

Joint Working Protocol - Financial Statements audit

Oxford City Council

Audit 2010/11

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The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Joint Working Protocol

Introduction

1 My main objective as your appointed auditor is to plan and carry out an efficient opinion audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). I adopt a risk-based approach to planning the audit, and my audit work focuses on the risks that are relevant to my audit responsibilities under the Code. I issue an audit opinion on whether your financial statements fairly state your financial position and transactions for the year ended 31 March 2011.

2 I recognise that to achieve these objectives, we need to work together effectively. We need good communication throughout the year to identify and resolve issues early and be flexible enough to manage developments as they arise. This document reflects my commitment to promote productive joint working between my audit team and your finance team.

Audit approach

3 To support effective joint working I want you understand my approach to delivering your audit. Table 1 shows a summary of my approach and my proposed timetable.

Table 1: **Summary of my audit approach**

I adopt a two-stage approach

Stage	Procedures	Timing
1. Pre-statements	Documenting and walking through your material information systems. Testing the key controls within these systems, including where possible, reviewing the work of internal audit. Evaluating your control environment including assessing general information technology (IT) controls. Carrying out testing before the year-end on material balances that you expect to be included in the financial statements.	From January To April
2. Post-statements	Testing the material balances and notes within your financial statements.	From July To August

4 I expect my team to work closely with you throughout the opinion audit. I include a table at Appendix 1 showing the meetings scheduled throughout the year.

Pre-statements audit

Documenting and walking through your systems

5 I use the pre-statements stage of the audit to gain an understanding of the information systems that you use to produce the material figures within the financial statements. I am required to do this by auditing standards - ISAs (International Standards on Auditing in the UK and Ireland). However, this understanding enables me to focus my audit on relevant matters. It also enables me to highlight to you any significant weaknesses in how these systems produce materially accurate figures for the financial statements.

6 To achieve this I document my understanding of your material information systems and undertake a 'walk through test'. The walk through test entails tracing a single transaction through the system, from initiation to completion. I am required by auditing standards to do this each year. However, where I have gained an understanding of a system in one year and you have confirmed that there have been no changes to that system I simply walk through the system to confirm my understanding.

Identifying and testing key controls

7 Having documented my understanding of your material information systems I then consider the controls within each system that are key to ensuring the outputs are materially accurate. I call these key controls.

8 Testing that these key controls are operating effectively provides me with assurance that there is a reduced risk that your financial statements are free from material error. It also enables me to report to you any deficiencies in your system of internal control.

9 Wherever possible I will seek to rely on the work undertaken by internal audit in respect of your key controls. My team meets regularly with internal audit to discuss the scope and timing of our respective audit plans. This includes, identifying the key controls within each material information system. If I do seek to place reliance on internal audit I will review and evaluate their work.

Control environment and Information Technology (IT) controls

10 I consider the strength of your control environment and general IT controls in assessing the risk that your financial statements are free from material misstatement.

11 As part of the pre-statements audit, I consider and document the control environment in which you operate. For example, I will discuss with management and the Audit and Governance Committee (as those charged with governance) the arrangements that the Council has in place for issues including fraud, governance and complying with laws and regulations.

12 In addition, I also evaluate and test your general IT controls, such as access controls within your material information systems.

Early testing of material balances and notes

13 I am aware that the post-statements stage of my audit falls during a busy period. For your finance team. Therefore, I know that you are keen that I reduce, as far as possible, the extent of audit work I need to carry out on your financial statements at that time.

14 During the pre-statements audit, I will agree with your finance team, any aspects of your financial statements that will be known before the year end. For example, I can test any in-year material additions or disposals of property, plant and equipment rather than test them at the year end.

Post-statements audit

15 At the post statements stage of the audit I focus my work on testing of the material balances and note within your financial statements. The extent of this testing is determined in part by the results of the pre-statements testing.

16 My assessment will also take into account a number of factors including the materiality of the item, political sensitivity, known problems from previous years, any findings from Internal Audit and any changes in accounting practice and SORP. As a result the work undertaken and requests for further information may differ to previous years. However, I will ensure that I provide the finance team with an outline timetable of when auditors will be reviewing which aspects of the financial statements.

What I expect from you

Obtaining external confirmations

17 There will be instances where the most appropriate effective method of obtaining audit evidence is by obtaining external confirmations. External confirmations are most commonly used with regards to the confirmation of balances. Examples of where I use them include;

- Bank balances and other information from bankers.
- Investments.
- Loans from lenders.
- Asset valuations
- Pension valuations

18 You will need to give permission to the following third parties to release information which will be requested by me in due course:

- Cluttons
- Hewitts
- Any banks you have current accounts or investments with.

Final accounts arrangements

19 I have outlined to you my audit approach so that you know what to expect from me and my audit team. To deliver an effective and efficient audit our respective teams need to work collaboratively. The following paragraphs outline my expectations from you.

- access to key finance staff (as listed in Appendix 2);
- notification of when key staff are unavailable;
- fast resolution of audit queries and issues (this would ordinarily be within 2 working days);
- relevant and available working papers in accordance with your closedown timetable. Working papers should be:
 - cross referenced to all accounting systems and other sources of information where possible;
 - clearly labelled and headed;
 - accompanied by clear audit trails to individual transactions making up the balance;
 - signed and dated; and
 - ideally provided in an electronic format.

20 I recommend that you include all balances over £1.8m in the working paper files, with supporting documentation for any transactions over £1.5m as part of the post statements audit I may request further 'drilling down' into transaction listings for testing. Finance staff should ensure that this information is retained and is readily available.

21 I also recommend that you provide these working papers at the beginning of the post statements audit. This will reduce the time that finance staff have to spend dealing with audit queries. Any delays in the provision of adequate working papers or in the resolution of queries will impact on the audit programme and may lead to a delay in issuing the opinion and the fee that I have agreed for the audit.

Reporting

22 I am required by auditing standards to report the results of my work to the Audit and Governance Committee as those charged with governance. I do this in the Annual Governance Report. This report will include only the significant findings identified from my audit work. I will report more detailed findings and recommendations from my audit of the financial statements in a separate final accounts memorandum.

What can you expect from me and my team

23 You can expect the following:

- a set of working paper guidelines for the post statements audit;
- a schedule of all audit errors and uncertainties arising from my work;
- regular audit liaison to discuss matters arising from the audit; and
- during the post statements audit, weekly liaison from the team leader/audit manager to discuss the progress of the audit, unresolved queries etc using a weekly report to track agreed actions.

24 My team and I will raise matters of urgency promptly. If issues may have an adverse impact on the audit opinion or the Annual Governance Report.

25 I have proposed a timetable (see Appendix 1) to enable me to issue an Annual Governance Report to the Director of Finance and Efficiency, in sufficient time to deal with significant issue and to the Audit Committee in September (exact date to be confirmed). This will allow sufficient time for the Council to respond to any matters. Subject to gaining sufficient assurance from my audit testing, I aim to give my opinion in time for the Council to publish the audited accounts by the deadline of 30 September.

Way forward

26 I have prepared this protocol to improve the way my audit is delivered and reduce the load on your finance team in preparing the financial statements and responding to auditor queries. I recommend that you share this protocol with finance staff who are responsible for compiling working papers and responding to audit requirements.

27 If you have any queries about the working papers requested, or the contents within this protocol, please contact your Audit Manager (see Appendix 3 for contact details).

Appendix 1 – Schedule of Meetings

The following schedule of meetings is not an exhaustive list but highlights the likely meetings between us and Oxford City Council throughout the year:

Council officers	Audit Commission staff	Timing	Purpose
Interim Head of Finance and his team	Audit Manager and Team Leader	Fortnightly	General update on audit issues including for example: January – Progress on IFRS restatement March – progress on interim audit July and August-accounts progress September - annual governance report October – final accounts “wash up”.
Director of Finance and Efficiency	District Auditor and Audit Manager	Quarterly	Update on audit issues including: audit plan annual governance report: and key messages for Annual Audit Letter
Audit and Governance Committee	District Auditor and Audit Manager	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Annual Audit Letter Other issues as appropriate

Appendix 2 – Key Officer Contacts

28 The key contacts from the council will be:

Name	Title	Extn
Jackie Yates	Director of Finance and Efficiency	252339
Nigel Kennedy	Interim Head of Finance	252708
Anna Winship	Financial Accounting Manager	252517
Kelly Dawson	Financial Accountant	252722

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Appendix 3 – Audit Commission staff

The key Audit Commission staff involved in the audit are listed below.

Name	Title	Contact number
Maria Grindley	District Auditor	0844 798 8952
Alan Witty	Audit Manager	0844 798 8956
Susan Whipp	Team Leader	0844 798 8967

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