

**NORTH YORKSHIRE COUNTY COUNCIL****AUDIT COMMITTEE****7 March 2013****REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT****Report of the Corporate Director – Strategic Resources****1.0 PURPOSE OF THE REPORT**

- 1.1 To agree the process to be followed for the 2012/13 annual review of the effectiveness of internal audit.

**2.0 BACKGROUND**

- 2.1 The Accounts and Audit Regulations 2011 require local authorities to conduct an annual review of the effectiveness of their internal audit, 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 (AGS).
- 2.2 Best practice guidance issued by the Chartered Institute of Public Finance (CIPFA) also recommends that audit committees should periodically review their own effectiveness so as to ensure that they continue to properly fulfil their responsibilities.
- 2.3 In previous years, the annual review of the effectiveness of internal audit has been undertaken jointly with the City of York Council through the Shared Service Contract Board (SSCB), and in consultation with the respective audit committee chairs. The SSCB comprises the respective client officers from both councils and Veritau's Head of Internal Audit. The client officer for the County Council is the Assistant Director – Central Finance (Geoff Wall). Meetings of the SSCB are held approximately four times a year and involve consideration of performance indicators, changes in working practices and other service developments. The results of the 2011/12 review of internal audit effectiveness were reported to this committee on 28 June 2012.
- 2.4 The Committee established a Member Working Group in 2010 to review the effectiveness of the Audit Committee itself. The review took the form of a self assessment against best practice as set out in the CIPFA toolkit for audit committees. The results of the self assessment exercise were reported to this Committee on 22 April 2010. From this exercise an improvement plan was prepared and various agreed actions implemented.
- 2.5 Updated guidance on the functioning of audit committees is now expected to be published by CIPFA. It is also recognised that the role of audit committees may

change in the future as a result of the government's proposals for the future of public audit and the expectation that local authorities will be given responsibility for the appointment of their own external auditors. The draft Local Audit Bill is currently going through parliament

### **3.0 PROPOSED ARRANGEMENTS FOR 2012/13**

3.1 The Regulations require either the Council itself or a committee of the Council to review the effectiveness of internal audit, and for the review to be performed annually. The County Council has delegated this responsibility to the Audit Committee and included it within the terms of reference for the Committee. To ensure consistency and avoid unnecessary duplication, it is proposed that the SSCB should again undertake the detailed work, with the process overseen by the chair of the Audit Committee. As last year, it is proposed that the outcome of the review will then be reported to the June 2013 meeting of this Committee.

3.2 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. As a detailed review of the Audit Committee's own effectiveness was undertaken in 2010, it is considered appropriate to treat the 2012/13 review as a simple refresh exercise. Once updated guidance has been issued by CIPFA and the legislation around local audit is finalised it may however be necessary to further consider the audit committee's terms of reference and operating arrangements.

### **4.0 RECOMMENDATIONS**

4.1 Members are asked to agree the proposed process for undertaking the annual internal audit review for 2012/13.

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Corporate Director – Strategic Resources

### **BACKGROUND DOCUMENTS**

None

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