

## **Review of the Effectiveness of Internal Audit 2012/13**

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### **Summary**

- 1 This report advises Members of the process and the outcomes of the 2012/13 review of the effectiveness of the council's internal audit arrangements.

### **Background**

- 2 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 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 (which is a separate item on this agenda).
- 3 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. Previous guidance has stated that the proper practices for internal audit are those contained within the CIPFA Code of Practice for Internal Audit in Local Government 2006 (the Code of Practice)<sup>1</sup>.

### **Defining Internal Audit**

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

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

*“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.

- 5 Since April 2009, internal audit has been provided under contract by Veritau Ltd, a company wholly owned by the council and North Yorkshire County Council, with the service being provided under a formal “shared service” arrangement. This review takes full account of this framework for the provision of the service.
- 6 The principal functions of internal audit are to:
  - (a) provide assurance to Members, chief officers, other key stakeholders and the wider community on the effectiveness of the governance arrangements and internal controls at the council;
  - (b) provide advice and make recommendations to improve controls and/or address the poor or inappropriate use of the council’s resources;
  - (c) examine and evaluate the probity, legality and value for money of the council’s activities;
  - (d) act as a visible deterrent against all fraudulent activity, corruption and other wrong doing;
  - (e) respond to and investigate any instances of suspected fraud or corruption
  - (f) provide assistance to the Audit and Governance Committee in the performance of its functions as set out in its terms of reference.
- 7 The Code of Practice sets out eleven standards (or principles) for the establishment of a professional service. Each principle is supported by detailed guidance. The principles cover the following areas:

- (a) scope of internal audit (terms of reference and scope of work);
- (b) independence;
- (c) ethics for internal auditors;
- (d) audit committees (including internal audit's relationship with the audit committee);
- (e) relationships (with management, elected members and other auditors, regulators and inspectors);
- (f) staffing, training and continuing professional development;
- (g) audit strategy and planning;
- (h) undertaking audit work;
- (i) due professional care;
- (j) reporting;
- (k) performance, quality and effectiveness.

8 The best practice guidance states that the review of the effectiveness of internal audit should also include consideration of the effectiveness of the audit committee itself (to the extent that its work relates to internal audit) as well as the performance of the audit provider. A separate review of the Audit and Governance committee's effectiveness was completed during 2012/13 and the results were reported to this is committee in December 2012. Following this review an action plan was adopted which identified various changes and improvements to the working of the committee. Further reports will be presented to the committee to enable progress against the action plan to be monitored.

### **Who Should Undertake the Review?**

- 9 The Regulations require either the council itself, or an appropriate committee of the council, to review the system of internal audit. The council has delegated this to the Audit and Governance committee. The main reasons for this are:
- (a) it is a core responsibility of the Audit and Governance committee to approve internal audit plans and to monitor the work of the service;

- (b) the Audit and Governance committee 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 Audit and Governance committee;
  - (d) the external auditor reports to the Audit and Governance committee and is therefore readily available to give an opinion on the work of internal audit;
  - (e) the review of the effectiveness of internal audit feeds into the Annual Governance Statement which is also considered by the committee.
- 10 A key point is that it is the responsibility of the council to conduct the annual review; it is not a review that is carried out by the external auditor as part of their annual audit of the council's accounts. External audit review elements of internal audit's work to assess what reliance can be placed upon it. However, this review work does not cover all the elements of internal audit and, therefore, cannot be relied upon to properly fulfil the requirements of the Regulations.
- 11 As in previous years, the review of the effectiveness of internal audit has been undertaken jointly with North Yorkshire County Council and in consultation with the respective Audit Committee chairs, in accordance with the process agreed by this committee in February 2013. This ensures consistency and avoids unnecessary duplication of work by the two council's client officers. The review has also been extended to take account of the expansion of the Veritau's internal audit provision to include five of the North Yorkshire district councils.

### **Scope of the Review**

- 12 The review is primarily about effectiveness, not process. In essence the need for the review is to ensure that the opinion contained in the Annual Report provided by the Head of Internal Audit may be relied upon as a key source of evidence in 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.

- 13 Other sources of assurance that the committee receives, from which it can take a view on the effectiveness of the service include:
- (a) regular monitoring reports on internal audit work and related performance measures;
  - (b) the Internal Audit Annual Report (which is a separate item on this Agenda);
  - (c) the Internal Audit Plan (the 2013/14 Plan was approved at the April 2013 meeting of this committee);
  - (d) regular reports on the implementation of internal audit recommendations;
  - (e) 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**

- 14 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 in the council and Veritau's other client councils);
  - (c) the progress made to address any issues identified in the 2011/12 review of effectiveness has been assessed;
  - (d) the views of the external auditors have been sought regarding the extent to which they can place reliance upon the work of internal audit;
  - (e) other factors regarding the quality of the service have been considered as appropriate.
- 15 The results of the review are set out in **Annex 1** to this report. The external auditors, Mazars have also provided the

feedback on the work of internal audit. A copy of their letter is attached as **annex 2**.

## **CONCLUSION**

- 16 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.

## **Consultation**

- 17 This review has been undertaken jointly with the Corporate Director – Strategic Resources at North Yorkshire County Council and in consultation with the chair of the Audit and Governance Committee as recommended and agreed by this committee in February 2013.

## **Options**

- 18 Not relevant for the purpose of the report.

## **Analysis**

- 19 Not relevant for the purpose of the report.

## **Council Plan**

- 20 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything it does and by helping to make the council a more effective organisation.

## **Implications**

- 21 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**

- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

### **Risk Management Assessment**

- 22 The council will fail to comply with the Accounts and Audit Regulations 2011 if it does not undertake a proper review of the effectiveness of internal audit as part of the wider review of the effectiveness of the system of internal control.

### **Recommendation**

- 23 Members are asked to:
- (a) Note the results of the annual review of the effectiveness of internal audit.

#### Reason

*To enable members to consider the overall adequacy and effectiveness of the council's control environment. To ensure that the council complies with its statutory responsibilities.*

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**Report  
Approved**



**Date** 10/6/13

## **Specialist Implications Officers**

**Not applicable**

**Wards Affected:** Not applicable

**All**

**For further information please contact the author of the report**

## **Background Papers**

None

## **Annexes**

Annex 1 – results of the review of internal audit effectiveness.

Annex 2 – copy of letter from the external auditors, Mazars