
Audit and Governance Committee

21 December 2009

Report of the Assistant Director of Resources (Customer Service and Governance)

Annual Review of the Effectiveness of the System of Internal Audit

Summary

- 1 This report seeks Members' views on the future arrangements for undertaking the review the effectiveness of the system of internal audit.

Background

- 2 The Accounts and Audit Regulations 2003, as amended, now require each local authority to conduct an annual review of the effectiveness of its system of internal audit, and to report the findings of this review to an appropriate committee. The changes came into effect from 1 April 2006 onwards. The process is intended to form part of the wider review of the effectiveness of the system of internal control which supports the preparation of the Annual Governance Statement.
- 3 All local authorities have a statutory requirement to make provision for internal audit in accordance with proper standards of professional practice, as set out in the CIPFA Code of Practice for Internal audit in Local Government. Internal Audit is defined as an assurance function that provides an independent and objective opinion to the organisation on the effectiveness of the control environment. As such Internal Audit forms an essential part of the council's corporate governance arrangements.
- 4 For 2008/09, the review of the effectiveness of the system of internal audit was conducted by the Officer Governance Group and the results were reported to this Committee on 29 June 2009. It was concluded that the system of internal audit was working well and that the council's arrangements for internal audit following accepted best practice.

Proposed Arrangements for the Review of Effectiveness

- 5 The review of the effectiveness of internal audit should be performed annually. The Committee is therefore asked to consider how best to undertake this exercise for 2009/10 and for future years.

- 6 The past year has seen a significant amount of work undertaken to establish the shared internal audit and counter fraud service with North Yorkshire County Council. One of the main outcomes of this process has been the establishment of a new company, Veritau Limited, jointly owned by the two councils. Responsibility for service provision formally transferred to the new company on 1 April 2009. For 2009/10 onwards, internal audit and counter fraud services will be provided to the council in accordance with a service agreement. As part of this change process both councils have established client arrangements to monitor the delivery of the service. To ensure consistency and to avoid unnecessary duplication the two client officers undertake joint contract monitoring through a Shared Service Contract Board (SSCB). The SSCB meets on a regular basis to review the performance of the company against agreed targets, professional standards and other benchmarking information.
- 7 To maintain independence, it is proposed that the SSCB should undertake the annual review of the effectiveness of the system of internal audit but that this review should be overseen by the chairs of Audit Committee from the two councils. The review will include consideration of the results of:
- any Audit Commission review and/or other external inspections of the work performed by Veritau during the year;
 - the annual self assessment performed against the CIPFA Code of Practice;
 - the performance of Veritau against the agreed targets for the year;
 - customer satisfaction surveys and similar feedback;
 - any benchmarking data.
- 8 For this year, it is proposed that the review will be undertaken in February and March 2010 with the results reported to the next meetings of the two council's Audit Committees. For York, this would mean reporting the results of the review to the meeting of this Committee in April 2010.
- 9 The approach set out in this report has been considered by the Audit Committee at NYCC and agreed.

Options

- 10 This report is for consultation purposes. If the approach set out in the report is not considered to be appropriate then Members are asked to suggest alternative methods for conducting the review.

Analysis

- 11 Not relevant for the purpose of the report.

Corporate Priorities

- 12 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. In doing so it contributes to the corporate objective of making the council an Effective Organisation.

Implications

- 13 The implications are:
- **Financial** – there are no financial implications to this report.
 - **Human Resources (HR)** – there are no HR implications to this report.
 - **Equalities** – there are no equalities implications to this report.
 - **Legal** – there are no legal implications to this report.
 - **Crime and Disorder** – there are no crime and disorder implications to this report.
 - **Information Technology (IT)** – there are no IT implications to this report.
 - **Property** – there are no property implications to this report.

Risk Management

- 14 The council will fail to properly comply with the Accounts and Audit Regulations 2003 if it fails to complete the annual review of the effectiveness of the system of internal audit. This in turn could adversely impact on the council's Use of Resources assessment score.

Recommendations

- 15 Members of the Audit and Governance Committee are asked to:
- consider the process for conducting the annual review of the effectiveness of the system of internal audit;
 - agree that future reviews should be undertaken by the Shared Service Contract Board (SSCB) with the process overseen by the chair of the Audit Committee. The results of the review will then be reported to the next meeting of this Committee.

Reason

To enable Members to fulfil their role in assessing the adequacy of the council's internal control environment.

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Report Approved

Date 7 December 2009

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

- Accounts and Audit Regulations 2003
- Accounts and Audit (Amendments) (England) Regulations 2006
- CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Annexes

None