

Hart District Council

Prepared by: Henry Arthurs, David Dobbs and Tim Savill

Audit and Inspection Plan 2004/05

September 2004



CONTENTS

	Page
<u>1</u> <u>Introduction</u>	1
<u>2</u> <u>Responsibilities of the Auditors</u>	3
3 Assessment of risks	4
4 Audit timetable, products and fees	16
5 Certification of returns	19
6 Communication of audit matters to those charged with governance	20

Appendices

- 1 Responsibilities of the Authority in relation the audit
- 2 Declaration of auditor independence and objectivity

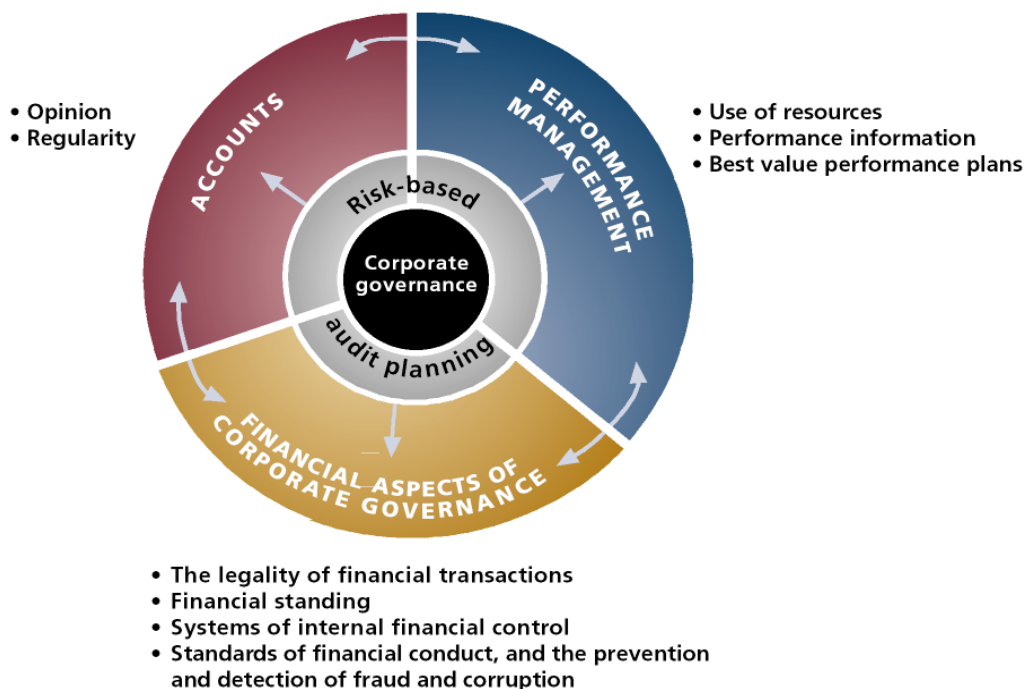
1 INTRODUCTION

- 1.1 Those who are responsible for the conduct of public business and for managing public resources are accountable for ensuring that business is conducted in accordance with the law and proper standards. This responsibility extends to ensuring that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. In discharging this accountability, public bodies and their management are responsible for establishing proper arrangements for governance of their affairs and the stewardship of resources at their disposal.
- 1.2 External audit in the public sector provides for an independent assessment on public bodies' financial statements and aspects of the arrangements established to ensure the proper conduct of financial affairs and performance of the use of resources.
- 1.3 The Audit Commission regulates the audit of local government, appoints external auditors to bodies and provides direction on the scope and requirements of the audit. Rapid changes are taking place in how public services are delivered, and how public bodies are regulated. The Audit Commission has responded with the new deregulatory approach of Strategic Regulation – minimising the burden of regulation while maximising the improvement in services to users.
- 1.4 This document sets out the work that we are required to undertake in accordance with the Audit Commission's Code of Audit Practice and our planned approach to the audit period from April 2004 to March 2005 for Hart District Council ("the Authority").
- 1.5 The Audit Commission has appointed a Relationship Manager for 2004/05 for Unitary, County and District councils to ensure that local authorities receive a tailored and seamless service in the delivery of audit and inspection services, including the work of other Inspectorates. The Relationship Manager will be the Audit Commission's primary contact with the local authority in co-ordinating the planning and delivery of local audit and inspection work, although the External Auditor will remain the principal contact regarding audit work.
- 1.6 This has resulted in the Audit Commission reviewing the Code of Audit Practice, as shown in section 2, to identify the 'Core Audit' requirements to be delivered by the appointed External Auditor and those areas to be delivered in collaboration with the Relationship Manager. The Core Audit has been defined as:
- Accounts and financial systems
 - Financial aspects of corporate governance
 - Best value performance plan
 - Best value performance indicators.
- 1.7 The Relationship Manager will lead the work in the following areas:
- CPA
 - Improvement planning and progress reporting (qualitative assessments)
 - Audit Commission inspections
 - Assessments and inspections to be undertaken by other Inspectorates.

- 1.8 Since the Audit Commission has changed the audit year, we are producing this plan early in the financial year rather than towards the end of the financial year as previously required. Inevitably, over this longer time period our assessment of risks and work required is subject to more uncertainty. We will therefore keep the plan and our assessment of risks under regular review, and will discuss any changes to our planned work with the Authority.
- 1.9 A summary of the Code of Audit Practice objectives and responsibilities in relation to the audit is included in section 2. We consider the Authority's business risks and their impact on audit risk, together with our objectives and planned work in section 3. Section 4 describes the audit timetable and outputs for delivery with our staffing requirements and planned fee. Section 6 includes our proposals for communicating our audit findings with the Authority and a declaration of our independence and objectivity.

2 RESPONSIBILITIES OF THE AUDITORS

2.1 Our responsibilities as the auditors are set out in the Audit Commission Act 1998 and the Audit Commission’s Code of Audit Practice (“the Code”). Audit work is directed at the following areas:



2.2 In planning our work we are required to consider and assess the operational, financial and control risks facing the Authority, the extent to which the Authority has addressed those risks, the residual business risks and any proposed work to be undertaken by the Authority or other bodies. Residual risks are classified as either audit risks, where the auditor must do work to meet their Code responsibilities, and audited body risks, where the auditor may be in a position to assist the audited body. Planned audit work that is not a Code audit risk is reported separately.

2.3 A more detailed description of the responsibilities of auditors and the Authority is given in the Audit Commission’s booklet “Statement of responsibilities of auditors and audited bodies”. A summary of this document is shown at Appendix 1.

3 ASSESSMENT OF RISKS AND PLANNED WORK

Introduction

- 3.1 Hart District Council is one of eleven district councils in Hampshire and serves a population of approximately 83,500. The district is regarded as being relatively prosperous and enjoys high levels of employment and above average earnings. National indicators of deprivation have recorded the district as being one of the least deprived areas of the country. This has resulted in the Authority receiving one of the lowest rates Revenue Support Grant awards from central Government for a number of years.
- 3.2 The Authority continues to face an increasing number of challenges going forward and, where relevant, we will address these risks through our cyclical audit work and report to officers and members on any significant findings. We have commented below on how we plan to address local risks and also those emerging from the national agenda.

Current Issues

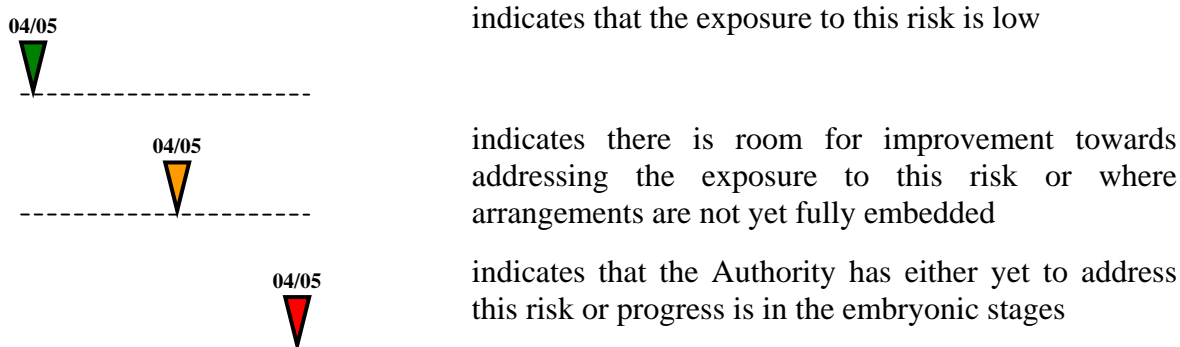
- 3.3 The 2003/04 year was a busy one for the Authority and early 2004 has seen the Authority finalise its structures and staffing arrangements following reorganisation. This will see the Authority led by the Chief Executive and three Corporate Directors, with a number of departments being realigned internally and also numerous staff changes. The remainder of the 2004 year will therefore be a year in which the Authority will be seeking to bed down the new arrangements and at the same time maintain focus on the improvement agenda following its 'fair' CPA score.
- 3.4 For 2004/05 the Authority has maintained its focus on prudence continuing to set a council tax increase that is amongst the lowest nationally. This has been in the face of increased financial pressures partly due to the lack of government grant but also because of the costs of restructuring.

Risks emerging from the National Agenda

- 3.5 The Audit Commission's National Risk Assessment Tool has been produced to summarise key national risks and we have assessed these risks against the arrangements that the Authority has established to manage and address those risks (*refer pages 14 & 15*). These risks relate to the following issues:
- Performance management
 - Financial management arrangements
 - Council tax increases
 - Emergency planning
 - E-government implementation
 - Workforce Code of Practice.
- 3.6 Where there is a residual audit risk we have discussed this with management to agree whether we should:
- carry out detailed substantive work
 - defer further work in the light of planned work by the Authority
 - bring the risk to the attention of management but propose no audit work at this time.

Planned audit work

3.7 The risks that we have considered relevant to 2004/05 and our planned audit work are documented in the table below. Each *inherent risk* is detailed in italics and we have rated the residual audit risk using the arrow rating system, where:



3.8 We have also included the risk assessment for 2002/04, where relevant, for each inherent risk to allow management to track progress in addressing each business risk (*refer pages 9 to 15*).

3.9 These assessments are based on our discussions with key officers, our document reviews and our knowledge of the Authority. However, the concept of risk assessment is an on-going exercise and may be subject to change during the audit period.

3.10 Where the Authority or other party has confirmed that it will be undertaking work to address specific risks we have not planned any work other than to review the outcome of this work. This process allows us to prepare a plan that properly tailors the nature and conduct of audit work to the specific circumstances of the Authority. This also ensures that audit effort is directed to those areas of greatest risk and in a way that enables us to meet our Code responsibilities.

Improvement and Assessment work

Strategic regulation

3.11 Strategic regulation is at the core of the Audit Commission’s plans. It is a new more focused and more risk-based approach that 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.

3.12 We intend to demonstrate the benefits of strategic regulation in your audit and inspection programme by aligning our work to the outcomes of the Comprehensive Performance Assessment.

The Audit Commission's responsibilities

- 3.13 In carrying out inspection work we comply with the statutory requirements governing it, in particular the Local Government Act 1999.
- 3.14 We will continue to work with the Authority throughout the improvement planning process to ensure that the work of the Audit Commission, other inspectorates and Baker Tilly is co-ordinated and targeted at the Authority's key areas for improvement.

Improvement and Assessment

- 3.15 Improvement planning understandably got off to a slow start owing to a combination of restructuring, the Chief Executive's maternity leave and the potential impact of the June elections. However, since the Chief Executive's return and the appointment of the corporate directors there has been significant momentum and improvement priorities have now been determined. Councillors approved the improvement priorities plan on 2 September 2004. The Authority will publish these for residents and partners over the next 3 months.
- 3.16 It is now important to articulate and underpin these priorities with:
- Clear success criteria
 - Mainstreamed performance monitoring
- 3.17 Through the Audit Commission's improvement planning meetings with the Authority and 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/activity	Action proposed
Effective partnerships & communications with stakeholders	<ul style="list-style-type: none"> • Inspection – relationships with customers, partners & stakeholders, communications & consultation .
Housing	<ul style="list-style-type: none"> • Critical friend in developing strategies for improvement • Assessing progress for direction of travel reporting (see below).
Housing Benefit	<ul style="list-style-type: none"> • Inspection scheduled from Benefit Fraud Inspectorate (this is separately funded)

- 3.18 Additionally, the Audit Commission will follow-up work from previous years to assess the Authority's progress with the implementation of agreed recommendations.

Direction of Travel

- 3.19 The Audit Commission will monitor progress against the Authority's improvement plans through quarterly meetings with the Authority, with frequent progress discussions with the Authority's policy officer, and by review of the Authority's own monitoring reports. We

will assess progress to date and produce a published Direction of Travel report in accordance with the Audit Commission's guidance.

Reporting

- 3.20 In addition to the Direction of Travel report, the Commission will publish inspection reports as appropriate.

Topic	Audit and Inspection Programme		
	2004/05	2005/06	2006/07
Headline theme/corporate objective			
Improvement activity	Audit/inspection response		
High quality services			
To improve delivery of benefits service	BFI inspection in November 2004	Assistance provided by BFI/DWP via access to: <ul style="list-style-type: none"> • Performance standards fund • Performance improvement teams 	
Putting our customers first: Effective partnerships & communications with stakeholders	Inspection of Customer access planned for January 2005		
Meeting the development needs of the district – including affordable housing		Sustainable development inspection	
How clean is the locality?			Environmental inspection (waste)
Housing	Assistance with Housing strategy in September 2004		
Performance Management-improved performance systems will drive improved outcomes.	Supporting bids for capacity funding e.g., PMMI action research		




Additional Assistance

- 3.21 ODPM/GOSE have also attended our joint planning meeting and are able to offer assistance in the following areas:
- LSP – sharing good practice
 - Change programme support
 - Support for capacity building
 - Support with housing provision and local development framework
- 3.22 As Hart has been designated as a Planning Standards authority for not meeting performance thresholds for processing planning applications the Government Office will monitor progress against improvement targets on a quarterly basis. We will refer to this in our direction of travel report.





Voluntary improvement work

- 3.23 If the Authority requests additional work to help with the improvement planning agenda, we would 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 Authority.
- 3.24 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.

Summary of Code of Audit Practice risks and planned audit work

Audit objective	Residual Risk			Proposed further work
Provide an opinion on your statement of accounts as to whether they: <ul style="list-style-type: none"> • present fairly the financial position • have been prepared in accordance with legislation and accounting standards 	Low		High	
<i>Proper accounting records are not maintained</i>	04/05  02/04			<ul style="list-style-type: none"> • Testing of transactions and balances to source documents • Review of the IT control environment
<i>Adequate internal financial controls for fundamental financial systems to support the transactions included in the statement of accounts are not maintained</i>	04/05  02/04			<ul style="list-style-type: none"> • Testing of internal financial controls for fundamental financial systems by review and selective reperformance of the work of Internal Audit
<i>The Authority is unable to provide sufficient appropriate evidence to support the disclosures in the Statement of Internal Control (New Requirement for the 2003/04 accounts)</i>	04/05  02/04			<ul style="list-style-type: none"> • Review of disclosures in the Statement of Internal Control to ensure that they are consistent with the results reported by Internal Audit and our knowledge of the Authority
<i>The Authority is unable to provide sufficient appropriate evidence to support a 'presents fairly' opinion on the reported financial position and the income and expenditure for the period</i>				<ul style="list-style-type: none"> • Testing of items and balances included in the financial statements • Testing for proper disclosures in accordance with the updated SORP • Testing for compliance with relevant accounting standards

Summary of Code of Audit Practice risks and planned audit work

Audit objective	Residual Risk			Proposed further work
<p style="text-align: center;">04/05 </p>				
<p>Assess your arrangements to ensure the legality of transactions that might have a significant financial consequence</p>	Low		High	
<p>04/05  <i>Significant business decisions and transactions that are unusual or of questionable legality are not subject to legal advice</i> 02/04</p>				<ul style="list-style-type: none"> Review of Committee minutes Review of management arrangements in place for addressing legality
<p><i>New legislation or statutory requirements that might have significant financial consequence are not identified and addressed</i> -----  02/04</p>				<ul style="list-style-type: none"> Review the Authority's compliance with new legislation, including the Proceeds of Crime Act
<p>Assess your general financial arrangements to ensure that financial standing is soundly based</p>				
<p>04/05  <i>Budget setting arrangements are not robust and do not cover all areas, including 'below the line' financing items</i> 02/04</p>				<ul style="list-style-type: none"> No work proposed.
<p><i>There are inadequate arrangements to ensure that financial performance is monitored and controlled</i></p>				<ul style="list-style-type: none"> Review of the extent to which spending is monitored and controlled in line with budget requirements.

Summary of Code of Audit Practice risks and planned audit work

Audit objective	Residual Risk			Proposed further work
04/05				
<p>04/05</p> <p><i>The level of available reserves and balances are inadequate to support unexpected expenditure</i></p> <p>04/05</p> <p>07/04</p> <p>02/04</p>				<ul style="list-style-type: none"> Review of the impact of any in year drawing upon reserves
<p>04/05</p> <p><i>The Medium Term Financial Strategy (MTFS) does not address known developments, whether current or in the foreseeable future</i></p> <p>02/04</p>				<ul style="list-style-type: none"> Review of the MTFS as part of Financial Standing work and assess progress in aligning resources to priorities
<p>Assess the arrangements to satisfy yourself that systems of internal financial control are adequate and effective</p>				
<p>04/05</p> <p><i>There are inadequate arrangements to inform Members that its systems of internal control are both adequate and effective in practice</i></p> <p>02/04</p>				<ul style="list-style-type: none"> Our work will chiefly involve review of the evidence to ensure that the statement of accounts is consistent with what was reported to Members and our knowledge of the Authority
<p>04/05</p> <p><i>Internal Audit fails to provide assurance to the Authority on the systems of internal control (New Requirement for the 2003/04 accounts)</i></p> <p>02/04</p>				<ul style="list-style-type: none"> Review of disclosures in the Statement of Internal Control to ensure that they are consistent with the results reported by Internal Audit and our knowledge of the Authority
<p><i>Procedure notes are not documented for all financial systems</i></p>				<ul style="list-style-type: none"> Review of the key financial systems at interim audit (Payroll, Business Rates, Council Tax, Housing Benefits, Debtors, Creditors, Main






Summary of Code of Audit Practice risks and planned audit work

04/05 Audit objective	Residual Risk			Proposed further work
-----				Accounting System, Treasury Management and Cash & Bank).
Assess your arrangements to maintain proper standards of financial conduct and prevent and detect fraud and corruption	Low		High	
<i>There are no documented governance procedures for proper financial conduct</i>	04/05 ----- 02/04			<ul style="list-style-type: none"> Review of financial governance procedures.
<i>There are inadequate arrangements for promulgating and monitoring compliance with standing orders, financial regulations and schemes of delegation</i>	04/05 ----- 02/04			<ul style="list-style-type: none"> Ensure that Authority has in place up to date procedures and guidance for financial conduct, purchasing, procurement and delegating authority to officers.
<i>Overall arrangements to prevent and detect fraud and corruption are inadequate and there are no procedures for receiving and investigating allegations</i>	04/05 ----- 02/04			<ul style="list-style-type: none"> Review of the Authority's anti-fraud and corruption arrangements.
<i>Risks of fraud and corruption have not been assessed and reviewed</i>	04/05 ----- 02/04			<ul style="list-style-type: none"> Complete the Audit Commission's Fraud Risk Assessment Tool to identify high risk areas.
<i>The Authority fails to properly investigate (or cooperate with other public sector bodies) any potential frauds identified by the National</i>				<ul style="list-style-type: none"> The Authority recently ended its participation in the payroll data-matching scheme.






Summary of Code of Audit Practice risks and planned audit work

<p>04/05</p> <p>Audit objective</p>	<p>Residual Risk</p>			<p>Proposed further work</p>
<p>Fraud Initiative data matching exercise</p> <p>02/04</p>				<ul style="list-style-type: none"> Review the NFI data matching results for benefits and check follow up action by the Authority.
<p>Assess your arrangements for achieving economy, efficiency and effectiveness in the use of resources</p>	<p>Low</p>		<p>High</p>	
<p>The Performance Management Framework does not set corporate strategies and objectives for all significant services and activities</p> <p>04/05</p> <p>02/04</p>				<ul style="list-style-type: none"> The Corporate Plan has advanced, but much remains to be done to embed service plans following restructuring. Review progress in developing the performance management framework.
<p>Corporate objectives and targets are not cascaded to service and functional areas via service delivery plans</p> <p>04/05</p> <p>02/04</p>				<ul style="list-style-type: none"> This work will be led by the Relationship Manager but is likely to include review of corporate and service planning processes and linkage of service and financial planning.
<p>Assess your arrangements for collecting, recording and publishing performance information</p>				
<p>Information systems for producing performance information are inadequate</p> <p>04/05</p> <p>02/04</p>				<ul style="list-style-type: none"> Testing of the systems that produce performance information will be the main focus of our Performance Indicator audit. We qualified 11 indicators in the 2003/04 BVPP.
<p>To ensure that the BVPP has been prepared and published in compliance with legislation and statutory guidance</p>				
<p>The BVPP fails to comply with statutory provisions concerning the</p> <p>04/05</p>				<ul style="list-style-type: none"> Ensure that the BVPP complies with legislation in

Summary of Code of Audit Practice risks and planned audit work

Audit objective	Residual Risk			Proposed further work
<i>content and publication</i>				<p>terms of publication by the requisite date and in terms of its qualitative and quantitative contents.</p> <ul style="list-style-type: none"> The BVPP has been qualified for two consecutive years.
<p>04/05  <i>Best Value reviews are not completed in accordance with the plan</i> -----  02/04</p>				<ul style="list-style-type: none"> Review progress of BVR programme against timetable. Review BVPP disclosure with actual progress of reviews.
<p>04/05  <i>The findings and conclusions of Best Value reviews (BVRs) and / or inspection are not properly addressed</i>  02/04</p>				<ul style="list-style-type: none"> Work on the BVPP will include follow up BVRs and inspection reports.
Risks from the National Agenda (NRAT)				
<p>04/05  <u>Performance management</u> <i>The organisation does not address weaknesses identified during the Comprehensive Performance Assessment through the Improvement Planning process.</i></p>				<ul style="list-style-type: none"> The Relationship Manager will lead this work through quarterly progress meetings and as part of the qualitative (direction of travel) assessment.
<p><u>Financial management</u> <i>The arrangements for Financial Management do not address key financial risks such as:</i> - Past weaknesses and/or deficits</p>				<ul style="list-style-type: none"> Our work on financial standing will consider these issues; we therefore do not propose any additional risk based work.

Summary of Code of Audit Practice risks and planned audit work

Audit objective	Residual Risk			Proposed further work
<p>04/05  - Aligning medium term plans with resources - Impact of future developments such as passporting and the prudential code. -----</p>				
<p>04/05  <u>Council tax increases</u> The Authority has not considered the implications of a significant increase in council tax, e.g. the risk of being capped by the Secretary of State.</p>				<ul style="list-style-type: none"> • None - Council Tax was increased by 2.8% for 2004/05, which was significantly below the national trend.
<p>04/05  <u>Emergency planning</u> The Authority does not put in place and maintain arrangements to meet the new national requirements/legislation on Emergency Planning</p>				<ul style="list-style-type: none"> • As part of our audit work on legality we will review the Authority's response to the Civil Contingencies Bill. We note that the Authority already has a working group looking at this issue.
<p>04/05  <u>E-government</u> The Authority fails to meet the E-government agenda and electronic delivery of services by 2005</p>				<ul style="list-style-type: none"> • We will review progress on meeting the 2005 implementation deadline.
<p>04/05  <u>Workforce Code of Practice</u> The Authority does not put in place and maintain arrangements to meet new contracting requirements including the Workforce Code and Single Status</p>				<ul style="list-style-type: none"> • Compliance with new legislation and other requirements in this area will be reviewed as part of our work on legality.

4 AUDIT TIMETABLE, PRODUCTS AND FEES

Timetable

4.1 The planned timing for audit activities is as follows:

Activity	Timing
Planning	
Agree outline audit plan Finalise combined audit and inspection plan following improvement planning	April 2004 September 2004
Opinion	
Review internal financial controls for fundamental financial systems Audit statement of accounts	Feb/Mar 2005 July- August 2005
Financial aspects of corporate governance	
Review of governance arrangements as they relate to: <ul style="list-style-type: none"> • legality • financial standing • systems of internal financial control • standards of financial conduct. 	April/May 2005
BVPP / BVPIs	
Audit of BVPP Audit of performance indicators	June – August 2004
Reporting	
Annual Audit and Inspection Letter	October 2005

4.2 The outputs from the audit and products will include:

- report on the Key Financial Systems and Financial Governance for 2004/05
- report and opinion on the statement of accounts for 2004/05
- report and opinion on the Best Value Performance Plan 2004/05
- Annual Audit Letter for 2004/05.

Audit, improvement and assessment staff

4.3 The senior staff responsible for the audit, improvement and assessment of the Authority are:

Andrew Lovett	Partner
Henry Arthurs	Assignment director
David Dobbs	Audit manager
Neil Childs	Relationship manager
Tim Savill	Audit Commission performance lead

4.4 The Audit Commission Relationship Manager is Neil Childs. He will be responsible for co-ordinating all audit and inspection at the Authority, and will act as the main point of liaison between the Authority and its auditors and inspectors.

Audit and Inspection Fees

4.5 The Audit Commission has issued guidance to auditors on calculating the fee for the audit of District Councils in the South East based on the following formula:

Fees are set in the range of X +/- 30% where X = (Gross expenditure x 0.0875%) + £57,250.*

(*Estimated gross expenditure for 2004/05 is £25m)

This results in a fee range of £102,862 to £55,388 with a mid-point of £79,125. On the basis a total fee of £100,182 is proposed comprising £87,550 for audit and £12,632 for inspection. The audit fee is further broken down at paragraph 4.9.

4.6 The Audit Commission’s fees consultation guidance has advised that audit supplier costs will increase by 3% in 2004/05, and the audit fee increase is limited to this percentage.

4.7 The fee incorporates an element for management. This includes liaison with Chief Officers to monitor and report on progress, attendance at appropriate Committee meetings, audit and inspection planning, and also administration costs, which includes the completion of various returns to the Audit Commission.

4.8 The base fee for audit excludes grant claims (*refer section 5*). These will be billed separately and in addition to the main audit fee, at grade related fee rates.

4.9 The audit fees are broken down below and also show the comparative fees for the previous audit period.

Area of work	2002/03 ¹ £	2004/05 £
Opinion	37,000	40,000
Financial aspects of corporate governance	20,000	22,000
Performance management - BVPP/Pis - CPA/ Improvement planning	23,325	15,000 5,735
Contribution to the Audit Commission	4,675	4,815
Total	85,000	87,550
Inspection*	15,800 ²	12,632

*Note: the fee is net of ODPM grant

4.10 Under the Audit Commission’s fee regime we are required to pay the Commission a levy of 5.5% of

the fee, as a contribution to its costs.

4.11 We have also made the following assumptions in determining the budget:

- internal financial controls can be relied upon where planned
- we can rely on internal audit work where originally planned
- the working papers supporting the accounts will be of a high standard
- you will inform us of significant developments and emerging risks
- officers will provide requested information within agreed timescales
- prompt responses to draft reports

¹Proposed fee for 2004/05 has been compared to the 2002/03 fee, as this was the last full year fee audit.

²This was the 2003/04 inspection fee

- we will receive full co-operation from the Authority's staff on a timely basis.

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

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

5 CERTIFICATION OF RETURNS

- 5.1 We are required to audit grant claims and returns as directed by the Audit Commission. The grant claims shown below are those that we expect to audit during the 2004/05 audit year along with the date of our certification deadline. Meeting these deadlines is dependent, in part, upon the Authority's officers preparing good quality working papers and the claims being made available by the dates advised by the responsible Government Department.

Grant claim / return	Submission deadline	Certification deadline	Indicative days
Housing Benefits	31 July 2004	31 December 2004	28
NNDR	27 August 2004	29 October 2004	8
Housing Subsidy	30 September 2004	31 December 2004	3.5
Crime Reduction Programme	30 September 2004	31 December 2004	2.5
Partnership Development Fund	30 September 2004	31 December 2004	2.5
Communities Against Drugs	30 September 2004	31 December 2004	2.5
Total indicative days			47 days

- 5.2 For 2004/05 we may receive fewer claims than previously since claims with a total value below £50k will no longer require auditor certification. In addition, claims of a total value between £50k and £100k will only require a limited audit. Grant claims which are greater in value than £100k will still require a more extensive audit.
- 5.3 Our certification work on grant claims fall outside the scope of the Code of Practice, and will therefore be billed separately to the main audit fee. Our fees for this work will vary according to the complexity of the claim, requirements of the Audit Commission (which are subject to change from year to year) and the outcome of detailed testing of individual balances making up the claim.

6 COMMUNICATION OF AUDIT MATTERS TO THOSE CHARGED WITH GOVERNANCE

- 6.1 Statement of auditing standard 610 placed new responsibilities on auditors from the 2002/03 audit onwards relating to communication and reporting. We are required formally to describe these responsibilities to you.
- 6.2 The standard first of all introduces two different audiences for potential reports, namely “those charged with governance” and “management”. We are required to agree with the organisation who should be included in those categories. We suggest for the purpose of the audit that “those charged with governance” are the Staff and General Purposes Committee and “management” are the Chief Executive and Corporate Directors. Further guidance on these issues is set out in the Auditing Practices Board document “Effective Communication between Audit Committees and External Auditors”.
- 6.3 We will communicate to those charged with governance only those matters which we believe to be relevant. We are not required to design audit procedures for the specific purpose of identifying matters relevant to those charged with governance. If a matter is sufficiently important we may report directly to the Executive. We are likely to discuss with management issues that we plan to communicate to those charged with governance.
- 6.4 Secondly we are required to make an annual declaration relating to our independence and objectivity. Our declaration for the current audit is in appendix 2.
- 6.5 Thirdly we are required to report the work we plan to carry out and the form of reports. Our planned work is described in section 3 and reports in section 4.
- 6.6 Fourthly we will report to those charged with governance the following:
- expected modifications to the auditors’ report
 - unadjusted misstatements
 - material weaknesses in the accounting and internal control systems identified during the audit
 - our views about the qualitative aspects of the entity’s accounting practices and financial reporting
 - suspected fraud and non-compliance with laws and regulations
 - any other relevant matters relating to the audit.
- 6.7 We will need to report these matters to the Staff and General Purposes Committee before confirming our audit opinion. We will therefore be required to communicate our audit findings and schedule of unadjusted misstatements prior to the finalisation of the statement of accounts audit.
- 6.8 Fifthly insofar as those charged with governance do not wish to adjust misstatements identified in the accounts, they will need to provide reasons or explanations for their decision and to confirm this in writing in a Letter of Representation.

RESPONSIBILITIES OF THE AUTHORITY IN RELATION TO THE AUDIT

The responsibilities set out below are taken from the Audit Commission document *Statement of responsibilities of auditors and audited bodies*.

AUDITING THE ACCOUNTS

The published accounts of the organisation are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the organisation to:

- ensure the regularity of transactions, by putting in place systems of internal control to ensure that financial transactions are lawful
- maintain proper accounting records
- prepare financial statements that present fairly its financial position and its expenditure and income.

REVIEWING THE FINANCIAL ASPECTS OF CORPORATE GOVERNANCE

It is the responsibility of the organisation to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice.

The legality of financial transactions

It is the responsibility of the organisation to act within the law and to put in place proper arrangements to ensure that its financial affairs are conducted in accordance with the law and relevant regulations.

Financial standing

It is the responsibility of the organisation to conduct its financial affairs and to put in place proper arrangements to ensure that its financial standing is soundly based, having regard to:

- compliance with:
 - statutory financial requirements
 - financial targets
 - relevant codes and guidelines
- level of balances, reserves and provisions
- financial monitoring and reporting arrangements
- the impact of planned future policies and known or foreseeable future developments on the organisation's financial position.

Systems of internal financial control

It is the responsibility of the organisation to develop and implement systems of internal control, including systems of internal financial control, and to put in place proper arrangements to monitor their adequacy and effectiveness in practice, covering:

- the overall control environment, including internal audit
- the identification, evaluation and management of operational and financial risks
- budgetary control and monitoring arrangements
- documentation of control procedures.

Standards of financial conduct, and the prevention and detection of fraud and corruption

It is the responsibility of the organisation to ensure that its affairs are managed in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption. Therefore, it should put in place proper arrangements for:

- implementing and monitoring compliance with, appropriate standards of corporate governance
- articulating and promoting appropriate values and standards across the organisation
- developing, promulgating and monitoring compliance with codes of conduct that advise members and officers of their personal responsibilities and expected standards of behaviour
- developing, promulgating and monitoring compliance with standing orders and financial regulations, including instructions on regulating the handling of contracts
- developing and implementing strategies to prevent and detect fraud and corruption
- receiving and investigating allegations of breaches of proper standards of financial conduct, or of fraud and corruption.

REVIEWING ASPECTS OF PERFORMANCE MANAGEMENT

It is the responsibility of the organisation to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources.

Use of resources

It is the responsibility of the organisation to put in place proper arrangements to ensure the best use of the resources at its disposal. These arrangements might include:

- setting strategic aims and objectives
- service and business planning
- budgeting and financial management
- carrying out service and performance reviews
- setting performance targets, and monitoring performance and outcomes against them.

Performance information

It is the responsibility of the organisation to put in place proper arrangements to collect, record and publish performance information, as specified each year by the Office of the Deputy Prime Minister.

Best value performance plans

Under the Local Government Act 1999 the organisation is required to comply with the general duty of best value, which is defined as making arrangements to secure continuous improvements in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The organisation is required to publish annually a best value performance plan, which summarises its assessments of its performance and position in relation to best value. The organisation is responsible for preparing the best value performance plan and for the information and assessments that are set out within it, and the assumptions and estimate on which they are based. It is also responsible for putting in place appropriate performance management and internal control systems from which the information and assessments in the best value performance plan are derived.

DECLARATION OF AUDITOR 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 the case of the Hart District Council it has been agreed that the appropriate addressee of communications from the auditor to those charged with governance are the Staff and General Purposes Committee. The auditor reserves the right, however, to communicate directly with the Executive on matters that 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 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
- 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 Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner 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 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.

In relation to the audit of the statement of accounts for the Hart District Council for the financial year ending 31 March 2005, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

Under the requirements of SAS 610.3, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff that are required to be disclosed.