

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE MEETING

27 March 2019

Report of the Assistant Director of Finance (Audit)

EXTERNAL AND INTERNAL AUDIT PROTOCOL

1. Purpose of the Report

To inform Members of the External and Internal Audit Protocol which will be operated between Mazars, the Council's external auditors, and the Audit Services Unit.

2. Information and analysis

The objectives of the Protocol (Appendix 1) between Mazars and Audit Services are to:-

- provide clarity to the Audit Committee regarding the roles and objectives of internal and external audit;
- provide a framework which will optimise the benefits of audit to the Council;
- promote an effective working relationship between Audit Services and Mazars whilst enabling each to deliver their respective responsibilities.

The main areas of co-operation between Audit Services and Mazars centre on the external auditor's responsibility to:-

- satisfy themselves that the accounts comply with statutory requirements;
- satisfy themselves that proper practices have been observed in compiling the accounts;
- express an opinion on the statement of accounts.

Mazar's approach to these requirements is to identify and test the overall high-level controls at the interim audit and undertake substantive testing of the Council's year-end statements. The findings from Audit Services' work on key financial systems will be used to inform Mazars' risk assessment and develop appropriate tests.

As part of their audit Mazars will assess the risk of fraud and consider fraud risk factors in the planning of their audit. Audit Services ensure that a risk based approach is adopted to the audit of the Council's systems of internal control and pay due regard to the risk of fraud and corruption as part of this risk based approach. Audit Services also has a responsibility to undertake

Public

special investigations in respect of all cases of suspected fraud, misappropriation or misuse of money, materials or equipment, or any mismanagement of money or other assets, or any other irregularities.

Quarterly meetings will be held between the Assistant Director of Finance (Audit) and the Mazars Director or Manager and are likely to include:-

- update against Audit Services and Mazars plans;
- matters for the Audit Committee;
- confirmation of reports finalised;
- significant concerns about financial systems or the financial performance of the Council;
- details of special investigations;
- emerging risk areas;
- other issues, for example Audit Services' involvement in system development or project work;

This Protocol will be subject to review on an annual basis.

3. Legal Considerations

The Audit Commission's 'Code of Audit Practice 2010: Local Government Bodies' places specific requirements on Mazars as the Council's external auditor. The Audit Services Unit discharges the Authority's statutory responsibilities under Regulation 5, Accounts & Audit Regulations (England) 2015 and significant aspects of the Director of Finance & ICT's statutory duties under Section 151, Local Government Act 1972.

4. Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

5. Officer's Recommendation

That the Audit Committee note the External and Internal Audit Protocol which will be operated.

Carl Hardman
Assistant Director of Finance (Audit)

DERBYSHIRE COUNTY COUNCIL

EXTERNAL AND INTERNAL AUDIT PROTOCOL



Introduction

This document clarifies the main principles and procedures underpinning the working relationship between Audit Services and Mazars staff responsible for the external audit of Derbyshire County Council (“the Council”). It establishes a framework for co-ordination, co-operation, exchange of information and assistance between Audit Services and Mazars.

Objectives of the Protocol

The objectives of this Protocol are to:

- provide clarity to the Audit Committee regarding the roles and objectives of internal and external audit;
- provide a framework which will optimise the benefits of audit to the Council;
- promote an effective working relationship between Audit Services and Mazars whilst enabling each to deliver their respective responsibilities.

Internal and External Audit Responsibilities

Audit Services and Mazars have different roles and responsibilities. The Public Sector Internal Audit Standards (PSIAS) state *‘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.’*

Mazars conduct their work in accordance with International Standards on Auditing (ISAs) and the scope of this work includes the audit of the Council’s financial statements and its arrangements to secure value for money in the use of resources.

The Audit Commission’s *‘Code of Audit Practice 2010: Local Government Bodies’* requires Mazars to:

- satisfy themselves that the accounts comply with statutory requirements;
- satisfy themselves that proper practices have been observed in compiling the accounts;
- express an opinion on the statement of accounts.

Mazars’ approach to these requirements falls into two parts:

- at our interim audit we use our knowledge of the Council’s financial system to identify and test the overall high-level controls, for example reconciliations;
- undertake substantive testing of the Council’s year-end financial statements.

Neither aspect of our approach can be delegated to a third party, but we will use the findings from Audit Services' work on key financial systems to inform our risk assessment and develop appropriate audit tests.

Co-operation and Co-ordination

Effective co-operation and co-ordination between Audit Services and Mazars will avoid duplication, ensure liaison, promote information sharing and minimise disruption for Council staff.

Planning and Liaison

Both Audit Services and Mazars prepare audit plans based on an assessment of risk. Audit Services prepare detailed annual plans and liaison prior to the annual planning process is essential to ensure Mazars understand the focus of the planned work. This is likely to be in January/February preceding the relevant financial year. Mazars will be responsible for contacting Audit Services to arrange a planning meeting if necessary.

Progress Meetings

Meetings between the Assistant Director of Finance (Audit) and the Mazars Director or Manager will be held on a quarterly basis. Standard agenda items are likely to include:

- update against Audit Services and Mazars plans;
- matters for the Audit Committee;
- confirmation of reports finalised;
- significant concerns about financial systems or the financial performance of the Council;
- details of special investigations;
- emerging risk areas;
- other issues, for example Audit Services' involvement in system development or project work;

Sharing of Reports and Information

Mazars will distribute finalised reports to Audit Services, following the agreement of the findings with the Council. Audit Services will distribute finalised reports to Mazars in an electronic format including responses from Senior Management.

Audit Services will also provide Mazars with access to audit files, relevant documents and key audit staff.

As Audit Services and Mazars reports are presented to the Audit Committee the usual mechanism for sharing reports will be via the Audit Committee agenda papers.

Consideration of Fraud Risk

Mazars assess the risk of fraud in accordance with the International Standard on Auditing 240 '*The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements*' which is completed by the incorporation and consideration of fraud risks within our audit work. As a minimum the fraud risk incorporates:

- management override of controls;
- revenue recognition.

The role of Audit Services is to ensure that a risk based approach is adopted to the audit of the Council's systems of internal financial control. Additionally, Audit Services should ensure that it pays due regard to the risk of fraud and corruption as part of its risk based approach.

Audit Services also has a responsibility to undertake special investigations in respect of fraud and other allegations. To ensure that there is on-going liaison Audit Services will inform Mazars of all significant investigations as soon as possible.

Key Contacts

Audit Services			
Carl Hardman	Assistant Director of Finance (Audit)	☎: 01629 538708	✉: carl.hardman@derbyshire.gov.uk
Philip Spencer	Audit Manager	☎: 01629 539230	✉: philip.spencer@derbyshire.gov.uk
Dan Ashcroft	Audit Manager	☎: 01629 538823	✉: daniel.ashcroft@derbyshire.gov.uk
Mazars			
Mark Surridge	Director	☎: 07875 974291	✉: mark.surridge@mazars.co.uk
John Pressley	Manager	☎: 07909 980880	✉: john.pressley@mazars.co.uk

This Protocol will be reviewed annually and updated to reflect changes to the PSIAS and ISAs.