



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 provide an update to members of the revisions to the Review of the effectiveness of the system of Internal Audit, as considered by the Joint Committee on 29 January 2011.

Background

2. As Members will recall from the previous report, 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. 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. During 2010 / 2011 Members approved formal Service level Agreement for the provision of an Internal Audit Service within Durham County Council's Internal Audit Service.
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 / 2010 Statement of Accounts and Annual Governance Statement, but was not presented to the Joint Committee for consideration.
8. 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. This report aims to address.
9. Members considered an interim report and the completed checklist at the meeting held on 29 January 2011. Reports on the Review of Effectiveness of Internal Audit will in future be considered by the Joint Committee on an annual basis only.

Risk Management

10. 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

11. 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.
12. 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.
13. A further 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 the checklist to inform this review. The assessment takes into account the significant progress made during the last year.

14. To enable the Joint Committee to form its own independent view, the checklist has been amended to reflect 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, a number of 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.

Additional Assurance

15. During the 2009 / 2010 closure process, 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. 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.
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 reviewed and timetabled following the consideration of the Annual Report and Audit Opinion, to be presented on 29 June 2011.
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). The 2010/2011 survey has now been received, 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 / 2011 Annual Internal Audit Report at the 29 June 2011 meeting.

Summary and Key Observations

20. Areas of non compliance in 2009 / 2010 had been substantially addressed in the early part of 2010 / 2011 and areas of non/ part compliance at 26 January 2011 further addressed following the 2010/2011 Internal Audit process and subsequent production of the Annual Report and Audit opinion.
21. The review of the effectiveness of the System of Internal Audit in operation during 2010 / 2011 (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.

Background Papers

Audit Files & Working Papers

CIPFA Checklist

Review of the Effectiveness of the System of Internal Audit 2010/2011 – Report to CDCJC 26th January 2011

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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