

Presentation to Carlisle City Council's Audit Committee

The role of the External Auditor



Introduction

Richard McGillion

- Audit Manager with the Audit Commission, and based in Carlisle.
- Covering North Manchester, Carlisle CC and Copeland MC was also responsible for quality on the local team.
- Reports directly to Karen Harvey (District Auditor)

Angela Stubbs

- Principal Auditor and based in Carlisle.
- Team Leader on the Carlisle CC and North Cumbria University Hospitals NHS Trust audits.

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What we will cover today?

- Who are the Audit Commission?
- The role and work of the External Auditor in Local Government
- The Audit Commission's local team
- How the External Auditor carries out their duties
- External audit and relationship with Internal Audit
- The role of the Audit Committee in relation to External Audit
- The key timelines in relation to External Audit work and reports

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Who are the Audit Commission?

- Audit Commission is an independent body, established in 1999 and responsible for the appointment of external audit of local government, NHS and criminal justice in England;
- There are two parts to the Audit Commission:
 - The Commission as a legal entity is the central part of the organisation. They set policy, determine the Code of Audit Practice, the service options under separate auditors (as or the units) and link with central government;
 - The operational part (previously known as District Audit 1994 - 2003) undertakes 70% of the work allocated by the Audit Commission, the operational part is the fifth largest audit supplier in the UK and the largest public sector audit firm in the world. It is the operational arm of the Audit Commission that carry out the separate work, inspections of certain local services, the work on corporate governance inspections and deliver Sustainable Audit Assessment (CAA).

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The Role and work of the External Auditor in Local Government (1)

This is determined by:

- The Audit Commission Act 1999
- The Code of Audit Practice
- The Statement of Responsibilities of Auditors and Audited Bodies
- Directions from the Audit Commission in the form of 'mandated work'

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The Role and work of the External Auditor in Local Government (2)

Main areas of work consist of :

- Understanding and documenting material systems
- Auditing the Financial Statements and issuing an opinion
- Issuing an Annual Governance Report including the opinion on the financial statements and Value for Money Conclusion
- Use of Resources assessments for individual bodies and score
- Comprehensive Area Assessment including organisational assessment and score
- Certifying grant claims
- Issuing an Annual Audit and Inspection Letter

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The Role and work of the External Auditor in Local Government (3)

The External Auditor also has to:

- Respond to questions and objections from members of the public in relation to the accounts
- Consider if they need to issue any recommendations for public response under s11 of the Audit Commission Act 1998
- Consider if they need to issue a Public Interest Report under s11 of the Audit Commission Act 1998

7. External Auditor in Local Government (3) (page 2 of 2)



The Audit Commission's Local Team

- Karen Murray – District Auditor
- David Hoole – Comprehensive Area Assessment Lead
- Richard McGahan – Audit Manager
- Angela Stubbs - Principal Auditor

• Supported by:

- Other audit staff as required
- IT and Performance Specialist Staff as required

8. The Audit Commission's Local Team (page 1 of 1)



How the External Auditor carries out their duties? (1)

International Auditing Standards (ISAs):

- ISAs require close working with Internal Audit
- material financial systems have to be documented sufficiently for the external auditor demonstrate an understanding of them
- all material systems have had to be reviewed each year to ensure documentation is up to date
- obtain sufficient evidence of figures in accounts from a mixture of controls and substantive testing

9. How the External Auditor carries out their duties? (1) (page 1 of 1)



How the External Auditor carries out their duties (2)?

Auditing the Financial Statements:

- be satisfied that the accounts comply with statutory requirements
- be satisfied that proper practices have been observed in compiling the accounts
- express an opinion on these accounts: do they present fairly the financial position of the council and its income & expenditure for the year?
- assess whether the Annual Governance Statement has been prepared in accordance with relevant requirements, is it misleading and/or inconsistent with other information?
- issue an Annual Governance Report including the opinion on the financial statements and a Value for Money conclusion

17. How the External Auditor carries out their duties (2)?



How the External Auditor carries out their duties (3)?

The Council's arrangements for Use of Resources:

- follow up previous reviews to ensure the audited body has properly considered matters raised and implemented agreed actions
- completion of the Annual Use of Resources assessment of the Council
- review of specific aspects of the Council's arrangements according to risk
- overall score for Use of Resources

18. How the External Auditor carries out their duties (3)?



How the External Auditor carries out their duties (4)?

Comprehensive Area Assessment:

- Organisational assessment specific to the audited body, comprising the Use of Resources work and the managing performance theme which are separately scored
- One overall score given for organisational assessment
- Area assessment for Cumbria working with key partners and agencies
- CAA is about people, places, partnership working, outcomes, future prospects and an increased focus on local priorities.
- Written report and is published on the Audit Commission 'oneplan' website

19. How the External Auditor carries out their duties (4)?



External Audit and the relationship with Internal Audit (1)

How they differ:

- External Auditor appointed by the Audit Commission and Internal Audit is appointed by Collieth City Council
- External Auditor accountable to the Audit Commission and the public and Internal Audit is accountable to the Director of Corporate Services and the Audit Committee
- External Auditor's work is more specifically directed by statutory requirements and Internal Audit work is more directed by regulatory requirements (e.g. ICAEW's Internal Audit Code of Practice)
- Internal Audit work is on more detailed, and wider range of, controls, than the External Auditor

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External Audit and the relationship with Internal Audit (2)

Working together:

- Both have a common understanding and some overlapping areas
- Co-ordination of plans to allow best use of limited audit resources
- Relyance on each others work to avoid duplication where possible
- Joint working – Protocol
- Share information on developments and problem areas

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The Role of the Audit Committee in relation to External Audit

- Consider the annual external audit plan
- Review arrangements for ensuring effective liaison between internal and external audit
- Overview of all strategic and significant operational matters relating to external audit, including planning, action points and reports
- Monitor management's implementation of significant external audit recommendations
- Consider the Annual Governance Report relating to the financial statements and the VFM conclusion
- Consider the Annual Audit and Inspection Letter to the Council

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Timelines – key dates and Audit Commission reports

Subject	Expected date for Audit Committee involvement?
Audit and Inspection Plan	Agreed with officers by 31 March, reported to Audit Committee
Annual Governance Report	Local authority issues this to those charged with governance by 30 September before giving opinions
Opinion on the Accounts and VFM	District Auditor gives his opinion by 30 September: Accounts and Value for Money
Use of Resources & C&A	Use of Resources stated by the end of September. Complimentary Area Assessment and Organisational Assessment report in December
Annual Audit and Inspection Letter	Due to be published by the end of December

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