

# **External and Internal Audit Protocol**

## **Introduction**

- 1 Norfolk and Suffolk Constabularies face ever-increasing pressure on their resources. As external and internal auditors we can assure management and the Audit Committee that audit resources are being applied efficiently and represent good value for money by demonstrating our commitment to work together effectively. This protocol sets out the arrangements to support that commitment.
- 2 The objectives of this protocol are to:
  - provide a framework for cooperation in planning and conducting our respective audit work;
  - maximise the benefit from available audit resources, through agreed coordination arrangements; and
  - help the Audit Committee to fulfil its responsibility for overseeing effective liaison between us.
- 3 To achieve these objectives, we need to work together effectively with clear communication throughout the year. This document reflects our commitment to promote productive joint working between our audit teams.

## **Planning our Respective Audits**

- 4 The appointed External Auditor (EY) for Norfolk and Suffolk Constabularies plan and carry out an efficient opinion audit that meets the requirements of the Code of Audit Practice (the Code). External Audit adopts a risk-based approach to planning the audit, and work focuses on the risks relevant to the audit responsibilities under the Code.
- 5 We both produce annual audit plans based on our own formal risk assessments. To ensure the timing and scope of our work optimises coverage and avoids duplication we will liaise during this planning stage.
- 6 We will meet regularly to support a cooperative and professional working relationship, share relevant information and coordinate the overall audit effort. From these arrangements External Audit will specifically seek to:
  - gain audit assurance;
  - inform opinions and conclusions;
  - help understand Norfolk and Suffolk Constabularies; and
  - rely on specific pieces of work where suitable.
- 7 We will tell each other of any significant issues which arise as soon as practicable, and any changes or delays in agreed areas of reliance. External Audit will also highlight to Internal Audit quickly if External Audit are unable to place reliance on agreed areas of joint working.

## Respective Roles of Auditors

- 8 Table 1 outlines the respective roles of External and Internal Audit. The roles and objectives are different but complementary. There are therefore benefits to be gained from working together, and from External Audit relying on Internal Audit’s work, if appropriate. Any such reliance is governed by International Auditing Standard (ISAs) (UK and Ireland) 610.

Table 1

| Internal Audit  | External Audit   |
|---|--|
| <p>Internal Audit is defined by the Public Sector Internal Audit Standards as “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.”</p> <p>Internal Audit must have documented terms of reference that accord with the requirements of the Public Sector Internal Audit Standards.</p> <p>The key output from Internal Audit is the annual opinion on Norfolk and Suffolk Constabularies's control environment which is reported to the Audit Committee</p> <p>Internal audit’s strategy and plan is agreed between internal audit and management and is approved by the Audit Committee.</p> | <p>External audit conduct their work in accordance with International Standards on Auditing (ISAs) (UK and Ireland) and with the Code of Audit Practice.</p> <p>External Audit in the Police sector is characterised by three distinctive features:</p> <ul style="list-style-type: none"> <li>• External Auditors are appointed independently.</li> <li>• The scope of auditors' work covers the audit of financial statements, and value for money in the use of resources.</li> <li>• Auditors may report aspects of their work widely to the public and other key stakeholders.</li> </ul> |

- 9 External Audit will liaise with Internal Audit before they start the pre-statements stage of the audit.

## Pre-statements Audit

### Control Environment

- 10 As part of the pre-statements audit, External Audit will consider and document the control environment in which Norfolk and Suffolk Constabularies operates. For example, they will request representations as to:
- how Those Charged With Governance (the Police and Crime Commissioner and Chief Constable) hold management to account; and
  - management’s processes for managing fraud, governance and compliance with laws and regulations and obtaining assurance over the going concern concept.

## **Information Technology (IT) Controls**

- 11 External Audit consider the strength of Norfolk and Suffolk Constabularies's control environment and general IT controls in assessing the risk that the financial statements are free from material misstatement.
- 12 External audit will take note of any Internal Audit work undertaken in respect of IT controls in forming a judgement on the control environment.

## **Documenting and Walking through Systems**

- 13 External Audit uses the pre-statements stage of the audit to gain an understanding of the information systems which produce material figures within the financial statements. External Audit is required to do this by auditing standards - ISAs (International Standards on Auditing in the UK and Ireland). External Audit can then focus on relevant matters. It also enables External Audit to highlight to Norfolk and Suffolk Constabularies any significant weaknesses in how these systems produce materially accurate figures for the financial statements.
- 14 To achieve this External Audit document their understanding of the material information systems and undertake a 'walk through test', i.e. tracing a single transaction through the system from beginning to end.
- 15 Auditing standards require External Audit to do this each year and auditing standards set out that this work cannot be delegated to Internal Audit. Where external audit has gained an understanding of a system in one year and there have been no changes, they can simply walk through the system to confirm this.
- 16 External Audit will liaise with Internal Audit to find out whether the work that Internal Audit perform on financial systems can help inform the External Auditor's work. For example, for 2015/16 external audit are likely to use system documentation compiled by Internal Audit to understand the changes brought about by the implementation of the Enterprise Resource Planning System.
- 17 Once External Audit have documented their understanding of the material information systems they then consider their audit strategy, and whether the approach to take to the financial statements and underlying systems should be controls based, or substantive.
- 18 Where a controls based strategy is implemented we will seek to rely on the work of Internal Audit. The respective teams will therefore discuss the scope and timing of their respective audit plans. This will include sharing the key controls with Internal Audit. External Audit recognise that controls they consider key to producing materially accurate financial statements may not be part of the Internal Audit programme.
- 19 External Audit cannot direct Internal Audit, but our usual sample sizes are as set out in Appendix 1. This coincides with Internal Audit's own arrangements for sampling.
- 20 If External Audit do seek to place reliance on Internal Audit work, they are required by auditing standards to review and evaluate the work. This will include evaluating the evidence supporting Internal Audit conclusions.

## **Post-Statements**

- 21** Following on from the decision over audit strategy, it may be more efficient for External Audit to adopt a substantive approach to test the financial statements or specific elements of them. This means that external audit work is targeted at the specific balances or transactions based on risk and materiality. For substantive testing it is unlikely that there will be direct reliance on Internal Audit.
- 22** In coming to a view on the Annual Governance Statement and the Annual Assessment of Internal Control, external audit will refer to the findings from Internal Audit reports and the opinion issued by the Head of Internal Audit.

## **Value for Money Conclusion**

- 23** In reaching a view whether the PCC and CC have adequate arrangements for the Use of resources, external audit will also have regard to relevant reports issued by both Internal Audit and Her Majesty's Inspectorate of Constabulary.

## Appendix 1

### Testing – sample sizes to support the Annual Governance Statement

In order to support the Annual Governance Statement, Internal Audit use the sample sizes for their test of control. The table below covers the full financial year.

| <b>Frequency of Control</b>   | <b>Minimum Sample to be Tested</b> |
|-------------------------------|------------------------------------|
| <b>Annual</b>                 | <b>1</b>                           |
| <b>Quarterly</b>              | <b>2</b>                           |
| <b>Monthly</b>                | <b>2</b>                           |
| <b>Weekly</b>                 | <b>5</b>                           |
| <b>Daily</b>                  | <b>25</b>                          |
| <b>Multiple times per day</b> | <b>25</b>                          |