

Audit and Inspection Plan

---

Date

---

Last saved: 15/06/2006 15:49:00

# **Audit and Inspection Plan**

**Lancaster City Council**

**Audit 2006/2007**

### **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.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

# Contents

<b>Introduction</b>	<b>4</b>
Our responsibilities	4
<b>The fee</b>	<b>5</b>
<b>CPA and inspections</b>	<b>6</b>
<b>Summary of key audit risks</b>	<b>7</b>
Value for money conclusion	8
Use of resources judgement	8
Performance information	12
Best value performance plan	12
Financial statements	13
Whole of government accounts	14
<b>Claims and returns certification</b>	<b>15</b>
<b>Voluntary improvement work</b>	<b>16</b>
<b>Other information</b>	<b>17</b>
Outputs from the audit and inspection plan	17
The team	17
<b>Appendix 1 - Audit and inspection fee</b>	<b>18</b>
Specific audit risk factors	18
Assumptions	19
Specific actions Lancaster City Council could take to reduce its audit fees	19
Process for agreeing any changes in audit fees	20
<b>Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources</b>	<b>21</b>
<b>Appendix 3 – Planned outputs</b>	<b>23</b>
<b>Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity</b>	<b>24</b>

## Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake in 2006/07. The plan has been drawn up from our risk-based approach to audit planning and reflects:
  - the Code of Audit Practice;
  - Audit and inspection work specified by the Audit Commission for 2006/07;
  - your local risks and improvement priorities; and
  - current national risks relevant to your local circumstances.
- 2 Your relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

## Our responsibilities

- 3 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;
  - 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.
- 4 The Code 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. Auditors are now required to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources. We will give the first such conclusion by September 2006 as part of the 2005/06 audit.

## The fee

- 5 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 6 Inspection fees are based on the actual number of days included in the plan for each programmed activity.

The total fee estimate for the audit work planned for 2006/07 is £107,665 and the total fee estimate for inspection work planned for 2006/07 is £2,858, a combined total of £110,525. This compares with a total audit and inspection fee of £116,260 in 2005/06. In addition we estimate that we will charge approximately £42,310 for the certification of claims and returns. Further details are provided in Appendix 1.

- 7 The audit and inspection fees include all work identified in this plan unless specifically excluded. Further details are provided in Appendix 1 which includes specific audit risk factors, the assumptions made when determining the audit fee, specific actions Lancaster City Council could take to reduce its audit fees and the process for agreeing any additional fees.
- 8 Changes to the plan and the fee may be necessary if our audit risk assessment changes during the course of the audit. This is particularly relevant to work related to:
  - the opinion on the 2006/07 accounts since we have yet to audit the accounts for 2005/06 and detailed financial reporting requirements for 2006/07 are not yet known; and
  - work on selected performance indicators, since we have yet to assess your overall arrangements for securing the quality of this data and then to undertake a formal risk assessment under our new methodology.
- 9 We will formally advise you if any changes to the fee become necessary.

## CPA and inspections

- 10 The CPA framework for District Councils from 2006 is currently subject to consultation. It is expected that the proposed methodology will be published during 2006 and that the opportunity for re-categorisation will be available for some councils during 2006/07.
- 11 If the new methodology identifies the need or opportunity for a revised corporate assessment for Lancaster City Council, we will discuss an amendment to this plan and agree an additional fee for completion of the work.
- 12 Following the Council's classification as a Fair council in 2004 we have applied the principles of strategic regulation recognising the key strengths/weaknesses in the Council's performance. During 2005 we reported that:
- The Council is addressing the areas of weakness identified in the corporate performance assessment of 2004. Stronger corporate governance arrangements are resulting in more productive decision making. Financial stability has been maintained through continued improvements in financial management and control. A consistent vision and clear priorities are providing a good strategic direction and attracting the commitment of staff, councillors and partners. Strengthened internal structures are supporting better analysis of weak areas so that the Council can focus its efforts and resources more efficiently. This is leading to improved outcomes in targeted service areas such as benefits; planning, housing and customer access.
  - Despite the Council's efforts, public satisfaction, when last tested, with its services overall was low especially in areas of local priority such as street cleaning. Whilst a number of changes are being made at a corporate level to support improvement, for example around performance management and workforce planning, these are not yet effectively and consistently in place across the Council. An environment inspection covering waste management is to be undertaken shortly as part of our agreed 2005/06 audit and inspection plan.
- 13 As a consequence our inspection activity for 2006-07 will focus on those areas highlighted below:

**Table 1 Summary of inspection activity**

Inspection activity	Reason/impact
Relationship Manager role	To act as the Commission's primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, Government Offices and other key stakeholders.
Direction of Travel review	To provide focus for continuous improvement. Likely to be included in CPA scorecard.

## Summary of key audit risks

- 14 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 your use of resources;
  - provide a scored judgement on the use of resources to feed into the CPA process;
  - undertake audit work in relation to specified performance indicators to support the service assessment element of CPA; and
  - provide a report on the Council's best value performance plan (BVPP).
- 15 In assessing risk our approach to audit planning requires us to identify audit work that is relevant to your significant business risks that are not adequately controlled. The start point for this is the audited body's business risks. Business risks are defined by the Code of Audit Practice as "risks to the achievement of the audited bodies statutory functions and objectives".
- 16 To consider the significance of the risk we need to consider what the impact would be if the risk came to fruition both in terms of qualitative and quantitative measures.
- 17 If in our judgement risks are not likely to have a significant (or material) impact on the audited body then there is no further work required for us to do.
- 18 In order to identify such risks we have carried out the following:
  - reviewed your risk register
  - reviewed your corporate plan
  - reviewed budget documents - to identify new projects or risks, or general financial management risks
  - reviewed agenda papers/minutes of meetings - board/council/committees and officer groups
  - ongoing discussions with key officers at the Council
  - considered the issues raised within the Audit Commission's Auditor Briefing which highlights a number of national risks which may be relevant at Lancaster City Council
  - reviewed the results of the prior year audit work.
- 19 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.



## Value for money conclusion

- 20 The Code of Audit Practice requires us to issue a conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources (the value for money conclusion). The Audit Commission has developed relevant criteria for auditors to apply in reaching our value for money conclusion as required under the Code of Audit Practice. These criteria are listed in Appendix 2. In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. We will give the first such conclusion by the end of September 2006 as part our audit of the 2005/06 accounts. This may influence our risk assessment for similar work to be carried out as part of the 2006/07 and we will keep you informed of any changes to this plan that may become necessary.

## Use of resources judgement

- 21 Over and above the Code requirements described above, the Audit Commission requires auditors to make more qualitative assessments of the effectiveness of those arrangements in the form of a series of use of resources judgements. The key lines of enquiry (KLOEs) issued in June 2005 will be updated in Spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment. Our fee estimate 2006/07 assumes that the KLOEs will be broadly similar to those used in 2005/06. If this changes we will discuss with you the implications, including any impact on the fee.
- 22 These judgements may also be used by the Commission as the basis for its overall use of resources judgement.
- 23 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 to be addressed.

**Table 2 Summary of use of resources audit risks**

Audit risk	Response
<p><b>Financial Reporting</b> - the following key improvement areas were identified:</p> <ul style="list-style-type: none"> <li>• Continued efforts needed to meet earlier deadlines including any deadlines agreed with auditors</li> <li>• Ensuring accounts are free from all but trifling errors</li> <li>• Promoting external accountability through consultation on and publishing a summary of accounts.</li> </ul>	<p>As part of our annual use of resources assessment we will follow up what progress has been made in further strengthening financial reporting arrangements.</p>



Audit risk	Response
<p><b>Financial Management</b> - a number of areas were identified for improvement including further development of medium term financial planning particularly with partners, budget monitoring particularly around partnerships and efficiency gains, improving performance measurement of the Council's assets and ensuring whole life costing is applied consistently to investment and disposal decisions.</p> <p>Implementation of the Council's plans for accessible services and the equal pay review will have a significant implication for the Council's financial plans which will need to be reflected in any future financial planning.</p> <p>The Council has a growing capital programme and a history of slippages on its programme. The risk of increased slippages and the knock on effect for achieving its objectives are thereby inherently increased. In addition prudential borrowing is now planned and it will be important to ensure that this is effectively managed.</p>	<p>We will review the Council's progress in strengthening financial management arrangements as part of our annual assessment of Use of Resources.</p> <p>We will review the extent to which the Council has been able to estimate the likely financial impact and the subsequent actions taken to ensure affordability in the medium to longer term as part of our annual use of resources work.</p> <p>We will review the position on management of the capital programme and the reasons for any slippages, and the way in which the Council is planning to record and control any prudential borrowing as part of our annual use of resources work.</p>
<p><b>Financial Standing</b> - areas for improvement include setting and monitoring income collection targets for all categories of debt, reviewing the effectiveness of recovery actions and costs with arrears monitoring reports, identifying key indicators of financial health and setting targets for monitoring purposes and where target levels of reserves/balances are exceeded that opportunity costs and benefits are reported to members.</p>	<p>As part of our annual use of resources assessment we will follow up what progress has been made in further strengthening financial standing arrangements including how the Council continues to respond to new spending pressures as they arise.</p>

Audit risk	Response
<p><b>Internal Control</b> - key areas for improvement included embedding risk management into corporate business planning processes and extending it to significant partnerships, further develop arrangements for the audit committee including supporting it to become more pro-active, ensure there are annual review processes for procedure for business critical systems, further development of fraud risk registers, and review the effectiveness of whistleblowing procedures.</p> <p>The Council was in the early stages of business continuity planning in 2005. This is a key area which needs to be developed to reduce risks to the Council to be able to sustain its delivery.</p> <p>In the recent management re-structure the monitoring officer role has been affected. It will be important that the monitoring officer function continues to be delivered appropriately within the Council.</p> <p>The ODPM have recently produced a national code of conduct for employees. The Council will need to review these and consider its own arrangements for ensuring the proper conduct of its employees in this context.</p> <p>There is a range of new responsibilities/requirements for local government relating to new legislation which the Council will need to respond to.</p>	<p>We will review the Council's progress in strengthening internal control arrangements as part of our annual assessment of Use of Resources.</p> <p>We will review the progress made in respect to business continuity planning as part of our annual use of resources work.</p> <p>We will review the impact of the change in arrangements for the monitoring officer role to ensure that they remain adequate.</p> <p>We will review how the Council has responded to the national code of conduct for employees and the adequacy of any changed arrangements which the Council has chosen to implement.</p> <p>We will review how the Council has responded to a range of legislation including the Race relations Act, Local Authorities Indemnities Act and new EU procurement directives.</p>

Audit risk	Response
<p>The Council is entering into various agreements relating to the regeneration of the West End of Morecambe. There are likely to be implications for the internal control of the organisation around these.</p> <p>High ethical standards are a cornerstone of good governance. The Council is considered to take this very seriously and has appropriate policies and procedures in place. We are unclear however, how well understood they are within the Council.</p>	<p>We will continue to keep track of development of the arrangements for regenerating the West End, reviewing their potential impact and the arrangements for managing any risks therein to inform our annual use of resources work.</p> <p>We will conduct a web based survey of members and officers focussing on compliance with codes of conduct, awareness and understanding of ethical and ethical behaviour.</p>
<p><b>VFM</b> - key areas to strengthen include:</p> <ul style="list-style-type: none"> <li>• obtaining further improvements in service performance and user satisfaction,</li> <li>• develop VFM comparisons across all service areas and undertake benchmarking of costs and quality</li> <li>• strengthen the emphasis on VFM in business planning and performance management arrangements including taking into account equity considerations, developing best practice approaches in procurement</li> <li>• continue to exploit the opportunities of ICT to enhance process efficiency across all service areas</li> <li>• strengthen monitoring of achievement of efficiency gains.</li> </ul> <p>The Council is implementing a range of ambitious plans to improve services and the area of Lancaster District and Morecambe. These include significant changes to the way in which the Council is currently organised to deliver services and carries with it a need for a strong and effective approach to Human Resources, (HR) management to support those changes. Recently</p>	<p>We will review the Council's progress in strengthening VFM arrangements as part of our annual assessment of Use of Resources.</p> <p>We will review the new arrangements for the strategic management of HR focussing on how it is intended that these will best support the Council's plans for organisational and cultural change and plans for progressing workforce planning and ensuring fit for purpose HR policies are in place.</p>

Audit risk	Response
new arrangements have been made for the strategic management of HR and a new HR team manager has been appointed. Current issues include limited progress made in workforce planning, relatively high, (although reducing), sickness levels and the appropriateness of some key HR policies in the current environment.	
New systems in place surrounding the Local Area Agreement (LAA) for the Lancashire Area do not mitigate all of the risks arising from partnership working.	We will review the LAA arrangements covering governance and financial issues through the use of the Commission's risk diagnostic tool.

## Performance information

- 24 In 2006/07, auditors are required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA, subject to the basis of the agreed methodology. This work will be risk based and will link at least in part to our review of the Council's overall arrangements to secure data quality (as required for our value for money conclusion). Our fee estimate includes an element for this work on the basis that we will assess Lancaster City Council as medium risk in relation to its performance indicators. For 2006/07 there are new requirements in respect of our audit of your performance indicators based on a three stage approach. We must:
- undertake a review of overall management arrangements to secure data quality
  - perform a completeness check of reported performance information, including an arithmetic check of calculations for CPA indicators
  - undertake data quality spot checks, comprising a more in-depth review of specified performance indicators.
- 25 This risk assessment may change depending on our assessment of your overall arrangements. When we have finalised our risk assessment we will update our plan including any impact on the fee.

## Best value performance plan

- 26 We are required to report on whether or not you have complied with legislation and statutory guidance in respect of the preparation and publication of your Best Value Performance Plan (BVPP).

## Financial statements

- 27 We will carry out our audit of the 2006/07 financial statements and follow the International Standards on Auditing (UK & Ireland).
- 28 We are also required to review whether the Statement on 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.
- 29 On the basis of our preliminary work to date we have identified the following audit risks.

**Table 3 Summary of Opinion risks**

Opinion risks	Response
<p>The 2006/07 financial statements will be based on the 2006 Statement of Recommended Practice (SORP). The draft SORP currently includes a number of significant amendments to the existing SORP, in particular around the capital financing charge, the consolidated revenue account, and the revaluation reserve.</p>	<p>We will work closely with the Council's Accountancy Section to ensure that it is fully aware of the proposed changes and will review the authority's closedown arrangements to ensure that there is sufficient resource in the plan to address the necessary changes.</p> <p>We will be holding local final accounts workshops which will focus on any proposed changes.</p>
<p>The Council is currently pursuing the creation of a third party company to manage the Storey Institute for Creative Industries. Depending on the relationship of the Council with the proposed company and the materiality of any interest the Council has in the company, there may be a requirement for the Council to prepare group accounts.</p>	<p>We will work closely with the Council's accountancy section to ensure that the accounting implications are properly considered and fully understood and will share examples of approaches to meet the SORP requirements in this regard.</p>

- 30 Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will continue to improve and that internal audit will complete their planned work on key information systems to the agreed quality and by the agreed date and that the accounts will be prepared and fully supported by working papers by June 2007.
- 31 We have yet to undertake the audit of the 2005/06 financial statements and our 2006/07 financial statements audit planning will continue as the year progresses. This will take account of:
  - the 2005/06 opinion audit;

- our documentation and initial testing of material information systems;
  - our assessment of the 2006/07 closedown arrangements; and
  - any changes in financial reporting requirements.
- 32 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.

## Whole of government accounts

- 33 The government is introducing whole of government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required for each authority. Audit requirements for the 2005/06 WGA returns have been established and the Audit Commission has written to the Council in relation to this work together with the fee implications. For 2006/07 the arrangements are not yet clear and the fee for auditing the 2006/07 returns is not included in this plan. We will discuss this with the Corporate Director (Finance and Performance) and the Chief Financial Officer when further details are available.

DRAFT



## Claims and returns certification

34 We will continue to certify the Council's claims and returns.

- 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.

Charges for this work are based on skill-related fees scales set out in the Audit Commission's work programme and fee scales 2006/07. Based on this, and on the assumption that the number of grant claims will remain at a similar level and a continuing good control environment for the preparation of claims, we estimate that the fees for grant certification work will be around £42,310.

DRAFT



## Voluntary improvement work

We are not proposing to do any voluntary improvement work at Lancaster City Council during 2006/07.

DRAFT

## Other information

### Outputs from the audit and inspection plan

- 35 The expected outputs from our planned audit and inspection work are listed in Appendix 3.

### The team

**Table 4**

<b>Name</b>	<b>Title</b>
M Thomas	District Auditor and Relationship Manager
W Rossiter	Area Performance Lead
F Blatcher	Audit Manager
D Watson	Team Leader

- 36 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.
- 37 We comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

## Appendix 1 - Audit and inspection fee

**Table 5**

Fee estimate	Plan 2006/07	Plan 2005/06
Audit		
Accounts	32,435	37,490**
Use of resources	75,230	67,420
Total audit fee	107,665	104,910
Inspection	0	*
Relationship management (net)	1,435	*
Service inspection (net)	0	*
Direction of travel (net)	1,423	*
Total inspection fee (net)	2,858	11,350
Total audit and inspection fee (net)	110,525	116,260
Certification of claims and returns	42,310	40,290
Voluntary improvement work	0	0

\* Comparative information is not available for 2005/06 due to the changed fee structure.

\*\* The 2005/06 accounts fee has been increased since the originally agreed plan due to the impact of the ISAs on the work required for the opinion

The total audit fee compared to the indicative fee banding equates to 3% per cent below mid-point.

- 38 The fee (plus VAT) will be charged in 12 equal instalments from April 2006 to March 2007.
- 39 The fee above includes all work contained in this plan except:
- any work required in relation to the Whole of Government Accounts (discussed in paragraph 35); and
  - any specific work required for CPA in 2006/07.

### Specific audit risk factors

- 40 In setting the audit fee we have taken account of the following specific risk factors:

- issues highlighted as part of our Use of Resources assessment; and
- specific plans with a potential significant financial and organisational impact including accessible services and regeneration plans.

## Assumptions

- 41 In setting the audit 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 information 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 (ISA);
  - officers will provide good quality working papers and records to support the financial statements by the beginning of July
  - officers will provide requested information within agreed timescales;
  - officers will provide prompt responses to draft reports; and
  - your Performance Indicators will be adequately prepared and reviewed.
- 42 The key lines of enquiry (KLOEs) issued in June 2005 will be updated in Spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment.
- 43 Where these requirements are not met or our assumptions change, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 44 Changes to the plan will be agreed with you. These may be required if:
- new risks emerge;
  - additional work is required of us by the Audit Commission or other regulators; and
  - there are any changes to financial reporting requirement, professional auditing standards or legislation which results in additional work.

## Specific actions Lancaster City Council could take to reduce its audit fees

The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. In developing this plan, initial thoughts have already been shared with the Council's officers and the following reductions have been agreed and are reflected in the fee shown in Appendix 1:

- the Council is going to complete a self assessment of its progress on democratic renewal which will include a survey of members. This will reduce audit time needed to follow up on progress and impact since our original report and has reduced the fee by £5,500: The self assessment will be shared with us and will inform our review of the Council's direction of travel
  - actions are continuing to further improve the working papers provided and the quality of the Council's financial statements. We have estimated a further reduction of £5,500 although if there are issues this may need to be renegotiated.
- 45 Actions which are currently being taken and which could impact on audit fees in the future relate to ensuring effective quality assurance processes are in place to ensure the accuracy of performance information.

## **Process for agreeing any changes in audit fees**

- 46 If we need to amend the audit or inspection fees during the course of this plan we will firstly discuss this with the Corporate Director (Finance and Performance). We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

## **Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Arrangements for establishing strategic and operational objectives**

- 1 The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

### **Arrangements for ensuring that services meet the needs of users & taxpayers, and for engaging with the wider community**

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

### **Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality**

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

### **Arrangements for ensuring compliance with established policies, procedures, laws and regulations**

- 5 The body has put in place arrangements to maintain a sound system of internal control.

### **Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working**

- 6 The body has put in place arrangements to manage its significant business risks.

**22** Audit and Inspection Plan | Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

**Arrangements for ensuring compliance with the general duty of best value**

- 7 The body has put in place arrangements to manage and improve value for money.

**Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body**

- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

**Arrangements for ensuring that the audited body’s affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud & corruption**

- 12 The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.



## Appendix 3 – Planned outputs

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

**Table 6**

<b>Planned output</b>	<b>Start date</b>	<b>Draft due date</b>	<b>Key contact</b>
Audit and Inspection Plan	February 2006	April 2006	Audit Manager
BVPP opinion and PI audit memorandum	TBA	31st December 2006	Audit Manager
Report on financial statements to those charged with governance (ISA 260)	July 2007	September 2007	Audit Manager
Opinion on financial statements	July 2007	September 2007	Audit Manager
VFM conclusion	ongoing	September 2007	Performance Lead
Final accounts memorandum	July 2007	October 2007	Audit Manager
Ethical Governance survey output	TBA	TBA	Audit Manager
HR Management review	August 2006	November 2006	Performance Lead
Direction of Travel assessment for inclusion with 2005/06 annual audit and inspection letter	October 2006	TBA	Performance Lead
Annual audit and inspection letter	October 2007	TBA	District Auditor and Relationship Manager

## Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISA UKIs when auditing the financial statements. Professional standards require 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. Standards also place requirements on auditors in relation to integrity, objectivity and independence.
- 2 The standards define ‘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 Council on matters which are considered to be of sufficient importance.
- 3 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.
- 4 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.
- 5 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.