again be measured and reported upon in the Annual Internal Audit Report timetabled at the 25<sup>th</sup> April 2012 meeting.

### **Summary and Key Observations**

18. The review of the effectiveness of the System of Internal Audit in operation during 2011 / 2012 (attached at Appendix 2) has been updated. Further amendments/improvements to the current Audit Service will be reported to the Joint Committee as part of the Annual Audit Report.

### **Recommendation**

19. 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.
20. Members are requested to consider the Joint Committees Terms of Reference and the expected role and responsibilities with regards to an Audit Committee. Members are asked to further consider the requirement for a sub- committee due to the size and nature of the Joint Committee as a whole.

### **Background Papers**

- Audit Files & Working Papers
- CIPFA Checklist
- Review of the Effectiveness of the System of Internal Audit 2010/2011 – Reports to CDCJC 26<sup>th</sup> January 2011, 29 June 2011

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## **Appendix 1: Implications**

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### ***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 / Public Sector Equality Duty**

None

### **Accommodation**

None

### **Crime and Disorder**

None

### **Human Rights**

None

### **Consultation**

None

### **Procurement**

None

### **Disability Discrimination Act**

None

### **Legal Implications**

None