

# **Joint working protocol - Internal and external audit**

**Oxford City Council**

**Audit 2011/12**

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# Introduction

**1** Oxford City Council (the Council) faces ever increasing pressures on its resources. As external and internal auditors we can assure management and the Audit and Governance Committee that with our commitment to work together efficiently and effectively and represent good value for money. This protocol sets out arrangements that support that commitment.

**2** The objectives of this protocol are to:

- provide a basis for cooperation in planning and conducting our respective audit work;
- promote joint working, within the bounds of our respective roles;
- make the most of available audit resources, through agreed coordination arrangements; and
- help the Audit and Governance 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 my commitment to promote productive joint working between my external audit team and your internal audit team.

## Planning our respective audits

**4** As the appointed auditor for the Council I plan and carry out an 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 the audit focuses on the risks that are relevant to my audit responsibilities under the Code.

**5** We both produce annual audit plans based on our own risk assessments. We will liaise during the planning stage to ensure the timing and scope of our work makes the most of coverage and avoids duplication.

**6** My risk assessment evaluates the control environment in place at the Council, of which Internal Audit is an important part. As well as testing financial systems, you will also complete work on other areas of the control environment, for example, risk management.

**7** We will meet regularly to support a cooperative, professional working relationship, share relevant information and coordinate the overall audit effort. From these arrangements we will specifically seek to:

- gain audit assurance;
- inform our opinions and conclusions;
- help our understanding of the Council; and
- rely on specific pieces of work where suitable.

8 We will tell each other of any significant issues which arise as soon as practicable, and of any changes or delays in agreed areas of reliance. I will also highlight to you if I am unable to place reliance on agreed areas of joint working.

# My audit approach

**9** To support effective joint working I want you to understand my approach to delivering the audit at the Council. 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. Prestatements	Evaluating the control environment including assessing general information technology (IT) controls. Documenting and walking through material information systems. Testing the key controls within these systems, including where possible, reviewing the work of internal audit. Carrying out testing before the year-end on material balances that are expected to be included in the financial statements.	Agree during 2011/12
2. Post-statements	Testing the material balances and notes within the financial statements.	Agree during 2011/12

**10** My team will liaise with you before they start the prestatements stage of the audit.

## Prestatements audit

### Documenting and walking through systems

**11** I use the prestatements stage of the audit to gain an understanding of the information systems the Council uses 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). This understanding enables me to focus my audit on relevant matters. It also enables me to highlight to the Council any significant weaknesses in how these systems produce materially accurate figures for the financial statements. I include a list of the systems that I have determined as 'material' at appendix 1.

**12** To achieve this I document my understanding of the material information systems and undertake a 'walk through test'. The walk through test entails tracing a single transaction through the system, from beginning to end. 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 have confirmed there have been no changes to that system, I simply walk through the system to confirm my understanding.

**13** I expect that in meeting these requirements my team will liaise with you to find out whether the work that you carry out on financial systems can help inform my work.

### **Identifying and testing key controls**

**14** Having documented my understanding of the 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'.

**15** Testing that these key controls are working effectively provides me with some assurance the financial statements are free from material error. It also enables me to report to the Council deficiencies in the system of internal control. I include the key controls that I have identified at appendix 2.

**16** Wherever possible I will seek to rely on the work undertaken by you for these key controls. My team will therefore discuss the scope and timing of our respective audit work. This will include sharing with you the key controls that I have identified within each material information system. I recognise that controls that are 'key' to producing materially accurate financial statements may not be controls that you assess as part of the internal audit programme.

**17** Where you are testing the 'key controls' that I have identified and we have agreed that I will rely on your work, please note my minimum sample sizes for manual controls as set out below.

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Table 2: **Sample sizes for manual controls**

Based on Audit Commission approach

<b>Control Frequency</b>	<b>Sample Size</b>
Quarterly	2 (including period end)
Monthly	2
Weekly	5
More than weekly	20

**18** If I do seek to place reliance on your work, I am required by auditing standards to review and evaluate the work. This will include evaluating the evidence that you have gained to support your conclusions.

## **Control environment and Information Technology (IT) controls**

**19** I consider the strength of the Council's control environment and general IT controls in assessing the risk the financial statements are free from material misstatement.

**20** As part of the prestatements audit, I will therefore consider and document the control environment in which the Council works. For example, I will discuss with management and the Audit and Governance Committee (as those charged with governance) the arrangements in place for issues including fraud, governance and complying with laws and regulations.

**21** In addition, I also evaluate and test the general IT controls, such as access controls within material information systems. This may be another area where we can work together to reduce the risk of duplication.

## **Post-statements audit**

**22** At the post statements stage of the audit I focus my work on testing the material balances and notes within the financial statements. I decide the extent of this testing in part by the results of the pre-statements testing.

**23** There may also be occasions where I seek to place reliance on your work, for detailed testing of items within the financial statements. I refer to these tests of detail as substantive testing. Appendix 3 lists the areas where I may seek to rely on your substantive testing. My team will discuss these areas with you later this year.

## **The way forward**

**24** I include a list of our key contacts at appendix 4. I am committed to an effective relationship between our respective teams and will share this protocol with the Council.



## Appendix 1 Material systems

Table 3: **Material systems identified by my team for the Oxford City Council opinion audit (based on 2010/11 work)**

<b>General Ledger</b>
Payroll
Accounts payable
Accounts receivable
Housing Benefit
Business Rates
Council Tax
Car park income
Treasury Management
Housing Rents
Fixed Assets *

*\* – I will test this system substantively at year-end as this is the most efficient way of getting assurance*

## Appendix 2 Key controls

Table 4: **Key controls identified by external audit for the Oxford City Council opinion audit**

System	Key controls identified
General Ledger	1. Monthly reconciliations between feeder systems and GL
	2. TB = 0
	3. Journals are reviewed prior to input
	4. Suspense accounts are reviewed and cleared regularly
Payroll	1. Monthly review of exception reports
	2. Monthly reconciliation of payroll, GL and payments is produced, reviewed and differences investigated
Accounts Payable	1. Authorisation of payments
	2. Reconciliation of AP to GL is produced, reviewed and differences investigated
Accounts Receivable	1. Authorisation of Invoice Request Form
	2. Reconciliation of AR to GL is produced, reviewed and differences investigated
Housing Benefit	1. Weekly reconciliation between HB system and GL is produced, reviewed and differences investigated
	2. Supporting evidence for new claims is reviewed
	3. Quality checks of assessors' work are carried out
	4. Review of year-end accrual by senior finance manager
Business Rates	1. Reconciliations to VO reports
	2. Parameters updated and reviewed at start of year
	3. Monthly reconciliation to GL is produced, reviewed and differences are investigated

System	Key controls identified
Council Tax	1. Reconciliations to VO reports 2. Monthly reconciliation to GL is produced, reviewed and differences are investigated
Car park income	1. Reconciliation of car park audit tickets to the money collected by GS4 and any differences are investigated 2. Monthly cash reconciliation of money received to GL and to bank statement and any differences investigated
Treasury Management	1. Daily Treasury Figures reviewed and signed off by stage 2 officer 2. Agreement of detail between broker and 3rd party letter 3. Monthly reconciliation agreeing capital and interest to GL
Housing Rents	1. Tenant's details are agreed back to paperwork from sign up meeting 2. Reconciliation of cash received to GL 3. Annual rent parameters are reviewed by senior officer at start of year 4. Tenants' control account reconciliation at year-end
Fixed Assets	No in-year controls identified, our approach is to substantively test at year-end

## Appendix 3 Activity and responsibility

Table 5: **Work plan**

Activity	Responsibility
Identify material entries in the financial statements	External Audit
Link material accounts entries to feeds	External Audit
Agree material systems	Both
Document material systems including the general ledger.	Internal Audit
Identify key controls and assess risk of material misstatement	Both
Test operation of each key control – walkthrough	External Audit
Test that key controls being relied on have operated effectively over the whole of the period (sample size to be determined as per paragraph 19)	Internal Audit
Review and discuss results	Both
Assess the risks/reliance/assurance to determine the approach to accounts opinion audit	External Audit
Establish material entries where reliance/assurance will not be sought from internal controls – ie substantive tests	External Audit
Undertake substantive testing.	Both
Complete the opinion audit placing reliance on and gaining assurance from the above activities.	External Audit

# Appendix 4 Key contacts

Table 6: **Key contacts**

External Audit	Internal Audit
Maria Grindley – Engagement Lead	Chris Dickens – Head of Internal Audit
Alan Witty – Audit Manager	Kat Bennett – Audit Manager

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