

JOINT INDEPENDENT AUDIT COMMITTEE**7 DECEMBER 2015**

INTERNAL AUDIT AND EXTERNAL AUDIT JOINT PROTOCOL**REPORT OF CHIEF INTERNAL AUDITOR AND EXTERNAL AUDITOR**

1 Purpose of the Report

- 1.1 This report informs the Committee of the refresh of Protocol for the liaison between Internal and External Audit.

2 Background

- 2.1 A protocol for the liaison between Internal and External Audit was originally agreed in November 2013.
- 2.2 Internal and External Audit have refreshed working arrangements to ensure effective co-operation and efficient use of resources based on regular liaison, discussion, exchange of information and sharing of ideas. The objective is to ensure the PCC and the Chief Constable continues to receive the most effective use of audit resources.
- 2.3 Refreshing arrangements at this stage ensures this aim is achieved by ensuring audit resources remain focused and relevant to the changing demands and emerging risks facing the PCC and the Chief Constable.
- 2.4 The changes to the protocol, attached at Appendix A, reflect removal of the reference to the CIPFA Code of Internal Audit Practice which were superseded by Public Sector Internal Audit Standards (PSIAS), reference to the Accounts and Audit Regulations effective 1 April 2015 and changes to key contacts.

3 Equal opportunities implications

- 3.1 It is considered that there are no equal opportunities implications arising from the report.

4 Human rights implications

- 4.1 It is considered that there are no human rights implications arising from the report.

5 Risk Management implications

- 5.1 There are no additional risk management implications arising directly from this report. The joint working protocol will support a combined assurance approach between Internal and External Audit thereby strengthen the control environment.

6 Financial implications

- 6.1 There are no direct implications on the revenue budget arising from this report.

7 Recommendation

- 7.1 The Committee is requested to note this report.



Northumbria Police and Crime
Commissioner and Chief
Constable

Protocol for the liaison between
internal and external audit
2015/16

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Northumbria Police and Crime Commissioner and Chief Constable
Protocol for the liaison between internal and external audit 2015/16

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Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. Introduction

Mazars is committed to carrying out the audit economically, efficiently and effectively. The 2010 Code of Audit Practice incorporates this principle, requiring external auditors to establish effective co-ordination arrangements with internal audit and seek to place maximum reliance on internal audit work whenever possible.

Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is sensible and good professional practice that they should work together closely. This protocol sets out the agreed working relationship between internal and external audit. It sets out how internal and external audit (Mazars) will work together and establishes a framework for co-ordination, co-operation and exchange of information. It outlines:

- the respective roles of external and internal audit;
- the Code of Audit Practice (the Code);
- the requirements of the International Standards on Auditing (UK and Ireland) and their impact on the work of external auditors;
- working with internal audit; and
- liaison arrangements

2. Objectives

Overall, the protocol should promote an effective working relationship within the bounds of the respective roles of internal and external audit, and maximise the benefit to the Police and Crime Commissioner and the Chief Constable from available audit resources.

This protocol covers all aspects of audit, including IT audit and value for money, and takes account of external audit responsibilities under the International Standards on Auditing (UK and Ireland).

3. Respective roles of auditors

The table below outlines the respective roles of external and internal audit. The roles and objectives are different but complementary. There are therefore benefits to be gained from working together, and from external audit relying on internal audit's work. Any such reliance is governed by International Auditing Standard (ISAs) (UK and Ireland) 610. This standard requires external audit to review internal audit's work, which usually involves re-performing specific tests as well as a more general review.

Internal Audit	External Audit
<p>The Public Sector Internal Audit Standards define internal audit as an 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.</p> <p>Internal audit must have documented terms of reference that accord with the requirements of the Public Sector Internal Audit Standards.</p> <p>The key output from internal audit is the annual opinion on the Police and Crime Commissioner's and Chief Constable's control environment which is reported to the Joint Independent Audit Committee.</p>	<p>External audit conduct their work in accordance with International Standards on Auditing (ISAs) (UK and Ireland) and with the Code.</p> <p>To reflect the special accountability attached to public money and the conduct of public business, external audit in local government is characterised by three distinctive features:</p> <ul style="list-style-type: none"> • auditors are appointed independently by Public Sector Audit Appointments. • the scope of auditors' work covers the audit of financial statements, probity in the use of public money and value for money in the use of resources. • auditors may report aspects of their work widely to the public and other key stakeholders.

4. Code of Audit Practice

The Code of Audit Practice (updated March 2010) sets out what is required from external auditors.

The audit consists of:

- Opinion of the accounts, including the annual governance statement; and
- value for money conclusion.

Separate guidance on the audit of the value for money conclusion requires that:

- the organisation has proper arrangements for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

5. International Standards on Auditing (UK and Ireland)

The external audit is undertaken in accordance with International Standards on Auditing (ISAs). The standards that principally affect our working relationship with Internal Audit are:

- ISA 315 – understanding the entity, its environment and assessing the risks of material misstatement;
- ISA 330 – procedures in response to assessed risks;
- ISA 240 – consideration of fraud; and
- ISA 610 – considering the work of Internal Audit.

In summary, the approach requires us, as external auditors, to:

- gain an understanding of the information systems that are relevant to producing material figures in the accounts;
- gain an understanding of the way transactions in these systems are initiated, recorded, processed and reported;
- carry out interim opinion audit planning – identifying risks of material mis-statement (inherent risks in the systems, or specific risks that are identified), and planning tests of controls that are designed to prevent the material mis-statements;
- carry out tests of controls where those controls are key to ensuring there are no material mis-statements in the assertions in the financial statements;
- reassess the risks at the time the draft financial statements are produced; and
- plan and carry out tests of control or substantive tests of detail against the remaining risks for each of the assertions for material entries in the accounts.

Where the work internal audit undertakes for its own purposes overlaps with work that the external auditor would undertake, external audit may seek to place reliance upon the work of internal audit.

Internal audit undertake the following activities and external audit will seek to place reliance on this work wherever possible:

- systems documentation;
- identification of controls; and
- testing of controls.

ISA 610: Using the work of Internal Auditors

- We will seek to maximise our reliance on the work of Internal Audit particularly in relation to the Police and Crime Commissioner's and the Chief Constable's core financial systems. In this respect, ISA 610 requires external auditors to:
- review internal audit to confirm that it meets, as a minimum, the requirements of the CIPFA Code. This will provide assurance that work is to a standard that can be relied on to inform external audit conclusions;
- review whether internal audit is effective as a management control, as part of the control environment assessment; and
- review (and seek to place reliance on) specific pieces of internal audit work, where that work covers areas relevant to our Code of Audit Practice objectives.

Where external auditors intend to use internal audit work to inform conclusions, the specific work must be evaluated and this may involve re-performance of this work, testing of similar items or observing internal audit work.

6. Working with internal audit

Where internal and external audit work closely together, the following benefits should accrue.

Internal Audit	The Police and Crime Commissioner and the Chief Constable	External Audit
Increased credibility and presence with management and JIAC members (those charged with governance).	Clearer, more consistent reporting of audit issues.	Better understanding of the corporate framework.
Greater emphasis on internal audit's own objectives.	Reduced opportunity for duplication or omission of audit work.	The audit is more tailored and relevant to the Police and Crime Commissioner and the Chief Constable.
Greater awareness of risk from an external observer's perspective.	Better focused audit work that provides relevant information.	Increased awareness of risk factors for the Police and Crime Commissioner and the Chief Constable.
Opportunity for cross training, eg IT audit.	Maximises the positive impact of audit.	More efficient audit approach.

Effective co-operation between external and internal auditors means more than avoiding duplication. An effective framework of co-operation and co-ordination ensures liaison, co-operation on work programmes and the sharing of information. Reflecting this, our joint working protocol covers:

- liaison meetings;
- external audit reliance on internal audit work;
- arrangements for sharing documents and information;

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- arrangements for pre-audit committee liaison; and
- external audit's review of internal audit's work.

The principles of co-operation and co-ordination, and agreed actions are set out in the table below.

Co-operation – principles and details
<p>Liaison meetings. Regular meetings take place between the Chief Internal Auditor / Internal Audit Manager and the External Audit Manager / Team Leader to discuss audit planning (in particular, to avoid unnecessary duplication of planned audit work), audit progress and any other issues of mutual interest. These meetings are typically held monthly.</p> <p>External audit reliance on internal audit work. Internal audit prepares its audit plans independently, on the basis of its assessment of the risks existing for the Police and Crime Commissioner and the Chief Constable. It is likely that some of this work will be in areas in which external audit will wish to obtain assurance to meet their Code of Audit Practice responsibilities. It is appropriate for external audit to seek to place reliance on internal audit's work, wherever it is practical to do so.</p> <p>There is an ongoing dialogue between internal and external audit and this includes discussion of work where reliance on internal audit work is sought.</p> <p>Arrangements for sharing documents and information. It will enhance understanding and effectiveness if audit reports and other audit information are shared promptly.</p> <p>Internal audit will provide external audit with:</p> <ul style="list-style-type: none"> • audit reports and access to electronic working paper files; • details of any significant changes to the audit plan; • key documents, in particular the terms of reference, audit strategy and audit plan; and • formal details of all significant frauds (all frauds of £10,000 or more) and all instances of corruption. <p>External audit will provide internal audit with copies of:</p> <ul style="list-style-type: none"> • final reports, including relevant working papers by agreement; and • details of any significant changes to the audit plan. <p>External and internal audit will communicate promptly to the other auditor any significant concerns arising that the auditor feels should be dealt with other than through the usual reporting arrangements set out in this protocol.</p> <p>Arrangements for pre-audit committee liaison. It is important that the Joint Independent Audit Committee meeting focuses on dealing effectively with the issues set out on the agenda. We will consider whether prior to a committee meeting there is a need for auditors to liaise to address any issues that may have arisen.</p> <p>External audit's approach to its review of internal audit. External auditors review the work of internal audit for two main purposes:</p> <ul style="list-style-type: none"> • to establish if internal audit is undertaking its role effectively in accordance with internal audit standards; and

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- to determine what reliance can be drawn from internal audit work in relation to the external auditor's Code of Audit Practice responsibilities.

External audit will update its overall assessment of internal audit and review internal audit work that it intends to place reliance on.

The Accounts and Audit Regulations 2015 require authorities to review the effectiveness of the system of internal control. This review is the responsibility of the Police and Crime Commissioner and the Chief Constable and is not intended to be a review carried out by the external auditor.

7. Liaison arrangements

We will continue to meet regularly with internal audit to update issues identified in relation to the audit, review progress and exchange information. The agreed contacts for Mazars and internal audit are identified in the table below.

Contact list		
Key contact	email	Telephone
Mazars		
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