

Joint Working Protocol - Internal and external audit

Torbay Council

Audit 2011/12

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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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Introduction

1 Torbay, in common with other authorities, faces ever increasing pressures on its resources. As external and internal auditors we can assure management and the Audit Committee that audit resources are being applied efficiently and represents good value for money by demonstrating our commitment to work together effectively. This protocol sets out arrangements that support that commitment.

2 The objectives of this protocol are to:

- provide a framework for cooperation in planning and conducting our respective audit work;
- promote effective joint working, within the bounds of our respective roles;
- maximise the benefit from available audit resources, through agreed coordination arrangements; and
- help the Audit 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 Torbay Council I 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 the audit work 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 formal risk assessments. To ensure the timing and scope of our work optimises coverage and avoids duplication we liaise during the planning stage.

6 My risk assessment evaluates the control environment in place at the Council, of which you are an important element. As well as testing financial systems, you also complete work on other aspects of the control environment, for example the authority's assurance framework and corporate 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 promptly if I am unable to place reliance on agreed areas of joint working.

My audit approach

9 To support effective joint working I have outlined below my approach to delivering the audit at Torbay and the timetable that I have agreed with management.

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

I adopt a two-stage approach

Stage	Procedures	Timing
1. Pre-statements	Documenting and walking through material information systems. Testing the key controls within these systems, including where possible, reviewing the work of internal audit. Evaluating the control environment including assessing general information technology (IT) controls. Carrying out testing before the year-end on material balances that are expected to be included in the financial statements.	From January to March 2012.
2. Post-statements	Testing the material balances and notes within the financial statements.	From July To September 2012.

10 My team will liaise with you before they start the pre-statements stage of the audit.

Pre-statements audit

Documenting and walking through systems

11 I use the pre-statements 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', and our cyclical testing programme 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.

16 Wherever possible I will seek to rely on the work undertaken by you as part of the assurance framework supporting the s 151 officer and the Annual Governance Statement for these key controls. My team will therefore discuss the scope and timing of our respective audit plans. This will include sharing with you the key controls that I have identified within each material information system.

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. These are included in appendix 2.

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 pre-statements audit, I will therefore consider and document the control environment in which the Council operates. For example, I will discuss with management and the Audit Committee the arrangements the Council has 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. The extent of this testing is determined 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. My team will discuss these areas with you and with the s 151 officer when this is the case.

The way forward

24 To promote effective liaison between our two teams, I include at Appendix 4 a list of our key contacts.

25 I am committed to an effective relationship between our respective teams and will share this protocol with management.

Appendix 1 Material systems and Audit Commission Cyclical Testing Plan

ISA 330 requires us to test the key controls once every three periods. This enables us to adopt a cyclical plan of testing controls. The following table details the cyclical plan for each material system.

Information system	2008/09	2009/10	2010/11	2011/12
General ledger	Yes	Yes	Yes	Yes
Payroll	Substantive	Substantive	Yes	No
Debtors	Yes	No	Yes	No
Creditors	Yes	Yes	No	No
Council tax	Yes	Yes	No	Yes
NNDR	Yes	Yes	No	Yes
Housing benefits	Yes	No	Yes	No
Education	Yes	No	Yes	No
Social Services (Children)	Yes	No	No	Yes
Supporting People	Yes	Yes	No	Yes
Treasury management – loans (best tested substantively)	Yes	No	No	No
Treasury management – investments (best tested substantively)	Yes	No	No	No
Fixed assets / capital accounting (best tested substantively)	Yes	No	No	No
Cash and bank (cash receipting, bank rec and car parks)	Yes	No	Yes	No

Appendix 2 Required Sample Sizes

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.

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

Appendix 3 Activity and responsibility

Activity	Responsibility
1 Identify material entries in the financial statements	External Audit
2 Link material accounts entries to feeds	External Audit
3 Agree material systems	Both
4 Document material systems including main accounting system.	Internal Audit
5 Identify key controls and assess risk of material misstatement	Both
6 Test operation of each key control - walkthrough	External Audit
7 Test that key controls being relied on have operated effectively over the whole of the period (sample size of 20)	Internal Audit
8 Review and discuss results	Both
9 Assess the risks/reliance/assurance to determine the approach to accounts opinion audit	External Audit
10 Establish material entries where reliance/assurance will not be sought from internal controls - ie substantive tests	External Audit
11 Undertake substantive testing.	Both
12 Complete the opinion audit placing reliance on and gaining assurance from the above activities.	External Audit

Appendix 4 Key Contacts

External Audit	Internal Audit
Steve Brown - Audit Manager S-Brown@audit-commission.gov.uk 07769 672920	Rob Hutchins
Stuart Holmes - Principal Auditor Stuart-Holmes@audit-commission.gov.uk 07779 331745	Lynda Sharp-Woods