

# **Working together: Protocol for liaison between Carlisle City Council and External Audit**

**Carlisle City Council**

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

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# Contents

<b>Introduction</b>	<b>4</b>
<b>Overarching liaison arrangements</b>	<b>5</b>
<b>Internal audit</b>	<b>6</b>
Respective roles of auditors	6
Planning and risk assessment	7
Areas where external audit are likely to place reliance on internal audit	8
Co-operation and co-ordination	9
<b>Accounts</b>	<b>12</b>
Key contacts for final accounts audit	13
Audit approach	14
Pre-statement testing (Interim Audit Visit)	16
Post-statement testing – preliminary and main visits	18
Working Papers: General	19
Working papers: Analytical review	20
Communication - General	21
Reporting amendments required to the financial statements	22
<b>Grant Claims</b>	<b>23</b>
<b>Accommodation and facilities</b>	<b>26</b>
<b>Access to documents</b>	<b>27</b>
<b>Appendix 1 – Current list of personnel</b>	<b>28</b>

## Introduction

- 1 The Audit Commission has made a commitment to strategic regulation. The principles of strategic regulation have been incorporated into the 2005 Code of Audit Practice. The Code requires external auditors to carry out their audit economically, efficiently and effectively, and in as timely a way as possible.
- 2 The purpose of this protocol is to set out how members, officers and ourselves work together both to maximise the benefits and minimise the cost of our work.
- 3 This protocol covers:
  - overarching liaison arrangements;
  - internal audit;
  - accounts;
  - grant claims;
  - accommodation and facilities.

It does not cover use of resources, Direction of Travel or CPA / CAA.
- 4 This protocol was discussed and agreed with the Director of Corporate Services in May 2008. It replaces any previous protocols that were in place. It will be updated on an ongoing basis as, and when, necessary.

## Overarching liaison arrangements

- 5 Effective communication between the Council and ourselves is essential.
- 6 The roles of the Audit Commission staff are as follows:

Comprehensive Area Assessment Lead	Responsible for the delivery of all inspections and performance related work and the CAA for Cumbria
District Auditor	Overall responsibility for the audit
Audit Manager	Responsible for the planning and delivery of the audit
Team Leader	Working with the Audit Manager to plan and deliver the audit

- 7 Table 1 sets out the key players from the Council, as well as the forums that have been set up to assist. Day to day liaison between the Council and ourselves will normally be between the Director of Corporate Services or the Head of Financial Services and our Audit Manager or Team Leader. The names and contact details of the current postholders are summarised in Appendix 1.

**Table 1      Overarching liaison arrangements**

Individual	Liaison
Town Clerk and Chief Executive	Both periodic and on-request meetings with the District Auditor, Audit Manager and CAAL
Director of Corporate Services	Both periodic and on-request meetings with the District Auditor, Audit Manager and Team Leader
Head of Financial Services	Both periodic and on-request meetings with Audit Manager and Team Leader
Head of Audit Services	Both periodic and on-request meetings with Audit Manager and / or Team Leader

Group	Liaison Role
Internal Audit Liaison meetings (every 3 months)	Attended by the Head of Audit Services, Audit Manager and Team Leader
Final Accounts Liaison meeting (as agreed in accounts timetable)	Attended by the Head of Financial Services, Chief Accountant, Audit Manager and Team Leader
Other meetings on request	

## Internal audit

- 8 The Head of Audit Services leads the in-house Internal Audit team which delivers the agreed internal audit programme of over 800 days.
- 9 The principles of strategic regulation have been incorporated into the 2005 Code of Audit Practice. The Code requires external auditors to carry out their audit economically, efficiently and effectively, and in as timely a way as possible. It specifies that as part of their audit approach, auditors should establish effective co-ordination arrangements with internal audit and seek to place maximum reliance on internal audit work wherever possible.
- 10 Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is sensible and good professional practice that they should work together closely.
- 11 This section sets out the proposed working relationship between internal and external audit. The objective is to provide a framework which will optimise the benefits of audit to the Council, whilst enabling internal and external audit to deliver their respective responsibilities. It sets out how internal and external audit will work together to achieve this.
- 12 This protocol aims to:
  - clarify the respective roles of external and internal audit;
  - highlight areas where external audit are likely to place reliance on internal audit; and
  - establish a framework for co-operation in the planning, conduct and reporting of the audit.
- 13 Overall the protocol should promote an effective working relationship, within the bounds of the respective roles of internal and external audit, and maximise the benefit to the Council from available audit resources.
- 14 This protocol covers all aspects of audit, including IT audit and value for money, and takes account of external audit responsibilities under the International Auditing Standards (UK and Ireland) (ISAs (UK&I)).

## Respective roles of auditors

- 15 Table 2 outlines the respective roles of external and internal audit. The roles and objectives are different but complementary. There are therefore benefits to be gained from working together, and from external audit relying on internal audit's work. Any such reliance is governed by International Auditing Standard (ISAs) (UK and Ireland) 610. This standard requires external audit to review internal audit's work, which usually involves re-performing specific tests as well as more general review.

**Table 2      Respective roles of auditors**

Internal Audit	External Audit
<p>CIPFA's Code of Audit Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code) defines internal audit as an <i>"assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources."</i></p> <p>Internal Audit must have documented terms of reference that accord with the requirements of the Code.</p> <p>The key output from Internal Audit is the annual opinion on the Council's control environment which should be reported to the Audit Committee.</p>	<p>To reflect the special accountability attached to public money and the conduct of public business, external audit in local government is characterised by three distinctive features.</p> <ul style="list-style-type: none"> <li>• auditors are appointed independently by the Audit Commission</li> <li>• the scope of auditors' work covers the audit of financial statements, probity in the use of public money and value for money in the use of resources.</li> <li>• auditors may report aspects of their work widely to the public and other key stakeholders.</li> </ul>
<p>Internal audit's strategy and plan is agreed between internal audit and management and should be approved by the Audit Committee and cannot be directed by external audit.</p>	<p>External audit conduct their work in accordance with International Standards on Auditing (ISAs) (UK and Ireland) and with the Audit Commission's Code of Audit Practice.</p>

## Planning and risk assessment

- 16 Both internal and external auditors must plan their work in accordance with the guidance and professional standards that are applicable to them. It is in the interest of both parties that any audit risks that are identified are shared. The liaison meetings that will take place every three months will provide the forum to consider any audit risks that have been identified to date and any areas of potential audit risk that may arise in the future. This will include separate consideration of the risk of fraud, as defined in ISA 240. Discussions will also consider the extent to which these risks will be addressed in the respective audit plans.

## Areas where external audit are likely to place reliance on internal audit

- 17 Where the work internal audit undertake for its own purposes overlaps with work that the external auditor would undertake to comply with the Code of Audit Practice, external audit may seek to place reliance upon the work of internal audit.
- 18 International Auditing Standard (ISA) 315 sets out the requirement for external audit to understand the audited body and its environment, including internal control. This is a key area where internal audit's work is likely to be relevant to the external auditor.

***ISA (UK and Ireland) 315: Understanding the entity and its environment and assessing the risks of material misstatement (relevant extracts)***

*The auditor should obtain an understanding of internal control and the control environment relevant to the audit.*

*The auditor should obtain an understanding of the entity's process for identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof.*

*The auditor should obtain an understanding of the information system, including the related business processes, relevant to financial reporting.*

- 19 The material systems that we will seek to use or rely on the work of internal audit are listed in Table 3, for the respective financial year.

**Table 3      Material systems that external audit will seek to place reliance on the work of internal audit**

System		
General Ledger	Payroll	Creditors
Debtors	Creditors	Council Tax
NNDR	Housing Benefits	Loans
Investments	Fixed Assets	Crematorium income
Planning / building control income	Car park income	Improvement grants
Contractor plus	Budgetary control (not a system but a key control)	



- 20 Where external audit rely on internal audit work, this reliance is governed by International Auditing Standard (ISA) 610, relevant extracts of which are reproduced below. This requires external audit to first evaluate internal audit's work to confirm that it is adequate for external audit's purposes. This is likely to involve external audit re-performing some of internal audit's work.

**ISA (UK and Ireland) 610: Considering the work of internal audit (relevant extracts)**

*The external auditor should consider the activities of internal audit and their effect, if any, on external audit procedures.*

*The external auditor should obtain a sufficient understanding of internal audit activities to identify and assess the risks of material misstatement of the financial statements and to design and perform further audit procedures.*

*The external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment.*

*When the external auditor intends to use specific work of internal auditing, the external auditor should evaluate and perform audit procedures on that work to confirm its adequacy for the external auditor's purposes.*

## Co-operation and co-ordination

- 21 Effective co-operation between external and internal auditors means more than avoiding duplication. An effective framework of co-operation and co-ordination ensures liaison, co-operation on work programmes and the sharing of information. Reflecting this, this protocol covers:
- liaison meetings;
  - external audit reliance on internal audit work;
  - arrangements for sharing documents and information; and
  - external audit's review of internal audit's work.
- 22 The principles of co-operation and co-ordination, and agreed actions are set out in table 4.

**Table 4 Co-operation - principles and details**

**Sharing reports**

The respective reports of Internal Audit and External Audit will be of interest to the other. As such the Director of Corporate Services should provide internal audit with electronic copies of all our final reports and the Head of Audit Services will provide us with an electronic copy of all final reports as soon as is

practical.
<b>Liaison meetings</b>
Regular meetings should be arranged between the Head of Audit Services and the external auditors Audit Manager to discuss audit planning (in particular, to avoid unnecessary duplication of planned audit work), audit progress and any other issues of mutual interest.
<b>External audit reliance on internal audit work</b>
<p>Internal Audit prepares its strategic and annual plans independently, on the basis of its assessment of the risks existing at the Council. It is likely that some of this work will be in areas in which external audit will wish to obtain assurance to meet their Code of Audit Practice responsibilities. It is appropriate for external audit to seek to place reliance on internal audit’s work, subject to internal audit having complied with internal audit standards when undertaking the work.</p> <p>It is good practice to identify what work external audit will be seeking to place reliance upon during planning. This ensures that the proposed work meets the timetable and requirements to enable external audit to place reliance upon it, for example, that appropriate sampling is used.</p> <p>If following review external audit is unable to rely on internal audit's work because it does not meet the required standard or because it is late, this will result in additional audit work being undertaken by external audit, which may lead to an increased external audit fee.</p>
<b>Arrangements for sharing documents and information</b>
<p>It will enhance understanding and effectiveness if audit reports and other audit information is shared promptly.</p> <p>Internal audit will provide external audit with:</p> <ul style="list-style-type: none"> <li>• audit reports and access to associated working paper electronic and papers files;</li> <li>• details of any significant changes to the audit plan; and</li> <li>• key documents, in particular the terms of reference, audit strategy and audit plan.</li> </ul> <p>External audit will provide the Head of Audit Services with details of any significant changes to the audit plan.</p> <p>External and internal audit will communicate promptly to the other auditor any significant concerns arising that the auditor feels should be dealt with other than through the usual reporting arrangements set out in this protocol.</p>

The following audit items are normally presented to the Audit Committee:

- Internal Audit Plan (April)
- External Audit and Inspection Plan (June)
- Annual Financial Statements and Director of Corporate Services summary (June)
- Internal Audit Annual Report (June)
- Annual Governance Statement (June)
- Annual Governance Report (September)

### **External audit's approach to its review of Internal Audit**

#### **Undertaking the reviews**

External auditors review the work of Internal Audit for two main purposes:

- to establish if Internal Audit is undertaking its role effectively in accordance with internal audit standards; and
- to determine what reliance can be drawn from internal audit work in relation to the external auditor's Code of Audit Practice responsibilities.

The Accounts and Audit (Amendment) (England) Regulations 2006 require that a Council review the effectiveness of the systems of internal audit. This review is the responsibility of the Council and is not intended to be a review carried out by the external auditor. Guidance on how the Council discharges this responsibility was developed by IPF and issued in 2007.

External audit will undertake an annual review of the internal audit work that it intends to place reliance upon and a triennial review of internal audit against audit standards.

## Accounts

- 23** The implementation of International Standards on Auditing (ISAs), effective from 2005/06, resulted in a number of changes in our approach to the audit of the Council's financial statements compared to that applied prior to 2005/06. Irrespective of these changes our approach nevertheless retains many of the principles established previously by the Audit Commission's Managed Audit approach. This includes the following.
- working constructively, yet independently of, with the Council's management, including:
    - communicating clearly what is needed from the Council and being flexible in our approach;
    - taking a pro-active approach in working with management and internal audit to help achieve the conditions for implementation;
    - establish effective co-ordination arrangements with internal audit and seeking to place maximum reliance on the work of internal audit whenever possible; and
    - making appropriate use of the Council's working papers.
  - using a risk based approach, consistent with the requirements of auditing standards - ISAs (UK&I) currently in force to ensure that our work is focused and proportionate.
- 24** The purpose of this protocol is to highlight some of the key practical considerations of relevance to applying the principles of the 'Managed Audit' approach to our audit of the Council's financial statements and to establish a clear reference point for both Audit Commission and Council staff involved in the closedown process. Specific items covered in this note include the following.
- key contacts;
  - timetable;
  - audit approach – pre-statement and post-statement visits;
  - working papers and communications protocol;
  - grant claims.
- 25** Further guidance on the respective responsibilities of auditors and of the audited body in the context of the usual conduct of an audit can be found in the following documents available via the Audit Commission website.
- Statement of responsibilities of auditors and of audited bodies  
[http://www.audit-commission.gov.uk/Products/NATIONAL-REPORT/A9F9AD95-AE7D-4755-935B-94700E020A9E/Statement\\_2005\\_printfriend.pdf](http://www.audit-commission.gov.uk/Products/NATIONAL-REPORT/A9F9AD95-AE7D-4755-935B-94700E020A9E/Statement_2005_printfriend.pdf)

- Code of Audit Practice 2005 for Local Government Bodies  
<http://www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=&ProdID=CD9EFFCE-FD24-43fc-B54E-4C6E1BCC2ED4>

## Key contacts for final accounts audit

- 26 The officers involved in the preparation and audit of the annual Statement of Accounts are summarised in Table 5. The names and contact details are shown in Appendix 1

**Table 5 Key Audit and Authority Staff contacts**

Name	Telephone / e-mail	Notes
<b>Audit Commission</b>		
Karen Murray District Auditor	0844 798 7041 <a href="mailto:k-murray@audit-commission.gov.uk">k-murray@audit-commission.gov.uk</a>	
Richard McGahon Audit Manager	01228 817042 / 0844 798 4760 <a href="mailto:r-mcgahon@audit-commission.gov.uk">r-mcgahon@audit-commission.gov.uk</a>	Annual leave 21 July 2008 to 4 August 2008
Angela Stubbs Team Leader	01228 817240 / 0844 798 4767 <a href="mailto:a-stubbs@audit-commission.gov.uk">a-stubbs@audit-commission.gov.uk</a>	Does work on a Thursday. Annual leave 18 August 2008 to 2 September 2008
Allison Cutts Team member	01228 817240 / 01228 227481 <a href="mailto:a-cutts@audit-commission.gov.uk">a-cutts@audit-commission.gov.uk</a>	
Helen Birchall CIPFA Trainee	01228 817240 / 0844 798 4753 <a href="mailto:h-birchall@audit-commission.gov.uk">h-birchall@audit-commission.gov.uk</a>	Annual leave 28 July 2008 (1 week) Annual leave 11 August 2008 (1 week)
<b>Carlisle City Council</b>		
Angela Brown Director of Corporate Services	01228 817299 <a href="mailto:AngelaB@carlisle.gov.uk">AngelaB@carlisle.gov.uk</a>	Conference 16 June (1 week). Annual leave 23 June 2008 to 14 July 2008
Shelagh McGregor Head of Financial Services	01228 817290 <a href="mailto:ShelaghM@carlisle.gov.uk">ShelaghM@carlisle.gov.uk</a>	Annual leave 14 July 2008 to 21 July 2008
Alison Taylor	01228 817280	Annual leave 28 July 2008

Name	Telephone / e-mail	Notes
Chief Accountant	<a href="mailto:AlisonT@carlisle.gov.uk">AlisonT@carlisle.gov.uk</a>	to 4 August 2008
David Steele Treasury and Insurance Manager	01228 817288 <a href="mailto:DavidS@carlisle-city.gov.uk">DavidS@carlisle-city.gov.uk</a>	Possibly early June 2008
Jackie Grierson Group Accountant	01228 817289 <a href="mailto:JackieGr@carlisle.gov.uk">JackieGr@carlisle.gov.uk</a>	Early July 2008
Steven Tickner Principal Accountant	01228 817281 <a href="mailto:StevenTi@carlisle.gov.uk">StevenTi@carlisle.gov.uk</a>	16 – 17 June 2008
Mary Palm Principal Systems and Finance Officer	01228 817277 <a href="mailto:MaryPa@carlisle.gov.uk">MaryPa@carlisle.gov.uk</a>	18 June to 4 July 2008

## Audit approach

27 Key dates in the closedown timetable for 2007/08 are as summarised in Table 6. The timetable is based on a number of key assumptions including:

- provision of good quality working papers in support of the financial statements and grant claims;
- provision of all other requested information to the required standard within agreed timescales;
- receipt of responses from officers to all draft reports within agreed timescales;
- receipt of adequate prior notice of all grant claims requiring certification and the submission of those claims and supporting working papers by the due date;
- provision of suitable accommodation, compliant with health and safety regulations, in a fixed location throughout the duration of the scheduled audit visits; and
- completion of Internal Audit work on the documentation of material financial systems (see Table 3) within agreed timescales and our ability to place reliance on this work.

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**Table 6      Closedown Timetable 2007/08**

Task	Date	Comments
Interim Audit visit (Pre-statement)	March / April / May 2008	

<b>Task</b>	<b>Date</b>	<b>Comments</b>
system).		
Early/preliminary Post-statement visit (Post-statement – early substantive testing).	W/c 23 June 2008	Fixed asset ownership, loans, investments, bank reconciliation.
Scrutiny of Statement of Accounts and Annual Governance Statement by Audit Committee.	23 June 2008	Financial Statements to be completed by 13 June 2008 for consideration by Audit Committee on 23 June 2008.
Approval of Statements by Council.	26 June 2008	Send copy of approved statements to the auditors.
Final date for Approval of Statements (see Accounts and Audit Regulations 2003).	30 June 2008	
S15 date (date for exercise of public rights).	5 August 2008	The Authority has been formally advised of this date. Documentation to confirm audit has been advertised to be sent to Auditors.
Approved statements and all supporting working papers submitted to external audit.	30 June 2008	Working Papers to be submitted in both electronic and hard copy.
Post-statement Audit visit (on site).	30 June 2008 to 4 September 2008	
WGA returns to be submitted to Auditor.	31 July 2008	
Publication of draft report of matters arising (Final Accounts Memorandum) and ISA (UK&I) 260 report – for consideration by	8 September 2008	Response to reports to be returned to Auditors no later than 11 September 2008.

Task	Date	Comments
officers.		
Statements incorporating agreed amendments to be completed by Authority and forwarded to Auditors.	15 September 2008	Amendments subject to consideration of ISA (UK&I) 260.
ISA (UK&I) 260 report to be presented to Audit Committee.	26 September 2008	Deadline for report 16 September 2008.
Issue of opinion on statements	26 September 2008	
Final Date for issue of opinion/publication of statements.	30 September 2008	
Deadline for Submission of 2007/2008 WGAs Consolidation pack to CLG.	1 October 2008	

## Pre-statement testing (Interim audit Visit)

- 28** The bulk of the work required to support our opinion on the Council's financial statements is carried out in two phases, the pre-statement phase (i.e. work undertaken before the statement of accounts are prepared) and the post-statement phase (i.e. work undertaken after publication of the statement of accounts). During the post-statement phase much of the work will consist of the substantive testing of transactions, balances and disclosures included in the statements.



29 Work carried out during the pre-statements (interim visit) will involve procedures designed to inform our understanding of the manner by which material amounts are initiated, recorded, processed and reported within the financial statements, assess the risk of material misstatements at assertion and overall financial statements level and establish the most appropriate testing strategy. This work will typically include the following.

- documenting (flowcharting) material information sub systems (or what ISA+315 refers to as 'transaction processing systems') in order to gain an understanding of how the relevant transactions are initiated, recorded and processed and the 'relevant controls' that is, those controls relevant to assessing the risk of material misstatement that exist within those systems to prevent or detect / correct material misstatements.
- documenting the interfaces between the information sub-system and the general ledger in order to obtain an understanding of the way in which the Authority processes information from the information sub-systems into the general ledger (or financial reporting systems) and the controls that are in place to ensure that the transactions are processed from the material information systems to the general ledger:
  - completely (all items are processed from the system into the GL);
  - accurately (all items are processed at the right amount); and
  - correctly (all items are classified / allocated to the correct codes).
- documenting procedures and controls that are in place over journal entries. This includes both standard journals (ie those used on a recurring basis to record transactions) and non standard journals (ie those use to record non-recurring, unusual transactions or adjustments).
- obtaining an understanding of the financial reporting process (including related controls) used to prepare the financial statements by documenting how the Authority produces the financial statements from the general ledger and the other sources of financial and non financial information.
- undertaking walkthrough testing to confirm that procedures and controls operate as documented.
- evaluating the design and implementation of controls. Evaluating the design of controls and considering whether the control individually, or in combination with other controls, is capable of preventing or detecting and correcting material misstatement (not that it actually does). While implementation of a control simply means that the control exists and the entity is using it.
- undertaking tests of controls in order to establish the operational effectiveness of control procedures in those circumstances where we are seeking reliance on those controls.

- in carrying out this work we will seek to place the maximum amount of reliance on work undertaken by Internal Audit as set out earlier in this document.

## **Post-statement testing – preliminary and main visits**

- 30 The deadline for approval of the accounts in accordance with Regulation 10 of the Accounts and Audit Regulations 2003 is 30 June. The audit reporting deadline is 30 September. To comply with this timetable the main phase of post-statement testing will take place during July to August 2008.
- 31 However to reduce the pressure on the peak work period and assist the Council by providing early feedback a preliminary post statement visits has been scheduled for the week commencing 23 June 2008. Details of the items to be covered during this visit are set out in Table 6.

## Working papers: general

- 32** It is the responsibility of the Director of Corporate Services to ensure that the accounts properly reflect the financial affairs of the Council. In doing so the Director of Corporate Services must be satisfied that, with regards to individual transactions and balances that:

### Income and Expenditure Account

- occurrence: that the transaction has occurred and does relate to the Council;
- completeness: amounts relating to the transactions have been recorded;
- accuracy: amounts relating to the transactions have been recorded accurately;
- cut-off: transactions have been recorded in the correct accounting period;
- classification: transactions have been recorded in the correct codes / headings.

### Balance sheet

- existence: transaction or event has occurred;
- rights and obligations: transaction does relate to the Council;
- valuation and allocation: amounts relating to the transactions have been recorded accurately;
- completeness: amounts relating to the transactions have been recorded.

- 33** Officers must prepare working papers that provide a clear "audit trail" from the entries in the statements of accounts back to the supporting evidence. This should allow the Director of Corporate Services to undertake an effective review of the accounts and supporting working papers to satisfy themselves of the accuracy of the prepared financial statements prior to them being presented to the Council for adoption and ourselves for audit.
- 34** It is not our intention to provide the Council with a schedule of working papers for 2007/08. The Council needs to produce its own schedule of required working papers as part of the 2007/08 closedown process and, if requested to do so, we will review this to identify any potential omissions and allow the Council time to address these in advance of the main post-statement visit. However, it is for the Council to determine what working papers it needs to prepare in support of its accounts.
- 35** Wherever possible working papers should be provided in electronic format as well as in hard copy. An annotated copy of the Council's schedule of working papers for 2007/08 (incorporating appropriate cross references / hyperlinks to working papers and or other supporting evidence) should be included within the completed closedown file.
- 36** Whilst every effort will be made to assist the Council in establishing a comprehensive list of working paper requirements requests for additional

information will arise during the course of the audit. The timetable outlined in Table 6 is therefore based on the assumption that all working papers set out in the Council's schedule of working papers for 2007/08 will be completed to the required standard and provided to us by 30 June 2008 and that all requests for additional information are met within three working days or otherwise agreed timescales.

- 37 Minor queries and requests will be dealt with verbally. More significant items will be made or confirmed in writing (by e-mail) along with the agreed timescale for delivery. These requests will be sent to the relevant officer and copied to the Chief Accountant. This will allow requests for additional information to be monitored both by the Authority and ourselves. Any significant delays in responding to the requests or concerns relating to the quality of information provided will be reported initially to the Head of Financial Services. Persistent delays will be reported to the Director of Corporate Services and if required to Members.

## Working papers: Analytical review

- 38 ISA(UK&I) 520 Analytical Procedures, sets out three purposes for which analytical procedures are used.
- as a risk assessment procedure to obtain an understanding of the entity and its environment, to highlight potential audit risks and to identify areas in the financial statements that need further investigation.
  - as substantive procedures when their use can be more effective or efficient than tests of details in reducing the risk of material misstatement at the assertion level to an acceptably low level.
  - as an overall review of the financial statements at the end of the audit.
- 39 Whilst any decision on the extent to which analytical procedures are used as a substantive procedure is at our discretion, and a matter for professional judgement, the application of analytical procedures as a risk assessment procedure and as part of the overall review of the financial statements are both mandatory procedures.
- 40 In previous years we have experienced some problems regarding the availability of information required to support efficient application of analytical procedures during the closedown process. These have included:
- differences between the format of budget outturn reporting and actual financial information reporting in the financial statements; and
  - the quality of explanations for identified variances and appropriate evidence to corroborate those explanations.
- 41 These issues have in the past led to delays in concluding the audit of the financial statements or have required us to do additional work. It is therefore essential that any requested information supporting application of analytical procedures is supplied to us by the scheduled dates.
- 42 To assist us in complying with the requirements of ISA(UK&I) 520 working papers submitted in support of the financial statements should include a clear explanation

of all variances in reported figures compared to both budget and prior year amounts in excess of £100,000 and ten per cent. This analysis should cover all primary statements and supporting notes and should be accompanied by documentary evidence corroborating the explanations provided.

## Communication - general

- 43 All potentially contentious issues or items of concern identified by the Council during the closedown process should be brought to our attention at the earliest possible opportunity. Fortnightly meetings will be held during the course of the audit to ensure that any issues identified are raised and resolved as early as possible (see Table 7). The meetings will be attended by the Head of Financial Services, Chief Accountant and the Audit Manager and Team Leader from the Audit Commission. Formal action plans and deadlines to address identified issues will be agreed as part of these meetings to ensure that such issues are resolved as quickly as possible. Any difficulties with deadlines / other issues will be reported to the Director of Corporate Services.

**Table 7      Closedown 2007/2008 - Progress Meetings**

Date	Time	Comments
29 April 2008	10.00am	
12 June 2008	2.00pm	
30 June 2008	10.00am	
15 July 2008	10.00am	
5 August 2008	10.00am	
15 August 2008	10.00am	
29 August 2008	10.00am	
8 September 2008	10.00am	Meeting to include discussion of draft Matters Arising (Final Accounts Memorandum) and ISA(UK&I) 260 reports.

## Adhoc requests for views on the accounting treatment of items within the financial statements

- 44 In discharging its responsibilities in relation to the statement of accounts the Council is responsible for taking decisions regarding the most appropriate treatment of individual transactions or balances after taking such advice as is deemed necessary. Although we are happy to discuss these matters it is not part of our role as auditors to provide legal or other technical advice to the Authority. We will however provide the Council with a view, in our capacity as the Auditors, on its proposals for the treatment of specific transactions or balances within the financial statements. For clarity and the avoidance of doubt such requests should be made to us in writing and should include as a minimum: details of the underlying

transaction; proposed accounting treatment; sources consulted (including details of legal or other professional advice); and basis for the proposed treatment.

- 45 Further details on the auditors' role in respect to adhoc requests for views on the legality, accounting treatment or value for money of a transaction can be found in paragraph 3 of the Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies.

## **Reporting amendments required to the financial statements**

- 46 A report summarising matters arising from our audit of the 2007/08 financial statements will be provided and discussed with officers on an ongoing basis. Following this discussion the Head of Financial Services will be responsible for processing all required amendments to the financial statements and for submitting the revised statements to us by the agreed date (see Table 6). In accordance with ISA (UK&I) 260 details of uncorrected misstatements, other than those which in our opinion are clearly trivial, will be reported for consideration by Members. Where material corrections are required these will be reported to those charged with governance so as to assist them in fulfilling their governance responsibilities, including reviewing the effectiveness of the system of internal control.
- 47 At the conclusion of the final accounts audit we will provide the Director of Corporate Services with the Annual Governance Report, prior to this being finalised and presented to the Audit Committee.

## Grant Claims

- 48 Whilst the certification of grant claims falls outside of our responsibilities under the Code of Audit Practice it is essential that a certain amount of testing is undertaken on all major annual and adhoc claims prior to issuing our opinion on the financial statements, even though it may not be possible to complete all tests required by the relevant certification instruction prior to the opinion date.
- 49 It is the responsibility of the Council to provide us, in advance, with the details of all grant claims that it will require us to certify during the year. This should be provided in January each year in order to allow this information to be considered as part of the external audit planning process.
- 50 The Head of Financial Services, will provide a schedule of grant claims that are submitted in the following financial year, including the anticipated value of grant income to be received, the deadline for submission for audit, the deadline for the submission of the audited claim and the details of the officer responsible for providing the completed claim form and supporting working papers.
- 51 Details of those claims, identified by the Council, requiring submission and certification during the period 1 April 2008 to 31 March 2009 are summarised in Table 8.
- 52 It is accepted that a number of final claims may not be completed until some time after approval of the financial statements, requiring the Council to use detailed estimates in the production of the statement of accounts. Where this is the case working papers supporting these estimates must provide a clear audit trail back to source data (for example, output from benefits system, NNDR / Council Tax systems and / or nominal ledger), set out clearly the basis for any assumptions made, and include sufficient detail to enable a detailed comparison to be made with prior year claims.

**Table 8 Grant claims submission and certification dates**

Claim	Submission Deadline	Dates for 'Audit'	Certification Date	Authority Contact
NNDR 3 (estimated value of claim >£30.7m)	27 June 2008	23 June 2008 to 7 July 2008	26 September 2008	Marion Upex 01228 817232
Housing and Council Tax Benefit (estimated value of claim)	31 May 2008	16 June 2008 to 23 June 2008  6 October 2008 to 30 November 2008	30 November 2008	David Steele 01228 817288  June Boyd 01228 817221

<b>Claim</b>	<b>Submission Deadline</b>	<b>Dates for 'Audit'</b>	<b>Certification Date</b>	<b>Authority Contact</b>
>£25.1m)				
Longtown Market Town Initiative (NWDA) (total value of award £955k)	30 June 2008	22 September 2008 to 29 September 2008	30 September 2008	Neil Griffiths 01228 817124
Carlisle Renaissance (NWDA) (total value of award £1m)	30 June 2008	15 September 2008 to 22 September 2008	30 September 2008	Tom Millar 01228 817018
Carlisle Renaissance – property acquisitions (NWDA) (total value of award £1m)	30 June 2008	23 June 2008 to 27 June 2008	30 September 2008	Tom Millar 01228 817018
Disabled Facilities Grants 2007/08 (cash limit £280k)	31 July 2008	27 October 2008 to 30 October 2008	31 October 2008	David Steele 01228 817288

- 53** Further details regarding the respective responsibilities of the Council and appointed auditors in relation to claims and returns can be found in Statement of responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns. This can be accessed via the Audit Commissions web site at:

<http://www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=ENGLISH^576&ProdID=7368472B-B654-40b8-A7C6-2DCD134DE3B5>

- 54** All grant claims submitted for certification must be supported by comprehensive working papers. To assist the Council we will provide officers with a copy of the relevant certification instruction (when it becomes available) that sets out the work that must be undertaken by ourselves. Officers will be expected to annotate / provide cross references on the CI as to where the necessary evidence is contained within the working paper file and this should be included with the working papers file.
- 55** In order to monitor compliance with these requirements we will notify the Head of Financial Services of all known claims and related working papers not submitted to us by the due date. Work on certification of the claim will not start until adequate



working papers have been submitted to us. Whilst every effort will be made to meet certification and submission deadlines no guarantee can be given with regard to those claims which are submitted to us after the due date or without adequate prior notification.

## **Accommodation and facilities**

- 56 The Council has provided us with an audit room and access fobs for Richard McGahon, Angela Stubbs and other staff as required.
- 57 The Council has also allowed the Audit Commission to install its own wireless internet facilities to enable the Commission's staff to access their intranet.

## **Access to documents**

- 58** As part of the planning and delivery of our audit we need to understand the Council's business. We therefore review both agenda papers and subsequent minutes of Council meetings and other committees that consider matters that are relevant to our responsibilities.
- 59** Access to agenda papers and minutes are provided through the Council's website.

## Appendix 1 – Current list of personnel

Organisation	Post	Name	Phone	email
Carlisle CC	Town Clerk and Chief Executive	Maggie Mooney	01228 8177001	<a href="mailto:MaggieM@carlisle.gov.uk">MaggieM@carlisle.gov.uk</a>
	Deputy Chief Executive	Jason Gooding	01228 817009	<a href="mailto:JasonG@carlisle.gov.uk">JasonG@carlisle.gov.uk</a>
	Director of Corporate Services	Angela Brown	01228 817299	<a href="mailto:AngelaB@carlisle.gov.uk">AngelaB@carlisle.gov.uk</a>
	Director of Legal and Democratic Services	John Egan	01228 817004	<a href="mailto:JohnE@carlisle.gov.uk">JohnE@carlisle.gov.uk</a>
	Director of Community Services	Mike Battersby	01228 817325	<a href="mailto:MichaelB@carlisle.gov.uk">MichaelB@carlisle.gov.uk</a>
	Director of Development Services	Catherine Elliot	01228 817502	<a href="mailto:CatherineE@carlisle.gov.uk">CatherineE@carlisle.gov.uk</a>
	Director of Carlisle Renaissance	Ian McNichol	01228 817399	<a href="mailto:IanMc@carlisle.gov.uk">IanMc@carlisle.gov.uk</a>
	Head of Financial Services	Shelagh McGregor	01768 217290	<a href="mailto:ShelaghM@carlisle.gov.uk">ShelaghM@carlisle.gov.uk</a>
	Head of Audit Services	Ian Beckett	01228 817292	<a href="mailto:IanB@carlisle.gov.uk">IanB@carlisle.gov.uk</a>
Audit Commission	District Auditor	Karen Murray	0844 7987041	<a href="mailto:k-murray@audit-commission.gov.uk">k-murray@audit-commission.gov.uk</a>
	Comprehensive Area Assessment Lead - interim	Tom Keena	0844 7987338	<a href="mailto:t-keena@audit-commission.gov.uk">t-keena@audit-commission.gov.uk</a>
	Audit Manager	Richard McGahon	0844 7984760	<a href="mailto:r-mcgahon@audit-commission.gov.uk">r-mcgahon@audit-commission.gov.uk</a>
	Team Leader	Angela Stubbs	0844 7984767	<a href="mailto:a-stubbs@audit-commission.gov.uk">a-stubbs@audit-commission.gov.uk</a>

## **Addresses**

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Bolton, BL6 6QQ

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