Protocol for the relationship between Grant Thornton and Rossendale Borough Council's Internal Audit Service

June 2016

Introduction

1   This protocol sets out how Rossendale Borough Council's Internal Audit Service and Grant Thornton UK LLP, as its external auditor, work together, and it establishes a framework for coordination, cooperation and exchange of information.

External audit responsibilities

2   External audit responsibilities are set out in the Code of Audit Practice, as developed by the National Audit Office. Under this code the external auditors are responsible for:

- Expressing an opinion on the council's financial statements; and

- Reviewing whether the council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

3   In addition, the external auditor may be required to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Rossendale Borough Council.

4   When completing its work on the financial statements the external auditor is required to comply with International Standards on Auditing (ISA), as adapted for application in the UK and Ireland. The external auditor is required by these ISAs, amongst other things, 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;

- Identify the risks of material misstatement in the financial statements whether arising from fraud or error; and

- Plan and carry out tests of controls and/ or detailed transactions to address those specific risks as well as the underlying inherent risks.

Internal audit responsibilities

5   The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government and, with the other standard setters for the public sector in the United Kingdom, it has adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework, comprising:

- Definition of Internal Auditing

- Code of Ethics

- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

6   Internal Auditing is defined as:

   'an independent, objective assurance and consulting activity designed to add value and improve and 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.

7   The Internal Audit Service is therefore required to formulate an annual risk-based plan of work. This is directed to providing assurance over, amongst other internal controls, the systems that produce material figures in the council's financial statements: these systems control areas of significant financial risk to the council. The Internal Audit Service is similarly obliged to provide an annual opinion to the council on its risk management, control and governance arrangements, which will inform the external auditor's work.

8   There is therefore a natural alignment of internal audit work with external audit.

9   The PSIAS set out the professional standards the council's Internal Audit Service is required to meet in relation to, amongst other things, independence and ethics, due professional care, and planning, undertaking and reporting internal audit work.

The external and internal audit relationship

10 In the interests of overall efficiency and effectiveness, Grant Thornton seeks to maximise its reliance on the work of the council's Internal Audit Service, most commonly in relation to the council's financial systems, but also in other areas where this is possible. The Internal Audit Service seeks to provide whatever support is necessary and appropriate to Grant Thornton as the council's external auditor.

11 ISA 610 refers specifically to 'considering the work of internal audit' and requires external auditors to:

- Review the Internal Audit Service to confirm that it meets, as a minimum, the requirements of the PSIAS, to provide assurance that its work can be relied on to inform external audit conclusions;

- Review whether the Internal Audit Service is effective;

- Review (and seek to place reliance on) specific pieces of internal audit work, where that work covers areas relevant to their external audit objectives; and

- Evaluate the work of the Internal Audit Service, where external auditors intend to use internal audit work to inform their conclusions. This may involve re-performance of a sample of work, testing similar items or observing internal audit work in progress.

12 If Grant Thornton undertakes a formal review of the Internal Audit Service, it will discuss its findings with the Head of Service, Internal Audit and provide a report to the council.

13 The Internal Audit Service will take account of the work undertaken by Grant Thornton in assessing the framework of assurance available to the council.

14 Both sets of auditors share with each other their risk assessments of the council and their related work programmes. This informs both risk assessments and helps to identify opportunities for reliance on work planned to be carried out by the Internal Audit Service.

15 Regular liaison meetings are programmed to facilitate this and both sets of auditors share working papers and reports as needed.

16 In undertaking work that Grant Thornton may wish to use to support its external audit opinion on the council's financial statements, the Internal Audit Service will provide access to the working papers and supporting documentation necessary for the external auditor to assess this work in detail.

17 Both internal and external audit will ensure that whenever documentation is obtained from the other auditor will be returned promptly and, if used in any published document, will be appropriately cited.