



# Key Differences between Internal and External Audit

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# Internal Audit v's External Audit – The Similarities

- Both have mutual interests regarding the effectiveness of internal financial controls.
- Both professions adhere to codes of ethics and professional standards.
- Both are a requirement of legislation.



# The Purpose?

**Internal Audit** is a key component of corporate governance within an organisation and covers the whole system of risk management, control and governance processes including:

- Corporate systems – business planning, risk management etc
- Financial systems – General Ledger, Creditors, debtors, treasury management etc
- Support systems – information, policies, premises management etc
- Operational systems – housing, refuse, planning etc

The Accounts and Audit Regulations 2015 require organisations to conduct a review of the effectiveness of their systems of internal control and prepare an Annual Governance Statement (AGS). This is then published with the Statement of Accounts.



# The Purpose?

**External Audit** is required to provide an annual independent audit opinion on:

- The organisation's financial statements
  - assessing whether they conform to the accounting principles and standards
  - Fairly present the financial position of the organisation for a given period of time
  - have been materially affected in any way
- The value for money conclusion
  - to ensure appropriate stewardship of public funds

While external audits generally focus on transactions and events during a period, they will consider current risks and issues that might materially influence their opinion and also check that the accounts have been prepared on a 'going concern' basis.



# Who are the Auditors?

**Internal Auditors** – are usually employed by the organisation. BCKLWN has three members of staff employed directly by the Council and purchase 50% of the Shared Internal Audit Manager from Fenland District Council.

**External Auditors** – Our current auditors are Ernst and Young.

From 2018/19 the Public Sector Auditor Appointments (PSAA) are responsible for appointing the Auditors for most Local Authorities. The Auditors appointed are selected from a list of approved firm of Accountants. For BCKLWN the auditors appointed are Ernst and Young. These arrangements are in place for the next five years.



# How is the audit agenda set?

**Internal Audit** – the agenda is set internally in light of the risks assessed on each area of the Council, the corporate priorities and objectives and through input from management. This allows internal audit to set a five year plan which is reviewed and monitored on a 6 monthly basis.

**External Audit** – the external auditors will set their own programme of work based on its assessment of the risks of the accounts being materially misstated. This is directed by Auditing Standard ISA (UK) 200 – Overall objectives of the Independent Auditor and Conduct of an Audit in Accordance with International Standards on Auditing (UK).



# Can External Audit use the work of Internal Audit?

**External Audit** – Can use the work of Internal Audit as described in ISA (UK) 610. The conditions for this to be applied are as follows:

- Internal Audit's status, and the organisational policies and procedures support the objectivity of Internal Audit.
- The level of competence of the internal audit function.
- Whether the internal audit function applies a systematic and disciplined approach.

Ernst and Young have chosen not to use our Internal Audit work and have provided the following statement to support their decision:

*“As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports in our audit Strategy. We generally do not rely on the work of Internal Audit for Our detailed testing as we determine that a fully substantive audit is more efficient.”*



# Reporting, who to?

**Internal Audit** – report internally. Service Managers and Executive Directors are the recipients of the reports as there will be recommendations that need to be acted upon. Ultimately internal auditors report to the audit committee so there is a high level of oversight. Internal Audit reports are not published publicly.

**External Audit** – report primarily to the Council Members, including the audit committee and also Management Team. External Audit Reports are also published publicly so stakeholders can view the results of the audit.



# Reporting, what type?

**Internal Audit** – produce tailored reports about how the risks and objectives are being managed. There is a focus on helping the business move forward highlighting areas of best practice and improvement.

**External Audit** – the main report is in format required by the Auditing Standards and focuses on whether the accounts give a true and fair view and comply with legal requirements. If other things come to light which the auditors think should be brought to the client's attention they will be reported separately to the directors in a 'management letter'.



# After the Audit?

**Internal Audit** – will conduct a follow up – usually 6 months after the initial audit report has been issued. The follow up will look to see whether recommendations have been implemented and may provide consultative help to guide the implementation of recommendations.

**External Audit** – there is generally no follow up, until the planning stage of the next year's audit when past issues will be considered.



# In Summary

**Internal Audit** can be used more flexibly and should add value to the organisation. It should have a positive impact in helping the organisation move forward in achieving its objectives and identify efficiencies throughout the organisation.

**External Audit** is a regulated activity required by law and can be helpful for members of the public to have assurance on the stewardship of public funds. It can also be considered as a health check on the key elements of the organisation's accounting.

