

Police and Crime Commissioner for North Yorkshire and Chief Constable for North Yorkshire

External Audit / Internal Audit Protocol for Liaison

2014/15



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Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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01 Introduction

The Code of Audit Practice 2010 requires external auditors to carry out their audit economically, efficiently and effectively, and in as timely a way as possible. It specifies that as part of their audit approach, auditors should establish effective co-ordination arrangements with internal audit and seek to place maximum reliance on internal audit work wherever 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 proposed working relationship that should exist between internal and external audit, and has been updated from the version issued for the 2013/14 audit year in December 2013.

The protocol has been discussed and agreed between external audit and internal audit.

02 Objectives of the protocol

The purpose of this protocol is to provide a framework which will optimise the benefits of audit to the Police and Crime Commissioner for North Yorkshire (the Commissioner), and the Chief Constable for North Yorkshire (the Chief Constable), whilst enabling internal and external audit to deliver their respective responsibilities. This protocol sets out how internal and external audit will work together and establishes a framework for co-ordination, co-operation and exchange of information.

The protocol is aimed at both audit providers for the Commissioner and Chief Constable. Its aims are to:

- clarify the respective roles of external and internal audit;
- outline the Audit Commission Code of Audit Practice (the Code);
- promote an effective working relationship, within the bounds of respective roles;
- maximise the benefit to the Commissioner and Chief Constable from their available audit resources, through agreed co-ordination arrangements; and
- detail where and how reliance is to be drawn by external audit from internal audit work.

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 of Auditing (UK and Ireland) (ISAs (UK&I)).

03 Respective roles of auditors

The table below outlines the respective roles of external and internal audit. 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 more general review.

External Audit	Internal Audit
<p>External audit conduct their work in accordance with International Standards on Auditing (ISAs) (UK and Ireland) and with the Audit Commission's Code of Audit Practice.</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 the Audit Commission.• 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.	<p>The Public Sector Internal Audit standards set out Internal Audit's role; 'Internal auditing is 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>

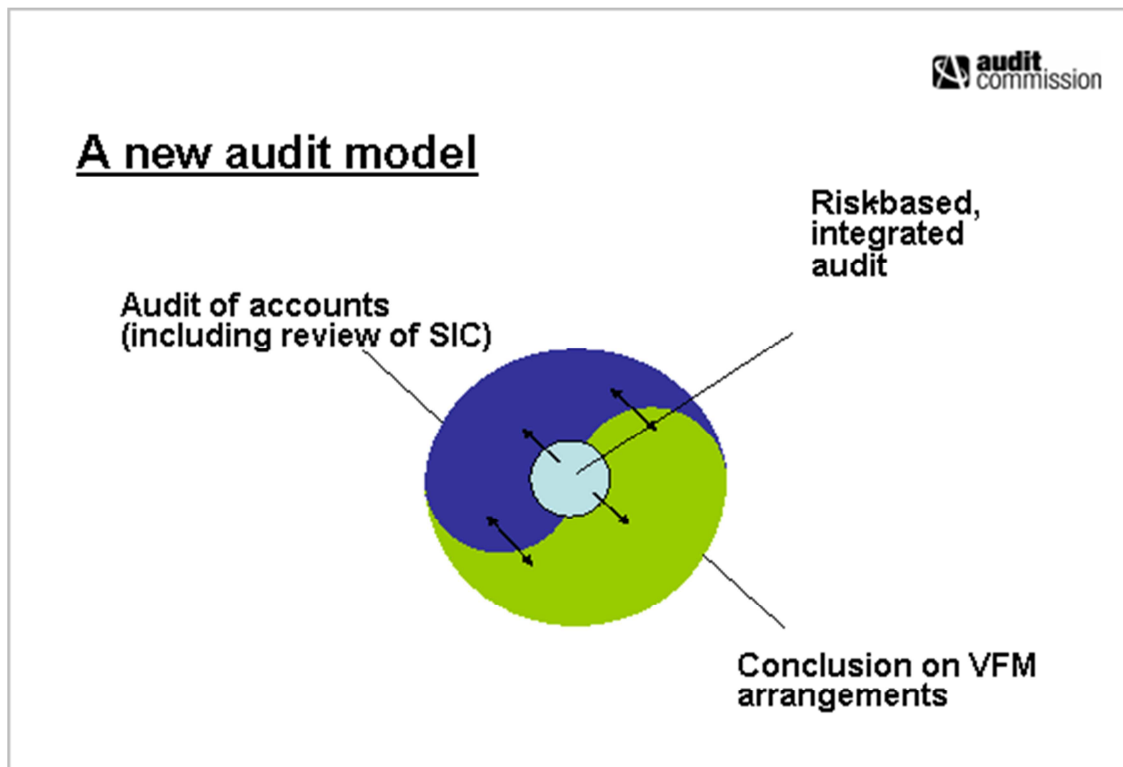
04 Code of Audit Practice

The most recent Audit Commission Code of Audit Practice came into effect from April 2010.

The audit model is shown in Figure 1. The reference to the review of the SIC (statement of internal control) should now refer to the Annual Governance Statement.

Figure 1: The Code of Audit Practice

The Code of Audit Practice came into effect from April 2010.



Source: Audit Commission

05 Co-operation and co-ordination

Effective co-operation between internal and external 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:

- progress meetings to discuss both audit programmes and other areas of mutual interest;
- arrangements for co-ordinating planning, including risk assessments;
- the basis of, and a detailed timetable for, the specific internal audit work that external audit plans to place reliance on;
- arrangements for sharing audit reports, work specifications etc;
- arrangements for pre-Audit Committee and other liaison; and
- arrangements for external audit's review of internal audit's work and approach.

The principles and details applying to each of these areas are set out below.

Progress meetings

External Audit	Internal Audit
Where required, meetings will be held to discuss progress on the audits of the Commissioner and Chief Constable, issues arising and implications. Further details are provided in Appendix 1.	
External audit will be represented by the Assistant Manager and/or Senior Manager.	Internal audit will be represented by the relevant Audit Manager.

Planning and co-ordination, including risk assessment

External Audit	Internal Audit
<p>It is recognised by both external audit and internal audit that they have different roles and responsibilities, and must come to independent judgements as to the content of their audit plans. In particular, neither undertakes any work on behalf of the other and internal audit should not seek to place reliance on external audit work. Nevertheless, both prepare audit plans based on an assessment of the risks as part of their audits. Internal audit prepares its strategic and annual plans independently, on the basis of its assessment of the risks existing at the audits of the Commissioner and 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 responsibilities under the Code of Audit Practice. Liaison will take place during the risk-based audit planning period.</p>	
External audit will inform internal audit of the content and timing of significant work planned at the audits of the Commissioner and Chief Constable.	Internal audit will co-ordinate the timing of key systems work to assist reliance on it by external audit.

Basis of and timetable for external audit's reliance on internal audit

External Audit	Internal Audit
<p>External audit review the findings of all final reports issued by internal audit, in order to assess whether there are any audit risks for external audit arising from that work.</p> <p>It is appropriate for external audit to seek to place reliance on internal audit's work, subject to internal audit having complied with the mandatory internal audit standards when undertaking the work. The content and timing of this work needs to be agreed at planning stage to maximise its use for this purpose. Both sets of auditors have liaised to agree areas of potential reliance in 2014/15, as set out in Appendix 2.</p>	
External audit will discuss with internal audit the proposed internal audit coverage of key financial systems, to ensure that the potential reliance on it is maximised. A mutually acceptable timetable for the delivery of this internal audit work will be agreed.	Internal audit will share with external audit the anticipated scope of each planned piece of work in the context of shared knowledge of controls material to the final accounts opinion. This will enable external audit to determine whether it wishes to place reliance on that work.
External audit will discuss promptly with internal audit any issues arising at this specific audited body, which might mean it may not be able to place reliance, so that internal audit can consider the implications	Internal audit will inform external audit of any changes to or delays in any work included in the agreed potential areas of reliance.

Arrangements for sharing audit reports and project specifications

External Audit	Internal Audit
<p>It will enhance understanding and effectiveness if audit reports and other audit information are shared promptly, for instance, to promote clarity of messages to the Commissioner and the Chief Constable. Sharing information electronically is the preferred method.</p>	
<p>External audit will provide internal audit with copies of:</p> <ul style="list-style-type: none">■ final reports; and■ details of any intended changes in the scope of significant pieces of work agreed at the planning meetings.	<p>Internal audit will provide external audit with copies of/access to:</p> <ul style="list-style-type: none">■ final audit reports for all work (where final reports are not available when required by external audit then draft reports may be requested);■ details of any intended changes in the scope of significant pieces of work agreed at the planning meetings;■ audit files, as required;■ key internal audit staff; and■ documents such as Terms of Reference, Audit Strategy, policies and procedures etc.
<p>External and internal audit will communicate promptly 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>	

Arrangements for pre-Audit Committee liaison

It is important that Audit Committees focus on dealing effectively with audit reports presented to them. Therefore, auditors' comments/queries on each others reports will be communicated before the Audit Committee meeting, rather than distracting from the Committee's deliberations.

As internal audit and external audit reports are presented to the Audit Committee, the usual mechanism for sharing reports will be via Audit Committee agenda papers. In the case of reports to be tabled at the Committee meeting, the auditor will inform the other audit provider of this, and of the nature of the report. Issues/points of clarification arising from such reports will be raised with the publishing auditor in sufficient time before the Audit Committee for a response to be given. For particularly significant areas of work, the earlier sharing of findings and reports may be agreed at liaison meetings.

Other liaison matters

External Audit	Internal Audit
<p>External audit will share information with internal audit where this is necessary for them to meet their function.</p> <p>References to internal audit in reports and annual audit letters will be discussed with internal audit before these are finalised.</p>	<p>Internal audit will notify external audit of any serious issues which arise as soon as practicable and without waiting for the completion of the audit work or reporting. Examples of such issues include control failures identified by internal audit in areas on which external audit are planning to rely on internal audit's work, or issues which are likely to impact on external audit's statutory duties (such as issues impacting on the financial statements or Annual Governance Statement).</p>

Appendix 1 – Schedule of liaison meetings between External and Internal Audit – 2014/15

Liaison arrangements for local audit progress meetings - attendees

External Audit	Internal Audit
Assistant Manager / Senior Manager	Audit Manager

Schedule of audit meetings/scheduled liaison

Date	Purpose
November 2014	Discuss coverage and outline areas of external audit reliance on internal audit's work. Agree protocol for liaison.
To be arranged if required, likely to be around March 2015	Discuss coverage and update on specific areas of external audit reliance on internal audit's work.

Appendix 2 – Areas of Internal Audit's work of specific interest to External Audit for reliance

There are some areas of work which External Audit must undertake itself to ensure full compliance with auditing standards and as such these items are not included in this schedule. In addition, all Internal Audit reports will be reviewed to identify any risk or other impact on External Audit's work. The following table shows the Internal Audit work included in the 2014/15 Internal Audit plan which will be specifically relied upon by External Audit to support their 2014/15 audit.

Description of work per Annual IA Plan	Main areas to be covered by IA	Relevant External Audit area	Timing of IA work	Draft report IA target date	Estimated date IA file available for review (if required)
Head of Internal Audit Annual Report and Opinion	Production of Head of Internal Audit Opinion based on all work completed by Internal Audit	Accounts Opinion / Review of Annual Governance Statement / Value for Money Conclusion.	Throughout the year.	4 June 2015	~