

Audit and Inspection Plan

Lancaster City Council

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Introduction

This plan sets out the audit work that we propose to undertake in 2005/06. The plan has been drawn up from our risk-based approach to audit planning and reflects:

- the impact of the new Code of Audit Practice which comes into effect in April 2005;
- your local risks and improvement priorities;
- current national risks relevant to your local circumstances; and
- the impact of International Standards on Auditing (UK and Ireland) (ISAs).

Your relationship manager, Michael Thomas, will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Our responsibilities

In carrying out our audit and inspection duties we have to comply with the statutory requirements governing them, and in particular:

- the Audit Commission Act 1998 and the Code of Audit Practice (the Code) with regard to audit; and
- the Local Government Act 1999 with regard to best value inspection and audit.

The Code has been revised with effect from 1 April 2005. The key changes include:

- the requirement to draw a conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
- a clearer focus on overall financial and performance management arrangements.

Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- ensuring compliance with the general duty of best value, where applicable;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the audited body's affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual Statement on Internal Control.

Further details of the new Code are set out in Appendix 1.

The fee

The total fee estimate for the audit and inspection work planned for 2005/06 is £110,760 a reduction of 11 per cent from the 2004/05 fee. The fee is based on the Audit Commission's fee guidance contained within its operational plan and reflects the Council's comprehensive performance assessment (CPA) overall score of 'fair'.

Further details are provided in Appendix 2 including the assumptions made when determining the fee.

Changes to the plan and the fee may be necessary if our risk assessment changes during the course of the audit. We will formally advise you of any changes if this is the case.

Summary of key audit and inspection risks

This section summarises our assessment and the planned response to the key audit risks which may have an impact on our objectives to:

- provide an opinion on your financial statements;
- provide a conclusion on the arrangements for ensuring value for money in the use of resources;
- provide a scored judgment on the use of resources; and
- provide a report on the Council's best value performance plan.

Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including internal audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.

The expected outputs from this work are outlined in Appendix 3.

CPA and inspections

Following the Council's classification as a 'Fair' council in January 2004 following a Comprehensive Performance Assessment inspection, we have applied the principles of strategic regulation. As a consequence of the CPA score our inspection activity will focus on the following:

- direction of travel statement; and
- environmental inspection.

SUMMARY OF INSPECTION ACTIVITY	
Inspection activity	Reason/impact
Direction of travel statement.	This is an annual piece of work carried out at all councils. It assesses the progress you are making in achieving continuous improvement. The conclusions will be included in the CPA scorecard update in December 2005.
Environment inspection	The inspection will assess progress in environmental services since the CPA inspection and how well the council is strengthening its approach to sustainable development. The inspection will use the Commission's new inspection methodology and examine if the services meet the needs of the community and users. We will discuss with you in more detail whether the inspection looks comprehensively at environmental performance or focuses on waste, transport or planning, after taking account of up to date performance indicators and other relevant information.

Use of resources

The new Code of Audit Practice requires us to undertake a use of resources assessment. This will involve reviewing five areas using a key lines of enquiry matrix covering:

- financial management;
- financial standing;
- financial reporting;
- internal controls; and
- value for money.

We are also required to issue a separate conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources. In meeting this responsibility, we will:

- review evidence that is relevant to the Council's corporate performance management and financial management arrangements; and
- consider relevant cross cutting and national risks that affect both the Council and other relevant organisations.

Using our cumulative knowledge and experience, including the results of previous work and other regulators' work, we have identified the following areas of audit risk which we will address through our use of resources work.

SUMMARY OF USE OF RESOURCES AUDIT RISKS	
Audit risk	Response
An increasing number of national and local objectives are delivered through partnerships. Effective working relationships, especially between the districts and Lancashire County Council, are key to the successful delivery of effective partnership working.	We will carry out a cross cutting review of partnership working arrangements across Lancashire to assess how well partners are working together to deliver key public services. This work will include a review of effectiveness and potential for future improvements. The scope of the work and specific probes is still to be agreed with partners.
The Council's financial position, whilst currently sound remains under pressure. The Council has highlighted that it anticipates some difficulties in financing its future revenue and capital expenditure proposals. The Council is known to be working to continue to effectively manage the position.	We will continue to review closely how the Council is developing its approach to financial management including its response to key spending pressures, and its proposals to bridge the future revenue and capital programme funding gaps.
We reviewed the Council's performance management arrangements last year and the Council is committed to improving these arrangements across a wide range of areas from improving consultation to implementing effective risk management and improving the way in which it monitors and manages performance across services and partners.	We will follow up progress against the areas for improvement raised in our report to ensure that our VFM conclusion is based upon the up to date position at the Council.
One of the Council's highest priorities is to implement the changes recommended from its review of access to services. Success in this area will be a key factor in the Council's ability to deliver its strategic objectives and will be wide ranging in its impact.	Our inspection of accessible services in June 2005 will provide us with a clear picture of how the Council is developing its approach to this. As the Council's plans proceed further we will need to consider the wider implications for the Council's financial and other resources, any legality issues and other organisational factors which would impact on a use of resources conclusion.
The Council's Regeneration activities are now developing significantly with larger schemes obtaining approval and an increasing number of partnership arrangements being entered into to deliver them.	We will review the arrangements the Council has in place to deliver its Regeneration plans with a particular focus on its accountable body role, implications for the management of the capital programme and its approach to any partnering contracts.
The Council has a range of policies and procedures in place to ensure that officers and members act in an ethical way to demonstrate good governance standards.	We will review the way in which the Council ensures compliance with its policies and procedures around such areas as codes of conduct, hospitality, fraud and corruption strategy and will consider whether specific testing of any areas is required by ourselves. This will include a brief review of how the Council is following up the results of the national fraud initiative, (NFI), data matching exercise.
To arrive at an appropriate conclusion on the Council's arrangements for ensuring legality it is important that we are aware of how the Council is responding to changes in legislative requirements.	We will review the Council's responses to relevant legislative requirements including the Local Authorities (indemnities for officers and members) Order 2004 and the Race Relations 1976 (statutory duties) Order 2001.

SUMMARY OF USE OF RESOURCES AUDIT RISKS

Audit risk	Response
The Council's Internal Audit function is a key element within its systems of internal control. Auditing standards require us to undertake a full assessment of the quality of the Internal Audit function every three years.	We will undertake a full review of internal audit against the standards laid down in the CIPFA Code for Internal Audit.

We are also required to audit your Best Value Performance Plan and provide an opinion on whether it complies with the legislative requirements. A key element of this work relates to the audit of the Council's performance indicators which we will again be auditing following liaison with your staff over the requirements and timing. We will continue to work closely with officers to try to improve the quality of performance indicators.

Financial statements

We will carry out our audit of the 2005/06 financial statements and have regard to the newly introduced ISAs.

In carrying out our audit of financial statements we are required to follow the auditing standards which are issued by the Auditing Practices Board. The APB has recently adopted a new set of auditing standards, the International Standards on Auditing (UK and Ireland), for the audit of all financial statements for periods commencing on or after 15 December 2004. The ISAs therefore apply to the audit of your financial statements for the year ended 31 March 2006.

ISAs largely reflect the previous requirements of UK auditing standards (SASs) but there are some important differences. The most significant change involves ISA 315 *Understanding the entity and its environment and assessing the risks of material misstatement*. As you have a good control environment, we have previously concentrated on your core accounting processes and generally relied upon Internal Audit work on other significant systems. With ISA 315, we need to understand where all the material figures in your accounts are derived from, what controls you have in place to detect any material errors or misstatements and ensure those are tested. This would be expensive for us to undertake and we are working closely with Internal Audit to ensure audit work is aligned to address these requirements as far as possible.

Internal Audit and ourselves have always co-operated on work to be undertaken on financial systems. However it is not sufficient to agree which systems each of us should audit. It is necessary to document the system, identify the relevant controls and ensure they are suitably tested, a process which currently involves service managers, internal audit and ultimately chief officers and members through the production of a Statement of Internal Control, (SIC). We propose initially to discuss with internal audit the arrangements in place to provide assurance for the SIC, (since IA have a co-ordinating role in this respect), the work they are currently planning to do to test systems, and the availability of system documentation. We will then seek to reach agreement with the Chief Internal Auditor and the Chief Financial Officer on the detailed approach and respective contributions needed.

We are also required to review whether the Statement of Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the Statement is misleading or inconsistent with our knowledge of the Authority.

On the basis of our preliminary work to date we have identified the following audit risks.

SUMMARY OF OPINION RISKS	
Opinion risks	Response
The requirement to achieve an earlier closedown of the accounts in 2005/06 will put increased pressure on staff and could lead to poorer quality accounts and working papers.	We will work alongside accountants to review the robustness of the closedown process and will share good practice where possible. We will be as clear as possible about the audit requirements which will follow once the accounts are closed down and will complete early testing of the accounts where it is thought this will be useful.
In 2005/06 the Council has implemented a new NNDR system from April 2005. Ensuring the accuracy of the new system and its interface with the ledger will be important to ensuring the material accuracy of the Council's accounts.	We will include the NNDR system in the list of those systems to be tested for the 2005/06 accounts.

However, we have yet to undertake the audit of the 2004/05 financial statements and our 2005/06 financial statement audit planning will continue as the year progresses. This will take account of:

- the 2004/05 opinion audit;
- our documentation and initial testing of material systems; and
- our assessment of the 2005/06 closedown arrangements.

When we have finalised our risk assessment in respect of your financial statements, we will update our plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

Grant claim certification

We will continue to certify the Council's grant claims.

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

Voluntary improvement work

There may be potential for us to undertake voluntary improvement work in the following areas in 2005/06. In particular we could:

- Assist the Council complete a self assessment of its financial management against CIPFA's Improvement through better financial management (ITBFM) model. This model is not about improving financial management for its own sake; it is really concerned with how better financial management helps authorities to improve services and community outcomes.

If agreed, work specifications and fees will be agreed with the appropriate officers.

The team

Name	Title
Michael Thomas	Appointed Auditor and Relationship Manager
Fiona Blatcher	Audit Manager
Wanda Rossiter	Area Performance Lead
Dawn Watson	Audit Team Leader

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 and ethical 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 4.

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 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.

ISA 260 ('Communication of audit matters to those charged with governance') requires us to report relevant matters relating the audit to those charged with governance. For the Council, we have previously agreed that this responsibility will be discharged by reporting relevant matters to Performance Improvement Community Forum

The new Code of Audit Practice

The Audit Commission's objectives in revising the Code

The Commission's objectives in revising the Code are to achieve the following key outcomes:

- a more streamlined audit targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, with a focus on audited bodies' corporate performance and financial management arrangements; and
- better and clearer reporting of the results of audits.

The new Code has been developed on the basis of the Commission's model of public audit, which defines auditors' responsibilities in relation to:

- the financial statements of audited bodies; and
- audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources.

The main changes being made through the introduction of the new Code

The main changes being introduced through the new Code are:

- auditors' three responsibilities under the old Code, in relation to the financial aspects of corporate governance, the accounts and performance management, will be replaced by two responsibilities in relation to the accounts and use of resources, thereby mirroring their statutory responsibilities under the Audit Commission Act 1998. Auditors' work in relation to the financial aspects of corporate governance will in future largely be covered by their work on the accounts – reflecting recent developments in auditing standards – with audit work in relation to financial standing carried out as part of the work in relation to the use of resources;
- a clear focus, in auditors' work on audited bodies' arrangements for the use of resources, on overall financial and performance management arrangements. This work supports a new requirement for an explicit annual conclusion by the auditor in relation to audited bodies' arrangements for securing value for money in the use of their resources;
- a more explicit focus on improvement (through the risk assessment process) and on the need for auditors to have regard to the risks arising from audited bodies' involvement in partnerships and joint working arrangements and, where appropriate, to 'follow the public pound' into and across such partnerships;
- an emphasis on clearer, more timely reporting based on explicit conclusions and recommendations; and
- a new style narrative audit report to meet statutory and professional requirements.

Audit and inspection fee

Audit area	Plan 2004/05	Plan 2005/06
	£	£
Accounts	*	31,990
Use of resources	*	67,420
Total audit fee	109,870	99,410
Inspection	14,730	11,350
Total audit and inspection fee	124,600	110,760
Estimate for grant claim certification	36,000	36,000
Voluntary improvement work	0	0

* Comparative information is not available for 2004/05 due to the change in the Code of Audit Practice which has reduced the three areas under the old Code to two areas.

The fee (plus VAT) will be charged in 12 equal instalments from April 2005 to March 2006.

Assumptions

In setting the fee we have assumed:

- you will inform us of significant developments impacting on our audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all material systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing;
- officers will provide good quality working papers and records to support the accounts;
- officers will provide requested information within agreed timescales; and
- officers will provide prompt responses to draft reports.

Where these requirements are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.

Changes to the plan will be agreed with you. These may be required if:

- new risks emerge; and
- additional work is required of us by the Audit Commission or other regulators.

Planned outputs

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

Planned output	Start date	Draft due date	Key contact	Officer key contact
Audit plan*	February 2005	April 2005	Michael Thomas	Roger Muckle
Interim audit memorandum	March 2006	June 2006	Fiona Blatcher	Roger Muckle
BVPP opinion and PI audit memorandum	May 2005	October 2005	Fiona Blatcher	Richard Tulej
Report to those charged with governance (ISA 260)	August 2006	September 2006	Fiona Blatcher	Roger Muckle
Final accounts memorandum	1 July 2006	October 2006	Fiona Blatcher	Nadine Muschamp
Use of resources judgement	April 2005	October 2005	Fiona Blatcher/Wanda Rossiter	Nadine Muschamp
Performance management follow-up memorandum	June 2006	July 2006	Fiona Blatcher/Wanda Rossiter	Peter Loker
Environment inspection	TBA	TBA	Wanda Rossiter	Peter Loker
Annual audit and inspection letter (including direction of travel assessment)	October 2006	December 2006	Michael Thomas	Roger Muckle

* To be revisited during the year to reflect outcome of 2004/05 final visit and 2005/06 interim visit.

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 ISAs when auditing the financial statements. ISA 260 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. Ethical standard 1 also places requirements on auditors in relation to integrity, objectivity and independence.

The ISA 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 Board 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; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under s 35 of the Audit Commission Act 1998.

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; and
- 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.