

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

23 July 2019

Report of the Director of Finance & ICT

REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

1 Purpose of the Report

To advise the Committee of the Accounts and Audit (England) Regulations 2015 and the requirement to review the system of internal control.

2 Information and Analysis

The Audit Committee is responsible for reviewing the Annual Governance Statement, reviewing and approving other aspects of the Council's governance framework and for approving, monitoring and reviewing the outcome of audit activity throughout the Authority. It is, therefore, the appropriate Committee of the County Council to consider the outcomes of this review of the effectiveness of the system of internal control.

The Council is required to have a sound system of internal control which:

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensures the financial and operational management of the authority is effective; and
- (c) includes effective arrangements for the management of risk.

The Council must take two actions as part of the requirement to review the internal control system, they are:

- (i) conduct a review of the effectiveness of the system of internal control (described in bullet points (a) to (c) above);
- (ii) prepare an annual governance statement.

In order to provide members with the necessary assurances around the effectiveness of the system of internal control it is appropriate to consider and

reflect on the work of the Audit Committee, the assurances received from internal and external audit and evidence from the statement of accounts. In particular it is appropriate to refer members to the following:

- That the Council has thoroughly reviewed its Constitution, including Financial Regulations & Standing Orders Relating to Contracts during the past year;
- The Annual Governance Statement considered at this meeting;
- The evidence of compliance with International Auditing Standards presented alongside the Annual Governance Statement;
- The work of internal auditors culminating in the Annual Audit Report from the Assistant Director of Finance (Audit) presented to this meeting;
- The ISA260 report presented to this meeting by the Council's external auditor Mazars;
- The detail contained within the Strategic Risk Register which has been regularly presented to members;
- The standard and quality of the Statement of Accounts for 2018-19 and in particular the transparency illustrated by the disclosures made and the opportunity given to the Committee to discuss its contents.
- The Council's spending against budget, reserves and achievement of budget reductions are monitored on a regular basis and reported to both management, portfolio holders, Cabinet, Audit Committee and Council. In addition the Audit Committee and Cabinet receive reports detailing the Council's significant Treasury management operations;
- Reviews of service delivery are planned and underway across the Council.

As members may be aware, PwC concluded a review of the Audit Services Unit (reported to Committee 28 July 2014). The Public Sector Internal Audit Standards require an external review to be conducted at least once every five years. PwC provided a positive view of the Unit's effectiveness and compliance with the PSIAS. Additionally, the External Auditor continues to use the work of Internal Audit to inform their assessment of the Council's significant risks.

An internal self-assessment of performance against the recommended checklist provided by CIPFA in the Local Government Application Note for the UK PSIAS has been undertaken by the Assistant Director of Finance (Audit). I have reviewed this self-assessment to ensure it provides an objective, evidence based view. I can confirm that I am of the opinion that it is a sound

assessment of Audit's and the Council's adherence to PSIAS. Areas for improvement were identified and will be monitored as part of wider actions from the Annual Governance Statement.

Consequently I am satisfied that Audit Services achieved adherence to the standards set out in the PSIAS, and that this provides a sound basis from which the Council rely on the assurances provided by Audit Services in respect of the effectiveness of the internal control system. An external review of the effectiveness of Internal Audit will be conducted over the coming months ready for reporting in late 2019.

The work of Audit Services is subject to the requirements of the Unit's Audit Manual. This Manual is regularly reviewed as part of consideration of the systems and procedures used by the Unit alongside the Quality Assessment and Improvement Programme. Cabinet approved the Council's "Audit Charter" as part of a review of that document.

3 Legal Considerations

The Audit Services Unit discharges the Authority's statutory responsibilities under Regulation 5, Accounts & Audit (England) Regulations 2015 and significant aspects of the statutory duties of the Director of Finance & ICT arising under Section 151 of the Local Government Act 1972.

4 Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, prevention of crime and disorder, equality and diversity; human resources, environmental, health, property, transport and social value considerations.

5 Officer's Recommendation

That the Committee considers the information provided in this report as evidence of the effective operation of the internal control system.

PETER HANDFORD

Director of Finance & ICT