

By: Neeta Major, Interim Head of Internal Audit  
To: Governance and Audit Committee – 19 December 2012  
Subject: **Effectiveness of Internal and External Audit Liaison**  
Classification: Unrestricted

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**Summary:** This paper summarises the effectiveness of the liaison arrangements between Internal and External Audit

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## **FOR ASSURANCE**

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### **Introduction**

1. The requirement for Internal Audit and External audit to liaise in an effective way is recognised by professional guidance within both disciplines. Effective liaison can reduce the audit burden for finance and other front line staff. For this reason the Committee's Terms of Reference includes the responsibility for the Committee to annually assess the co-operation between Internal and External Audit.

### **Professional requirements**

2. It is important to understand that both functions have very different remits. Internal Audit is an independent assurance function within the Council, whereas External Audit is responsible for giving an independent opinion on the Council's financial statements and a conclusion on its arrangements for securing economy efficiency and effectiveness in its use of resources.
3. Although their overall remits differ, it should be possible for internal and external auditors to rely on each other's work, subject to the limits determined by their responsibilities. The CIPFA code of practice for Internal Audit requires that:
  - It is possible for Internal Audit and External Audit to rely on each other's work.
  - There are regular meetings between the Head of Internal Audit and the External Audit Manager.
  - Internal and external audit plans are co-ordinated.
4. External Audit's work is governed by the International Standards on Auditing (ISAs). In particular ISA 610 requires External Audit to:
  - Determine whether, and to what extent, to use specific work of the internal auditors; and
  - If using the specific work of the internal auditors, to determine whether that work is adequate for the purposes of the audit.
5. ISA 610 is clear that effective internal auditing will often allow a modification in the nature and timing, and a reduction in the extent of audit procedures performed by the external auditor. However it also states that the external auditor may decide that internal auditing will have no effect on external audit procedures. In coming to a conclusion whether to rely on the work of internal audit, the external auditor usually makes an assessment of internal audit's organisational status, objectivity and scope of the function, technical competence of the team and the due professional care in place.

## **Current practice**

6. External Audit's evaluation of Internal Audit has been positive over recent years and no concerns across the four criterion set out in ISA 610 have been raised. There are regular meetings between the two sections to co-ordinate plans.
7. In addition this year it is our intention to undertake joint stakeholder planning meetings with the External Auditors. This will ensure that we have a coordinated approach to audit risk assessments used to inform our proposed audit plans.
8. In 2012/2013 Internal Audit is undertaking a number of core financial reviews. With the appointment of Grant Thornton as our new External Auditors we have been informed that there will be changes to External Audit's approach to the audit of the financial statements. At the time of writing this report, this approach had not been finalised. It has been agreed with Grant Thornton that as soon as the approach is determined, the proposed Internal Audit plan will be reviewed in light of any changes to reduce duplication and ensure that any financial systems assurance work is properly coordinated.
9. The key financial systems audits that Internal Audit are undertaking in quarter four of 2012/13 where there may be the possibility of joint working e.g. systems documentation or controls testing are as follows;
  - Accounts payable and BACS system
  - Treasury management
  - Pensions contributions
  - Pensions investment income
  - General ledger
10. In addition the work that the Internal Audit section completes to provide core assurance e.g. Corporate Governance, Risk Management, and performance management is utilised by the External Auditors to inform their risk assessment of the Council. For 2012/2013 the corporate governance review was performed in conjunction with the External Auditors.

## **Conclusion and next steps**

11. Liaison between Internal Audit and External Audit is in place, and there is reliance placed on the work of Internal Audit by the External Audit team where this is relevant.
12. Both Internal and External Audit are starting to consider their plans for the 2013/2014 year. The Interim Head of Internal Audit has agreed with Grant Thornton to seek synergy between the two audit plans once they have agreed their audit approach. This will be reflected in the plans presented for approval by the Committee in April next year.

## **Recommendations**

13. Members of the committee are asked to note this annual update on liaison arrangements between Internal and External Audit for assurance.

**Neeta Major (Ext 4664)**  
**Interim Head of Internal Audit**