

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



Joint Protocol between External Audit and Internal Audit

Auditor General for Wales and Flintshire County Council

(To be)Adopted June 2015

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Introduction

1. This Protocol sets out the working relationship between the Authority's Internal and External auditors. It is a framework based on the managed audit principles and as such is not specific to any one audit year. The reasons for documenting this relationship are to:
 - reflect the different responsibilities and working arrangements of both functions;
 - formalise specific areas where effective two way co-operation and assistance will operate, thereby effectively utilising the total audit resources available;
 - provide a framework in which the annual audit planning process can progress effectively; and
 - demonstrate to the Audit Committee of the Authority the professional manner in which the two organisations work together with the objective of improving the Internal Control environment of the Authority.

Background

2. The Auditor General for Wales is the statutory external auditor for Flintshire County Council. The Auditor General is also the Chief Executive of the Wales Audit Office which employs staff that enables the Auditor General to carry out his functions.
3. The Internal Audit provision is provided as an in house function with reporting lines directly to the Chief Officer Governance. Notwithstanding this line management relationship the Internal Audit Manager has full and unlimited access to the Chief Executive, all Chief Officers and Members of the Authority. He can also contact the Chair and Members of the Audit Committee at any time.
4. The Auditor General and Internal Audit wish to agree working arrangements to ensure effective co-operation and efficient use of resources based on regular liaison, discussion and exchange of information. The combined objective of both the Auditor General and Internal Audit is to ensure that the Authority continues to receive the most effective use of the audit resource. Formalising arrangements at this stage ensures this aim is achieved by ensuring the audit remains focused and relevant to the changing demands and risks of the Authority.
5. Since the last protocol was agreed in 2010, there have been a number of statutory and other changes which impact on how both audit functions operate.
6. In April 2014, in response to new legal requirements, the Auditor General issued a revised Code of Audit Practice and Statement of Practice of the Auditor General for Wales for local government improvement audit, assessment and special inspection functions. These set out the underlying principles for carrying out our external audit work and embody best professional practice.
7. From April 2013 a common set of Public Sector Internal Audit Standards (PSIAS) were adopted. Additional guidance for local authorities is included in the

Local Government Application Note (LGAN). These set principles and establish a framework for providing internal audit services.

The Purpose and Function of External Audit

8. As the external auditor, the Auditor General's objective is to carry out an audit which discharges his statutory duties and fulfils his obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999, and the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are 'true and fair';
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - audit and assess whether you have discharged duties and met requirements of the Measure; and
 - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
9. The Auditor General's approach is to tailor the scope, scale, nature and conduct of his work to the circumstances of the Authority so that audit and inspection effort is directed to areas of greatest risk and challenge.
10. The Code emphasises, that external audit cannot act as a substitute for governments' and other public bodies' own responsibilities to put into place effective internal control arrangements, including arrangements for internal audit.
11. It is the responsibility for public bodies to ensure that their business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for, and used economically efficiently and effectively.
12. The Code requires auditors to liaise effectively with any internal audit functions in line with international auditing standards and work efficiently, placing reliance on the work of internal audit whenever possible and appropriate.

The Purpose and Function of Internal Audit

13. 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. (*PSIAS*)
14. The professional responsibilities as Internal Auditors are set out in the International Standards for the Professional Practice of Internal Auditing, published by the Chartered Institute of Internal Auditors (CIIA) in the UK and Ireland.
15. As such, the approach to Internal Audit also meets the requirements of the *PSIAS*.

The Public Sector Internal Audit Standards

16. The PSIAS were issued in 2013, along with a CIPFA Local Government Application Note (LGAN). These replaced the CIPFA Code of Practice for Internal Audit within Local Government. All principal local authorities subject to the Accounts and Audit (Wales) Regulations must make provision for internal audit in accordance with the PSIAS and LGAN. The PSIAS includes a Code of Ethics and the standards which establish how a professional Internal Audit service should operate in local government. The ten Standards are:

Attribute Standards

- Purpose, Authority and Responsibility
- Independence and Objectivity
- Proficiency and Due Professional Care
- Quality Assurance and Improvement Programme

Performance Standards

- Managing the Internal Audit Activity
 - Nature of Work
 - Engagement Planning
 - Performing the Engagement
 - Communicating Results
 - Monitoring Progress
17. The LGAN includes a checklist which offers to Heads of Internal Audit an opportunity to measure their own service provision against the standards. Within Flintshire County Council this is used on an annual basis as a self assessment tool, with the results reported to the Audit Committee.
18. In terms of its relationship with the Auditor General and his staff, Internal Audit retains the primary function of objectively examining, evaluating and reporting on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.
19. The Internal Audit Manager ensures service delivery to clients is in accordance with the above principles and standards.
20. The LGAN states that 'The Chief Audit Executive (Internal Audit Manager) should seek to meet regularly with the nominated External Audit representative to consult on and co-ordinate their respective plans and, particularly, to discuss how work can be tailored to satisfy each party's responsibilities in areas on common interest. Such meetings are an opportunity to discuss matters of mutual interest and to help develop both parties' understanding of the organisation.'
21. It should be noted that under the PSIAS organisations are required, every five years, to conduct an external assessment of Internal Audit. This goes beyond the work that external audit undertake to place reliance upon, or to take assurance from, the work of Internal Audit.

Objective

22. This document aims to set out our approach to co-ordinate the audit work required to meet objectives of the respective codes. It will ensure the full benefits of joint working are achieved during future years.

Approach

23. This Protocol has been developed on the basis of the LGAN and the Code of Audit Practice of the Auditor General for Wales plus ongoing discussions between Internal Audit and the Auditor General and his staff.
24. Key issues considered are set out below and form a basis to take this Protocol forward:
25. Co-operation on individual and overall audit risk assessments, and on annual and cyclical planning to identify areas for coverage by both parties, ensuring a 'joined up' approach to the Authority's audit, avoiding duplication of effort and resources.
26. Regular liaison meetings are diarised to facilitate good communication. These are used to update progress, discuss audit findings and improve joint planning.
27. Exchange of information, including staff structures, responsibilities and roles within respective teams, general audit issues, technical advice, audit reports, frauds and irregularities.

External Audit quality assessment

28. As part of the Wales Audit Office's quality control assessment of External Audit suppliers, they may occasionally send the Authority a survey requesting views on the quality of External Audit service provided. Although the format and distribution of these changes regularly, where requests are made to the Section 151 Officer, Internal Audit will provide an input into the assessment.

Phasing of audit planning and work

29. To ensure co-ordination, Internal Audit and Wales Audit Office auditors will meet annually during the January – March period, prior to the new financial year, to discuss proposed coverage, feed into the Internal Audit process and at the same time inform the Auditor General's planning. The Audit Committee should be presented annually with the plans of both Internal Audit and External Audit for consideration. Members of the Committee will be able to question the auditors about the planned work. Internal Audit will schedule their Fundamental Systems work throughout the year.
30. Where individual Internal Audit assignments are proposed in areas that are in the Auditor General's audit plan, the scopes and timing of the reviews will be compared to minimise duplication. The same will apply if the Auditor General proposes to complete some work in an area that is included in the Internal Audit Plan.

The way forward

31. Producing this agreement shows commitment by both parties to continually improve the audit process and deliver an effective audit service for the Authority.
32. The Protocol will be reviewed regularly, building on the lessons learnt, and incorporating new guidance or changes in audit approach. Reviewing this Protocol may be best achieved through an annual meeting involving Wales Audit Office auditors and Internal Audit. We can then discuss and agree practical measures that enable us to continue operating in a manner which maximises effective audit coverage for the Council and avoids duplication of effort. Any changes can then be reflected in our respective audit plans.
33. Our joint working will be supported by regular meetings and the sharing of documents and information including:
 - key Wales Audit Office auditors and Internal Audit staff meeting formally on a quarterly basis;
 - ad hoc meetings between key Wales Audit Office auditors and Internal Audit staff;
 - annual meeting to discuss the risk assessment and audit planning process;
 - each year, at regular intervals, Wales Audit Office auditors and Internal Audit will provide formal feedback on our work to the Audit Committee;
 - Internal Audit will provide copies of working files, documentation and relevant reports to Wales Audit Office auditors;
 - Wales Audit Office auditors will provide copies of relevant reports or executive summaries to Internal Audit; and
 - Wales Audit Office auditors will provide feedback to Internal Audit on issues arising from their annual review.
34. The attached Action Plan identifies the part played by Internal Audit and Wales Audit Office auditors in providing effective audits.

Action Plan

Issue	Action	Timescale	Responsibility
Communications			
Strategic priorities shared.	Internal Audit Manager/WAO Audit Manager to meet on a three monthly basis to discuss high level issues.	Quarterly.	Internal Audit Manager/WAO Audit Manager
Operational issues shared.	Internal Audit Manager / Principal Auditors to meet WAO Team Leader/Performance Audit Lead to discuss outcomes from specific studies and implications for Wales Audit Office.	Ongoing.	Internal Audit Manager / Principal Auditors/ WAO Team Leader/WAO Performance Audit Lead
Raise awareness of work planned and findings from WAO work.	Make Wales Audit Office Plans available when finalised and all Wales Audit Office reports available when completed.	Ongoing.	WAO Audit Manager WAO Performance Manager
Raise awareness of work planned and of findings from Internal Audit work.	Share Audit Plan and summarise key issues arising from Internal Audit work (Annual Report).	Ongoing.	Internal Audit Manager
Ensure respective auditors aware of identity and structure of audit teams.	Include introduction to Internal Audit/Wales Audit Office in respective induction arrangements for permanent staff.	Ongoing.	Internal Audit Manager/WAO Audit Manager (on request)
Ensure all auditors aware of joint working approach.	Copy joint working protocol to all audit staff.	Ongoing.	Internal Audit Manager/WAO Audit Manager
Keep Internal Audit informed of major External Audit issues.	Wales Audit Office auditors to raise issues where significant implications are anticipated.	Ongoing.	WAO Audit Managers
Keep External Audit informed of major Internal Audit issues.	Internal Audit to raise issues where significant implications are anticipated.	Ongoing.	Internal Audit Manager

Action Plan

Issue	Action	Timescale	Responsibility
Planning			
Minimise scope for duplication of audit coverage.	WAO to consult Internal Audit to inform the WAO Annual Audit Plan. (Internal Audit work will be a factor in the WAO's assessment of the control environment.)	February/March.	WAO Audit Manager
Reporting			
Audit Committee regularly informed of audit coverage and findings.	Wales Audit Office and Internal Audit reports presented to the Audit Committee. Audit Committee occurs at least four times per annum.	Quarterly	Internal Audit Manager/WAO Audit Managers
Governance			
Internal Audit Manager's Annual Report to inform WAO's review of Annual Governance Statement	Internal Audit Manager to provide Annual Report on the control environment annually (as presented to June Audit Committee)	May	Internal Audit Manager
Fraud Awareness			
Inform Wales Audit Office of major frauds.	Information provided through regular liaison meetings.	Ongoing	Internal Audit Manager
Share knowledge on major frauds.	Update of Authority's progress on data matching exercises (National Fraud Initiative)	Ongoing	Internal Audit Manager/WAO Audit Manager
Grant claims			
Maximise effectiveness of audit coverage.	Identify where Internal Audit work can assist Wales Audit Office requirements.	February/March	Internal Audit Manager / Principal Auditors/ WAO Team Leader
Maximise effectiveness of audit coverage.	Ensure Internal Audit testing accords with necessary sampling and evidencing requirements of agreed areas	Ongoing	Internal Audit Principal Auditors/ Wales Audit Office Team Leader

Audit Teams

Wales Audit Office Audit Team

Engagement Director – John Herniman	
Financial Audit Team	Performance Audit Team
John Herniman Engagement Lead - Financial Audit	Jane Holownia Engagement Lead – Performance Audit
Amanda Hughes – Financial Audit Manager	Huw Lloyd Jones – Performance Audit Manager
Michelle Phoenix – Financial Audit Team Leader	Paul Goodlad – Performance Audit Lead

Flintshire Internal Audit Team

Internal Audit Manager – David Webster
Principal Auditor – Dave Stephens
Principal Auditor – Lisa Brownbill

For the purposes of this protocol, the lead relationship between the Wales Audit Office and Internal Audit will be between the Wales Audit Office Financial Audit Team and the Internal Audit Team. However, members of the Wales Audit Office Performance Audit Team will be involved in relevant discussion, as it relates to performance work conducted under the Statement of Practice of the Auditor General for Wales for local government improvement audit, assessment and special inspection functions