



BRENT COUNCIL
JOINT AUDIT STATEMENT



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PERFORMANCE & FINANCE SELECT COMMITTEE

Joint Audit Statement

This report, including an action plan is attached for approval by the Performance & Finance Select Committee (“the Committee”). The Council has corporate responsibility for financial management and accounting control systems and from 2003/04, is required to undertake an annual review of the effectiveness of systems of internal control. This joint statement sets out how internal and external audit plan to work together – both as a requirement of the Audit Commission’s Managed Audit principles and also to enable it to discharge its new internal control responsibilities.

The Committee has a specific role to look at management controls and to assess with the help of auditors whether, when taken together, they provide a reasonably robust framework, and to advise the Council accordingly. The Director of Finance as the Section 151 Officer has a specific responsibility for internal control, and the Council has a collective responsibility to ensure that the direction set is being followed. *(The S151 officer post is a statutory appointment required by the Local Government Act 1972. It makes the appointee for the administration of the financial affairs of the Council)*

INTRODUCTION

Audit resource, whether internally provided or externally purchased, is a scarce commodity. This is true not only in terms of sufficiency of staff numbers and days but also for skills and experience.

Changes which have taken place in the Authority, and indeed the pace of change, have brought greater pressure upon the total audit resource. Consequently there is a need to view the total audit resource as one, to ensure that the audit coverage within the Authority is optimised and that duplication of effort does not occur.

There is no reason why the in house internal audit team and PricewaterhouseCoopers as External Auditors cannot work together – indeed current best practice in local government has led to them adopting a joint approach over the years.

Both are concerned with the existence and effective operation of internal controls in the Council's systems;

- **INTERNALLY** - particularly in terms of control to ensure objectives are achieved, resources used efficiently and assets safeguarded;
- **EXTERNALLY** - particularly in terms of the accuracy of the accounting information presented in the annual accounts and of the overall control environment.

In carrying out their duties, **both** will be seeking to assess the controls within the same financial systems.

There is therefore much to be gained by working together and this statement should be viewed as an explanation of how the joint audit approach will work in practice.

OBJECTIVES OF THE JOINT AUDIT STATEMENT

The objectives in producing this joint statement are:

- ❑ *To optimise the total audit resource;*
- ❑ *To maximise coverage and minimise duplication;*
- ❑ *To improve the effectiveness of audit;*
- ❑ *To make Council members and officers aware of their respective roles;*
- ❑ *To clarify the distinction between the Internal and External Auditor functions;*
- ❑ *To explain how they will work together.*

The theme of these objectives is outlined in the following paragraphs.

RESPONSIBILITIES

The duties and responsibilities of the External Auditor are laid down in the Audit Commission's Code of Audit Practice which places seven main duties and responsibilities on the External Auditor. These are to give an independent assessment of:

- ❑ *Whether the statements of accounts present fairly the financial position of the audited body its income and expenditure for the year in question and have been properly prepared in accordance with appropriate legislation;*
- ❑ *The adequacy of the audited body's arrangements to secure economy, efficiency and effectiveness in the use of resources;*
- ❑ *The general financial standing of the audited body;*
- ❑ *The adequacy of the audited body's financial systems;*
- ❑ *The adequacy of the audited body's arrangements for preventing and detecting fraud and corruption; and*
- ❑ *the adequacy of the audited body's arrangements for collecting, recording and publishing information in cases where the audited body is required, pursuant to directions under section 1 of the 1992 Act, to publish performance information.*

Corporate Governance – recent developments

In the autumn of 2001 CIPFA and SOLACE issued a document entitled “Corporate Governance in Local Government, A Keystone for Community Governance – Framework”. The document was produced by a working party consisting of representatives from CIPFA, IDeA, the Audit Commission, LGA and local authorities

Since publication of the document it has become clear that it will be used as one of the yardsticks in the Comprehensive Performance Assessment. It has been specifically referred to in the element on “Standards of Financial Conduct” where a fundamental requirement is to have “*Governance Arrangements based on those now set out in the CIPFA/SOLACE framework*”.

In addition, the Accounts and Audit Regulations 2003 place a new responsibility on the Council, making it explicit for the first time, that it is responsible for ensuring that financial management is adequate and effective and that there is a sound system of internal control which is regularly reviewed. This will mean a new addition to the financial statements, which will certify that the Council has an effective system of internal financial control. The accounts will also have to indicate the level of assurance that the system of internal financial control can provide.

These new corporate governance requirements emphasise the importance of the Council being open and inclusive, maintaining integrity and emphasising the importance of accountability. A number of these themes are covered in the Council’s Constitution. However, there also appear to be some aspects that are not yet recognised in the constitution and work is being undertaken to develop and adopt a local code of corporate governance, which sets out the Council’s intended method of compliance with the Code. This will enable the Council to identify any gaps and will place a clear focus on Corporate Governance, which is essential in any well-managed authority. The Code of Corporate Governance could appear as a separate section in the Constitution although would need to refer to other documents and processes covered by the Constitution. The Corporate Governance action plan and Local Code will be the subject of a future report to this Committee and the Executive.

The main responsibilities of the Internal Auditor are set out in the Code of Practice for Internal Audit in Local Government. Although a new code is due shortly, the main principles are unlikely to change. They are summarised below:

“to objectively examine, evaluate and report on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.”

Fundamentals of audit are similar for both parties; both are concerned with adequacy of internal controls and both will review the overall financial framework of the Council. Consequently where objectives coincide, there is scope for a rationalised and joint

approach. With the exception of the External Auditor's responsibility to give an opinion on the Council's Statement of Accounts, both parties are agreed that all other objectives do coincide and that therefore they will adopt a rationalised joint approach.

INDEPENDENCE

The External Auditor is appointed by the Audit Commission. The decision to recommend appointment or termination rests with the Audit Commission and consequently the External Auditor's position is independent.

Clearly, Internal Audit has a direct line relationship with the Director of Finance, who has the statutory responsibility for ensuring that an adequate and effective internal audit is performed.

However, Internal Audit does have a measure of independence in that they report in their own name to the Performance & Finance Select Committee. This select committee fulfils some of the functions of an Audit Committee. Internal Audit also has the ability to report directly to the Chief Executive, the Executive or full Council as appropriate.

Neither party is prevented from audit investigations being carried out in any particular area. Both have the statutory right of access to individuals or documentation in connection with audit enquiries.

AUDIT SCOPE

As far as the External Auditor is concerned the audit resource is devoted to providing an opinion and meeting the responsibilities under the Code of Audit Practice. The concept of use of resources (value for money) is addressed through the Code section on performance audit.

The Internal Auditor's emphasis is on systems, operational, compliance and investigative audit work. Traditionally in many local authorities, internal auditors have undertaken value for money (VFM) work. This has not been a defined role for internal audit in Brent for a number of years. Furthermore, VFM work has been somewhat overtaken by the Best Value regime. The current role of internal audit with regard to VFM is principally to have regard for the economy, efficiency and effectiveness with which resources are being deployed.

It is the development of the contact between the parties, particularly at the planning stage, which is necessary to co-ordinate effort, ensuring that a balanced audit programme exists and that, on a year to year basis, there is a reasonable allocation of the total audit resource to areas of material risk.

To achieve this, the Internal and External Auditor will participate in a joint planning exercise culminating in the production of planning memoranda, which identify the main areas of audit and the general thrust of the audit coverage. The plans also set out how the Auditors are maximising audit comfort and ensuring minimum duplication of work. This exercise will take place annually.

In practice both parties draw up separate, service-specific plans but there is a degree of liaison, co-operation and sharing of ideas throughout the planning process. At Brent, given the history of the devolved business unit culture, external auditors place significant reliance on the work undertaken by internal audit in validating the year end income and expenditure returns of service units judged to be significant both in terms of the magnitude of expenditure and on the basis of risk assessment. This reliance forms the basis of the planned work undertaken by internal audit on the year end financial returns of service units.

AUDIT PLANNING

Following on from the development of the joint planning memorandum which co-ordinates auditing activity prior to the examination of individual audit areas, there is a regular liaison between the Internal and the External Auditor to ensure that all of the basic data is collected at the planning stage, **for example:**

- *staff changes*
- *systems changes*
- *update on previous control weaknesses*
- *legislative changes.*

Through regular contact, a collective view is taken on the risk inherent in individual systems, the audit work which is necessary in a particular year or period, which auditor should carry out the work and, to the extent that both are involved, which aspects of the audit work will be covered by each.

ACCESS TO AUDIT DOCUMENTATION

Traditionally, the External Auditor has had access to the Internal Auditor's files and documentation. However, in order for the total audit resource to be optimised, a two way flow of information is now recognised as important and each Auditor now has access to the other's basic systems documentation notes.

JOINT WORKING

Within this environment of 'shared' audit there are considerably more opportunities for joint working and much to be gained from sharing information, experience and expertise. Where the circumstances are appropriate, i.e. where there are common objectives, common audit areas, a proximity of audits, and the availability of staff, joint exercises will be pursued.

The Auditors also follow methodologies and statements common to both, to ensure that the audit coverage meets the respective responsibilities of both parties.

REPORTING

Reports will, wherever possible, be made available to the other auditor at the earliest opportunity, as a means of improving communication and ensuring that, where appropriate, any additional impact which can be gained by adding the additional audit perspective is maximised.

FRAUD AND OTHER IRREGULARITIES

The first line of defence for an organisation against fraudulent acts is the establishment and maintenance of proper financial and operational management systems. Management has a responsibility for establishing internal control arrangements and the role of the internal auditor is to report to management on the adequacy and effectiveness of these controls.

The prevention and detection of fraud is therefore the responsibility of Management. Internal Audit has a role in providing advice on the adequacy of management arrangements. The Code of Audit Practice defines the internal audit role with regard to fraud as follows:

“The internal auditor should have regard to the possibility of such malpractice and should seek to identify serious defects in internal control which might permit the occurrence of such event”.

“The internal auditor who discovers evidence of, or suspects, malpractice should report firm evidence, or reasonable suspicions, to the appropriate level of management. It is management responsibility to determine what further action to take”.

The Council’s approach to fraud is well established and documented in the Anti-Fraud framework. The internal audit team is part of an overall approach package of measures which the Council has adopted to prevent, detect, investigate and remedy fraud. As such internal auditors have due regard for fraud when conducting their systems, compliance and financial reviews and are required to report any suspicions to the investigation team. Likewise, as the investigation team identifies system weaknesses as a result of investigation these are passed to the internal audit team in order that they can be considered and acted upon accordingly.

The duties and responsibility of the External Auditor with regard to fraud and corruption are quite clear; the External Auditor has a responsibility to have regard to whether there are proper arrangements to minimise the risk of fraud and other irregularities. Depending upon the significance of fraudulent and corrupt activities, the External Auditor has wide-ranging special statutory powers (for example, reports in the public interest under section 8 of the Audit Commission Act 1998).

The external auditor also has a duty to ensure that any potential frauds brought to his attention through the Council's Whistle-blowing arrangements are being appropriately investigated by internal audit.

Both auditors, however, share special responsibilities with regard to fraud, which are summarised below:

- *they should plan their work to have a reasonable expectation of detecting material misstatements in the Statement of Accounts resulting from fraud and irregularities;*
- *they should be constantly alert to the possibility of fraud and irregularity coming to their notice;*
- *they should follow up forthwith any indication of fraud and irregularity coming to their notice; and*
- *they should draw attention to any steps necessary for management to discharge its responsibilities for the prevention of fraud and irregularities.*

Both the Internal and External Auditors have the authority to report directly to the Council on fraud issues, if this is considered appropriate by either auditor. Accordingly, any allegations of fraud or corruption which come to light through either party would be communicated to the other auditor. However, it would only be on exceptional occasions that the External Auditor would get involved in carrying out investigations into allegations of fraud or other irregularities.

SUMMARY

As has been outlined in the introduction to this document, the purpose of the Joint Audit Statement is to clarify roles and responsibilities and working relationships. That is not to say that there has been a history of poor relationships; it is helpful to document the extent of the relationship and how both auditors come together, also making it clear that there are significant benefits to be gained through greater co-operation and working together.

Joint working will include:

- *participation in joint planning in order to produce annual effective and efficient programmes of audit cover;*
- *regular liaison to ensure that all basic data is collected at the audit planning stage;*
- *liaison in the preparation of audit plans and programmes, and the sharing of expertise and methodologies;*
- *two way access to files and working papers;*
- *the undertaking of joint exercises (where appropriate); and*
- *joint drafting of reports (where appropriate) or, as a minimum, the sharing of draft reports.*

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ACTION PLAN

| Action Proposed | | Date for Implementation |
|-----------------|---|---|
| 1 | Joint planning in order to produce effective and efficient annual programmes of audit cover. | Included on agenda 16 July and to be revisited at quarterly liaison meeting |
| 2 | Regular liaison to ensure that all basic data is collected at the audit planning stage. | Quarterly liaison meetings will take place. In addition, these formal meetings will be supplemented by ad hoc meetings and discussions whenever the need arises |
| 3 | Liaison in the preparation of the audit plans and programmes, and the sharing of expertise and methodologies. | As for 1 |
| 4 | Two way access to files and working papers. | In place |
| 5 | The undertaking of joint exercises (where appropriate). | A recent example of joint working is external audit feeding into internal audit's annual plan to review the service units' year end returns – both in terms of sample selection and in specific testing to be undertaken. |
| 6 | Joint drafting reports. | No opportunities identified to date. Final reports are made available to the external auditor once they have been made available to the service units. |