



REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	27 JUNE 2013
REPORT OF THE:	CORPORATE DIRECTOR (s151) PAUL CRESSWELL
TITLE OF REPORT:	REVIEW OF INTERNAL AUDIT EFFECTIVENESS
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The purpose of this report is to advise Members of the process and the outcomes of the 2012/13 review of the effectiveness of the Council's internal audit arrangements.

2.0 RECOMMENDATION

- 2.1 Members are asked to note, and comment on the results of the review of the effectiveness of the Council's internal audit arrangements.

3.0 REASON FOR RECOMMENDATION

- 3.1 To ensure there is an appropriate review of the effectiveness of the Council's internal audit arrangements.

4.0 SIGNIFICANT RISKS

- 4.1 The Council will not comply with the Accounts and Audit Regulations 2011 if it does not review the effectiveness of internal audit on an annual basis.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 Internal audit supports objectives across the council by helping to ensure that there are proper systems of internal control. Senior council officers across Veritau client councils have contributed to the review of effectiveness.

REPORT

6.0 REPORT DETAILS

Legislative Requirements

- 6.1 The Accounts and Audit Regulations 2011 require the Council to conduct, at least once a year, a review of the effectiveness of its internal audit arrangements, and to

report the findings of this review to the Council or an appropriate committee. The process is intended to form part of the wider review of the effectiveness of the system of internal control which is necessary to prepare the Annual Governance Statement.

6.2 The Regulations require that the Council:

“must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.

6.3 For 2012/13, the proper practices for internal audit were those contained within the CIPFA Code of Practice for Internal Audit in Local Government (the Code of Practice)¹.

Defining Internal Audit

6.4 In the Code of Practice, internal audit is defined as:

“an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.”

As such internal audit forms an essential part of the Council's corporate governance arrangements.

6.5 Since April 2012, internal audit has been provided under contract by Veritau (Veritau North Yorkshire Ltd), a company part owned by the Council.

Who Should Undertake the Review?

6.6 The Regulations require either the Council itself, or a committee of the Council, to review the effectiveness of internal audit. At Ryedale this is undertaken by the Overview and Scrutiny Committee. The main reasons for this are:

- (a) it is a core responsibility of the Committee to approve internal audit plans and monitor the work of the service;
- (b) in so far as the Committee fulfils the role of an audit committee it is independent of the management of the Council;
- (c) the annual report and the opinion of the Head of Internal Audit are considered by the Committee;
- (d) the external auditor reports to the Committee and is therefore able to highlight any deficiencies in internal audit arrangements;
- (e) the review of the effectiveness of internal audit feeds into the Annual Governance Statement which is also considered by the Committee.

6.7 The review of the effectiveness of internal audit has been undertaken as a joint exercise across Veritau and its client councils. This ensures consistency and avoids unnecessary duplication of work as the systems of internal audit are common across Veritau.

¹ The CIPFA Code of Practice for Internal Audit in Local Government was replaced on 1 April 2013 by the Public Sector Internal Audit Standards.

Scope of the Review

- 6.8 The review is about effectiveness, not process. The review is primarily needed to ensure that the opinion contained in the Annual Report of the Head of Internal Audit can be relied upon as a key source of evidence for the Annual Governance Statement. The focus of the review has, therefore, concentrated on the delivery of the internal audit function to the required professional standards in order to produce the required outcome i.e. a reliable assurance on internal control and the management of risks in the council, rather than an assessment of value for money.
- 6.9 Other sources of assurance that the Committee receives, from which it can take a view on the effectiveness of the service include:
- (a) regular outturn reports on Internal Audit work and related performance measures;
 - (b) the Annual Report of the Head of Internal Audit (which is a separate item on this Agenda);
 - (c) the Internal Audit Plan;
 - (d) reports from the external auditor (in so far as they relate to the work of internal audit).

2012/13 Review of The Effectiveness of Internal Audit

- 6.10 For the purposes of this review, the following work has been completed:
- (a) the Code of Practice self assessment checklist has been refreshed so as to identify any significant changes in the degree of compliance against the Code (compared to 2011/12);
 - (b) a customer satisfaction survey has been completed (by senior managers across Veritau's client councils);
 - (c) the progress made to address any issues identified in the 2011/12 review of effectiveness has been assessed;
 - (d) other factors regarding the quality of the service have been considered as appropriate.

- 6.11 Details of the review are included in annex A.

Conclusion

- 6.12 Based on the results of this review, the Council's internal audit arrangements are considered to be operating in accordance with accepted professional best practice, and remain effective. The Committee can therefore continue to place reliance on the internal audit arrangements operating within the Council when considering the draft Annual Governance Statement for 2012/13.

7.0 IMPLICATIONS

- 7.1 The following implications have been identified:
- a) Financial
None
 - b) Legal
None

- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
None

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Background Papers:
None