

# Audit and inspection plan

## Lancaster City Council

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## Introduction

This plan sets out the audit and inspection work we propose to undertake in 2004/2005. The plan has been drawn up from improvement planning meetings with you, and our risk based approach to audit planning. This plan reflects the Audit Commission's elements of the co-ordinated and proportionate audit and inspection programme.

## Strategic regulation

Strategic regulation is at the core of the Audit Commission's plans. It is a new more focused and more risk-based approach. Our approach to strategic regulation embodies four key principles:

- it is a force for continuous improvement
- it is focused on outcomes for service users
- it is proportionate to performance and risk
- it is delivered in partnership.

We intend to demonstrate the benefits of strategic regulation in your audit and inspection programme by focussing our key areas of improvement work on outcomes for users and reducing the amount of grant claim work overall through linking the work to an assessment of risk.

## Our responsibilities

In carrying out audit and inspection work we comply with the statutory requirements governing it, in particular:

- for our audit work
  - the Audit Commission Act 1998;
  - the Code of Audit Practice (the Code); and
  - the Local Government Act 1999;
- for our inspection work
  - the Local Government Act 1999.

We have worked with you on the improvement planning process to ensure that the work of the Audit Commission and other inspectors is co-ordinated and targeted at your key areas for improvement.

To clarify the purpose of our different responsibilities we have divided the plan into the following categories:

- improvement
- assessment
- assurance.

## The fee

The fee for our 2004/2005 programme of work is set out below.

Audit area	2004/05 Fee (£)	2003/04 Fee (£)
Improvement	24,695	3,285
Assessment	7,900	14,020
Assurance		
• Accounts	35,135	36,830
• Governance	21,255	20,905
• Use of resources	35,615	26,140
<b>TOTAL</b>	<b>124,600</b>	<b>101,180</b>

*Note: the fee is net of ODPM grant*

Whilst the fee is shown in comparison to the 2003/04 fee the two years are not directly comparable. In 2003/04 the CPA inspection was undertaken resulting in a higher inspection fee, lower use of resources fee, and the 2003/04 audit was also reduced to some extent since it was combined with the 2002/03 audit.

In setting the fee we have assumed:

- you will inform us of significant developments and emerging risks
- Internal Audit meets the appropriate professional standards
- officers will provide good quality working papers
- officers will provide requested information within agreed timescales
- prompt responses to draft reports.

Changes to the plan will be agreed with you.

These may be required if:

- significant new risks emerge
- additional duties are required of us by the Audit Commission
- changes are agreed with the other inspectorates.

In addition to the above fee there will be a fee for the grant claim certification work for 2004/2005. The exact fee for this work will

depend on the number and complexity of claims and at this stage it is difficult to estimate the fee since it is too early to assess the impact of strategic regulation on claims work. We will inform you of the estimated fee as soon as we are able to. The fee for the certification of 2002-03 grant claims was approximately £37,600.

## Improvement

Through our improvement planning meetings with you and the other inspectorates we have reached a shared understanding of your top priorities for improvement. This section sets out the Audit Commission's proposed activity linked to those improvement priorities. This work has been proposed after consultation with the other inspectorates to ensure our work programmes are co-ordinated and proportionate.

Improvement priority	Action proposed
Performance management	We will work with officers and members in developing an approach to performance review at management team and cabinet level. We will also review the new corporate and service planning approach used for 2004/05 in particular focussing on the extent to which it has improved the Council's focus on priorities and outcomes to feed into the further development for the 2005/06 planning cycle.
Democratic renewal	We will continue our work with the Council on this area in particular focussing on alternative ways of operating Full Council meetings.
Access to services	We will complete an inspection of the Council's approach to access to services. This work will be designed to be completed alongside the Council's Best Value Review on this subject to enable us to contribute to the Council's development in this area.
Improvement priority	Action proposed
Organisational change	We will work with officers as they implement the Council's improvement

plans to assist with the effective implementation of organisational change.
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### Voluntary improvement work

Where the council requests additional work to help with the improvement agenda we will be happy to discuss detailed proposals. The fee for this work, undertaken under section 35 of the Audit Commission Act 1998, would be agreed separately with the council.

## Assessment

### Qualitative assessment of continuous improvement

In the autumn of 2004 we will assess the progress the council has made in the last year in delivering its improvement agenda

The Audit Commission will publish an updated comprehensive performance assessment (CPA) for your council and all other councils in December 2004.

Expected outputs
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CPA improvement report
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## Assurance

### Accounts

We are required to give an opinion on your accounts. We will do this by reviewing your core processes for producing the accounts:

- the main accounting system
- the budgetary control procedures
- the final accounts closedown procedures.

We will then undertake detailed testing of the figures in the accounts.

We will undertake the following specific work to address the risks we have identified for 2004/2005. These risks may be liable to change as the 2004/2005 financial year progresses, and we will update our risk assessment and work programme during the year.

Risk	Action proposed
Non-compliance with the new accounting treatment	We will liaise with staff on the new treatment

required following the changes made by the Local Authorities (Capital Finance and Accounting) Regulations 2003.	required during 2004/05 to help to ensure the correct treatment is used.
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<b>Expected outputs</b>
SAS 610 report
Audit opinion
Final accounts report

Our work on your accounts does not seek either to obtain absolute assurance that the financial statements present fairly your financial position or assurance that they are accurate in every regard.

In this context we adopt a concept of materiality. In planning and conducting our audit of your accounts, we seek to ensure that there are no material errors in your financial statements. Material errors are those which might be misleading to a reader of the financial statements.

An unqualified opinion may not be given on financial statements that contain material misstatements. In the course of our work, we may also identify non-material misstatements that we will report to officers for amendment, unless they are clearly inconsequential. If officers do not make the required amendments, we will report the amendments to the Committee approving the financial statements so that there is an opportunity for them to be amended prior to the approval and certification of the financial statements.

## Governance

We are required to determine whether you have adequate arrangements for:

- legality
- financial standing
- internal financial control
- standards of financial conduct and preventing and detecting fraud and corruption.

The work on your governance arrangements will be linked with our improvement work identified earlier in the plan. Additionally we will undertake the following specific work to address the risks we have identified for 2004/2005.

Risk	Audit work proposed
The Council faces a number of challenges including making effective use of the £33m economic development zone monies and developing and then implementing a masterplan for the regeneration of the West End of Morecambe.	We will review the arrangements in place in relation to these projects to ensure effective management and delivery.
Along with other authorities the Council faces significant financial pressures.	We will place particular emphasis on the budget setting process and arrangements for ensuring the sustainability of initiatives such as recycling, the management of under/over spends, linkages with service plans, achievement of planned savings.
Inadequate response to new or key legislation which could lead to unlawful actions and possible financial penalties.	We will review the Council's arrangements in relation to a number of areas including the civil contingencies bill, single status requirements and money laundering.

<b>Expected outputs</b>
Governance report

## Performance management

### Overall arrangements

We will review whether you have adequate arrangements to secure economy, efficiency and effectiveness in the use of your resources.

The work on your overall arrangements will be linked with our improvement and assessment work identified earlier in the plan. Additionally we will undertake the following specific work to address the risks we have identified for 2004/2005.

Risk	Audit work proposed
Poor implementation of new financial systems resulting in loss of functionality and/or	We will review the Council's arrangements for implementing new financial systems

unreliable financial information.	including ensuring that maximum functionality is achieved.
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Additionally, we will follow-up our work from previous years to check progress on the implementation of agreed recommendations, including the 2003 housing inspection.

### Best value

We will undertake a review of your Best Value Performance Plan (BVPP) to ensure it meets the statutory requirement in respect of its content. We will issue an opinion on this plan before the end of December 2004. We will also review and comment on your systems for collecting performance information and in particular BVPIs.

<b>Expected outputs</b>
Performance information report

## Grant claim certification work

The Audit Commission has changed the certification audit regime to reduce the amount of work overall, and better link the work to assessments of risk. The benefits of this approach will begin to be achieved in our certification work later in 2004, and be fully achieved in 2005. The main changes are:

- claims for £50,000 or below would not be subject to certification
- claims between £50,001 and £100,000 would be subject to a reduced, light touch, certification audit
- claims over £100,000 would have an audit approach relevant to the auditors assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.

## The team

Name	Title
Mike Thomas	Relationship Manager
Mike Thomas	District Auditor
Fiona Blatcher	Audit Manager

Wanda Rossiter	Performance Lead
Dawn Watson	Team Leader
Robert Huntington	IT specialist

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing standards.

In relation to the audit of your financial statements, we will comply with the Commission's requirements in respect of independence and objectivity as set out at Appendix 1.

## Further details of our respective Code responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies gives further information on our respective responsibilities under the Code of Audit Practice.

## Reporting

We will provide reports, or other output as agreed, to the Audit Committee for each of the risk areas identified in the plan. Our key milestones are set out in the planned outputs section. This is prepared in draft form and will be updated regularly as work programs are agreed, and will form the basis of audit progress reports to officers and the Audit Committee.

We are also required to report relevant matters relating to the audit to those charged with governance. The following section on planned outputs shows how we will address this requirement.

## Status of our reports to the council

*Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to non-Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.*

## Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the relevant Committee.

Planned output	Start date	Draft due date	Key AC contact
Performance management report	June 2004	September 2004 (initial feedback in relation to performance review June/July 2004)	Fiona Blatcher
Access to services	June 2004	March 2005	Fiona Blatcher
Organisational change	TBA	TBA	Fiona Blatcher
SAS610 report	August 2005	October 2005	Fiona Blatcher
Audit Opinion	August 2005	October 2005	Fiona Blatcher
Final Accounts report	August 2005	November 2005	Fiona Blatcher
Governance report including financial management	February 2005	June 2005	Fiona Blatcher
			Fiona Blatcher
Financial systems implementation report	To be agreed	To be agreed	Fiona Blatcher
Performance information report	June 2004	August 2004	Fiona Blatcher
Annual audit and inspection letter, (including CPA improvement report)	October 2005	November 2005	Mike Thomas

## The Audit Commission's requirements in respect of independence and objectivity

Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with Statements of Auditing Standards (SAS) when auditing the financial statements. SAS 610.3 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.

The SAS defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Executive on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity
- exercise their professional judgement and act independently of both the Commission and the audited body
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a de minimis amount (currently the higher of £25,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the de minimis amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director
- audit staff are expected not to accept appointments as lay school inspectors
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence



- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission
- auditors are expected to comply with the Commission's policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements)
- audit suppliers are required to obtain the Commission's written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.