



WALES **AUDIT** OFFICE  
SWYDDFA **ARCHWILIO** CYMRU

## Joint Protocol between External Audit and Internal Audit

# Wales Audit Office and Gwynedd Council

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# Status of report

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The team who delivered the work comprised Anthony Barrett, Wales Audit Office and Dewi Morgan, Gwynedd Council

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# Joint protocol

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## Introduction

1. This Protocol sets out the working relationship between Gwynedd Council's (the Council) 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 Council the professional manner in which the two organisations work together with the objective of improving the Internal Control environment of the Council.

## Background

2. The Wales Audit Office are the appointed external auditors for the Council. The Auditor General's Code of Audit and Inspection Practice (the Code) sets out how the Wales Audit Office delivers external audit.
3. Internal Audit is provided as an in house function which, under the Council's Constitution (the Financial Procedure Rules), shall be conducted, as far as is practicable, in accordance with CIPFA's Code of Practice for Internal Audit in Local Authorities in the United Kingdom. The Senior Manager, Audit and Risk is the designated 'Head of Internal Audit' pursuant to the Code of Practice. The CIPFA code for Internal Audit was revised and republished during 2006.
4. The Head of Internal Audit will normally report directly to the Head of Finance. However, the Head of Internal Audit may also report to, and have access to, the Chief Executive, the relevant Corporate Director, Monitoring Officer and Chair of the Audit Committee if he deems this necessary in exceptional circumstances.
5. Wales Audit Office 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 Wales Audit Office and Internal Audit is to ensure that the Council 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 Council.

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## The Auditor General's Code of Audit and Inspection Practice

6. The Code reflects the scope of the Public Audit (Wales) Act 2004 which created the Wales Audit Office to assist the Auditor General to deliver a regime with a remit across a wide range of public services and with an opportunity to carry out audit and inspection functions in a more co-ordinated and effective way.
7. The Wales Audit Office approach is to tailor the scope, scale, nature and conduct of its work to the circumstances of the Council so that audit and inspection effort is directed to areas of greatest risk. This is achieved by risk based planning.
8. The Code emphasises, however, that the Wales Audit Office does not act as a substitute for the Council's own responsibility for putting in place proper arrangements to ensure that its 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.
9. The Code requires the Wales Audit Office to establish effective co-ordination arrangements with Internal Audit and to seek to place the maximum amount of reliance on the work of Internal Audit whenever possible.
10. As part of their key role in reporting upon the adequacy of internal control, and providing a basis for the authority's Annual Governance Statement, which is required to be published with the Council's annual statement of accounts, it is expected that Internal Audit will test key controls of the Council's major financial systems on an annual basis.
11. The Wales Audit Office annual review of Internal Audit will identify the level of coverage by Internal Audit on major financial systems such as payroll or creditor payments. Where Wales Audit Office considers further coverage is required and dependent upon the outcome of their overall risk assessment, it will need to consider whether resultant weaknesses in the overall control environment require them to undertake additional testing for opinion purposes.
12. However, Wales Audit Office would not normally expect to carry out detailed compliance or substantive testing of other major financial systems unless its risk assessment suggests the core processes are unreliable.
13. Wales Audit Office will report on the Council's arrangements, but will not necessarily have to undertake additional work where those arrangements are considered inadequate.
14. The Local Government Measure (Wales) 2009 introduced new requirements on local authorities and on the Auditor General to carry out an annual Improvement Assessment (under section 18) to determine whether the Council is likely to comply with the requirement to make arrangements to secure continuous improvement. The Wales Audit Office are also required to undertake an improvement information and planning audit (under section 17). The main output from this work is an Annual Improvement report.

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## The CIPFA Code of Audit Practice for Internal Audit

15. The CIPFA Code of Practice for Internal Audit within Local Government was reviewed and updated in 2006 to reflect changes to the organisational world in which Internal Audit operates. The revised Code reiterates established principles of the Auditing Practices Board and sets out the definitions and principles (the standards) which establish how a professional Internal Audit service should operate in local government. The 11 standards are:
  - Scope of Internal Audit
  - Independence
  - Ethics for internal auditors
  - Audit Committees or equivalent
  - Relationships
  - Staffing, training and continuous professional development
  - Audit strategy and planning
  - Undertaking audit work
  - Due Professional Care
  - Reporting
  - Performance, quality and effectiveness
16. The Head of Internal Audit undertakes, at least annually, a self assessment of Internal Audit service to ensure compliance with the CIPFA Code of Practice. Where there is no compliance, the Council will explain the reasons to the Audit Committee. The self-assessment will be undertaken using a checklist provided by CIPFA with the Code of Practice.
17. In terms of its relationship with the Wales Audit Office, 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.
18. The Head of Internal Audit ensures service delivery to clients (including Wales Audit Office) is in accordance with the above principles and standards.
19. The Code of Practice states that 'The Head of Internal Audit 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.'

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## Objective

20. 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

21. This Protocol has been developed on the basis of the Code of Practice plus ongoing discussions between Internal Audit and the Wales Audit Office.
22. Key issues considered are set out below and form a basis to take this Protocol forward:
  - 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 Council's audit, avoiding duplication of effort and resources.
  - Regular meetings are diarised to facilitate good communication. These are used to update progress, discuss audit findings and improve joint planning.
  - Exchange of information, including staff structures, responsibilities and roles within respective teams, general audit issues, technical advice, audit reports, frauds and irregularities.

## Review of Internal Audit

23. In order for Wales Audit Office to discharge its statutory duties, it needs to undertake an assessment of the Council's arrangements for securing effective internal control. The effectiveness of Internal Audit is an important element of this overall assessment. Wales Audit Office will assess the effectiveness of Internal Audit on an annual basis by reviewing work completed against the annual Audit Plan.
24. As part of the review, Wales Audit Office will also assess the quality and management of a sample of audit assignments.

## External Audit quality assessment

25. As part of the Wales Audit Office's quality control assessment of External Audit suppliers, they may occasionally send the Council a questionnaire 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.

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## Phasing of audit planning and work

26. To ensure co-ordination, Internal Audit and Wales Audit Office 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 Wales Audit Office planning. The Annual Internal Audit Plan will be produced using a risk-based approach, in line with the Council's longer-term Internal Audit Strategy.
27. Whilst Wales Audit Office will seek, wherever possible, to place reliance on Internal Audit work, the Internal Audit plan is the sole responsibility of the Head of Internal Audit. Where any joint work between Internal and External audit is planned, it shall be included in both organisations' plans.
28. Where individual Internal Audit assignments are proposed in areas that are in the Wales Audit Office plans, the scopes and timing of the reviews will be compared to minimise duplication. The same will apply if the Wales Audit Office propose to complete some work in an area that is included in the Internal Audit Plan.

## Delivering the Protocol

29. Each year, Wales Audit Office's Audit Plan for the Council assumes that Internal Audit will deliver the fundamental financial systems work plus any other priority areas set out in their Audit Plan. Where this is not the case, Wales Audit Office will need to assess the impact this has on their work and where necessary will agree changes to their Plan or additional audit fees. If such issues arise, they will be discussed with Internal Audit and the Head of Finance.

## Audit Committee

30. Under the Local Government (Wales) Measure 2011, the audit committee must oversee an authority's internal and external audit arrangements. Gwynedd Council's Audit Committee will therefore be kept informed regularly of compliance with this protocol, and its development.
31. The Audit Committee should be presented annually with the plans of both Internal Audit and External Audit for approval. Members of the Committee will be able to question the auditors about the planned work and areas of overlap between the plans.
32. Wales Audit Office will report the findings of its annual review of Internal Audit to the Audit Committee.



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## The way forward

33. Producing this agreement shows commitment by both parties to continually improve the audit process and deliver an effective audit service for the Council.
34. 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 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.
35. Our joint working will be supported by regular meetings including:
  - key Wales Audit Office and Internal Audit staff meeting formally on a quarterly basis;
  - ad hoc meetings between key Wales Audit Office and Internal Audit staff;
  - annual meeting to discuss the risk assessment and audit planning process;
  - each year, at regular intervals, Wales Audit Office 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;
  - Wales Audit Office will provide copies of relevant reports or executive summaries to Internal Audit; and
  - Wales Audit Office will provide feedback to Internal Audit on issues arising from their annual review.
36. The attached Action Plan identifies the part played by Internal Audit and Wales Audit Office in providing effective audits.

# Appendix 1

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## Action Plan

Issue	Action	Timescale	Responsibility
<b>Communications</b>			
Strategic priorities shared.	Head of Internal Audit/Wales Audit Office Audit Manager to meet on a quarterly basis to discuss high level issues.	Quarterly.	Head of Internal Audit/Wales Audit Office Audit Manager
Operational issues shared.	Head of Internal Audit/Principal Auditors to meet Wales Audit Office team leader to discuss outcomes from specific studies and implications for Wales Audit Office.	Ongoing.	Head of Internal Audit / Principal Auditors/Wales Audit Office team leader
Raise awareness of work planned and findings from Wales Audit Office work.	Make Wales Audit Office Plans available when finalised and all Wales Audit Office reports available when completed.	Ongoing.	Wales Audit Office Audit Manager/Improvement Assessment Lead
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). Make available (on request) all output (reports/memorandums etc) from internal audit work.	Ongoing.	Head of Internal Audit
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.	Head of Internal Audit/Wales Audit Office Audit Manager
Ensure all auditors aware of joint working approach.	Copy joint working protocol to all audit staff.	Ongoing.	Head of Internal Audit/Wales Audit Office Audit Manager

Issue	Action	Timescale	Responsibility
Keep Internal Audit informed of major External Audit issues.	Wales Audit Office to raise issues where significant implications are anticipated.	Ongoing.	Wales Audit Office Audit Manager/Improvement Assessment Lead
Keep External Audit informed of major Internal Audit issues.	Internal Audit to raise issues where significant implications are anticipated.	Ongoing.	Head of Internal Audit
<b>Planning</b>			
Overall Internal Audit coverage to inform Wales Audit Office assessment of the control environment.	Agree the Internal Audit Plan to ensure it covers the breadth of audit duties necessary to underpin a sound control environment.	February/March for following financial year.	Wales Audit Office/ Head of Internal Audit
Overall Internal Audit coverage to inform Wales Audit Office assessment of the control environment.	Complete annual assessment of Internal Audit coverage to ensure the plans are appropriately delivered.	April for previous financial year.	Wales Audit Office Audit Manager
Minimise scope for duplication of audit coverage.	Consult Internal Audit when completing the External Audit Plan to ensure full account is taken of their Plan.	February/March.	Wales Audit Office Audit Manager
<b>Reporting</b>			
Audit Committee regularly informed of audit coverage and findings.	Wales Audit Office and Internal Audit prepare and discuss regular reports on Control and Governance Issues to the Audit Committee. Audit Committee occurs at least four times per annum.	Quarterly.	Head of Internal Audit/Wales Audit Office Audit Manager

Issue	Action	Timescale	Responsibility
<b>Governance</b>			
Head of Internal Audit's Annual Report to inform Wales Audit Office's review of Annual Governance Statement.	Head of Internal Audit to provide Annual Report on the control environment at June Audit Committee annually.	June.	Head of Internal Audit
<b>Fraud Awareness</b>			
Inform Wales Audit Office of major frauds.	Information provided through regular liaison meetings.	Ongoing.	Head of Internal Audit
Share knowledge on major frauds.	Update of Council's progress on NFI at joint meeting.	Ongoing.	Wales Audit Office Audit Manager
<b>Grant claims</b>			
Maximise effectiveness of audit coverage.	Identify where Internal Audit work can assist Wales Audit Office requirements.	February/March.	Head of Internal Audit / Principal Auditors/Wales Audit Office team leader
Maximise effectiveness of audit coverage.	Internal Audit to undertake reviews of the control environment during the lifetime of certain grants, to minimise the amount of additional testing required by External Audit.	Ongoing.	Head of Internal Audit
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

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## Wales Audit Office Team

Financial Audit Team	Performance Audit Team
Appointed Auditor – Anthony Barrett	Auditor General for Wales – Huw Vaughan Thomas
	Engagement Director – Alan Morris
Audit Manager - Amanda Hughes	Improvement Assessment Lead – Huw Lloyd Jones
Team Leader – Alan Hughes	Improvement Assessment Coordinator – John Roberts

## Internal Audit Management Team

Head of Internal Audit ( <i>Senior Manager, Audit and Risk</i> ) – Dewi Aeron Morgan
Assistant Audit Manager – Luned Fôn Jones
Audit Leader (Care) – Rodney Jones
Audit Leader (Development) – Kathryn Roberts
Audit Leader (Environment) – Roland Thomas

For the purposes of this protocol, the lead relationship between the Wales Audit Office and Internal Audit, will be between the Financial Audit Team and the Head of Internal Audit. 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 Local Government Measure.



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