

# Audit and Inspection Plan

## Hart District Council

### INSIDE THIS PLAN

#### PAGES 2 – 7

- Introduction
- Our responsibilities
- The fee
- Summary of key audit and inspection risks
- Voluntary improvement work
- Grant claim certification
- The team

#### PAGES 8 – 12

#### Appendices

- Appendix 1 – The new Code of Audit Practice
- Appendix 2 – Audit and inspection fee
- Appendix 3 – Planned outputs
- Appendix 4 – The Audit Commission's requirements in respect of independence and objectivity

<b>Reference:</b>	HA296 Audit and Inspection Plan
<b>Date:</b>	May 2005

## 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;
- the impact of International Standards on Auditing (UK and Ireland) (ISAs); and
- the Audit Commission's approach to strategic regulation based on your comprehensive performance assessment (CPA) rating.

Your relationship manager 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 positive 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 for 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 £97,402 (2004/05: £100,182). 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 your 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

The Audit Commission has determined that inspections in 2005/06 will be focused nationally on three key service areas – environment, housing and leisure/culture – and will be targeted on poorly performing services. The Council was assessed by the Audit Commission as 'fair' in January 2004. Consequently in accordance with the principles of strategic regulation one service inspection will be carried out in 2005/06.

On the basis of service performance, there are two immediate priorities for this inspection. The housing service is the first as this activity was assessed by the balancing housing markets diagnostic to be relatively poor. The Council has struggled for many years to deliver its housing service but over the last nine months it is clear that action has been taken to improve performance. However, the recent self-assessment by the Council's housing team highlights that weaknesses still outweigh strengths and that there are some significant barriers that will impact on prospects for further improvement. This honest and open self-assessment has provided the section with a firm foundation from which it has recently built a service improvement plan. The second priority area is an environment inspection as waste collection is also relatively poor and this contributed to the low score in the public space diagnostic for 'keeping the locality clean'. Following CPA, there has been a clear acceptance that refuse is indeed an issue. Two additional refuse vehicles were purchased as an initial response and this has prevented the service from deteriorating further. However, further analysis has identified significant structural problems. The Council considered an options paper (including partnering with other councils and different methods of collection) in February 2005.

There are two other service areas where we will continue to monitor progress. The first is housing benefits, because when the Benefit Fraud Inspectorate assessed this service as part of the CPA process, the Council's performance was 'fair' (on a five-point scale poor, fair, fair to good, good and excellent). As a consequence of this assessment, a full benefits inspection has recently been carried out and the report is expected to be published in June 2005. We will continue to liaise with BFI so that we are able to comment on progress in the year-end direction of travel statement. The second service area is planning. The Council was designated a planning standards authority two years ago as a consequence of its relatively poor performance in processing planning applications. Over the last year, significant improvements have been made and un-audited data suggests the Council is now performing at 2007 target levels. This is a significant achievement. We will continue to liaise with GOSE who are monitoring your performance trends so that we are able to comment on the sustainability of this improvement in our direction of travel statement. We would only consider inspecting this service if performance deteriorates significantly.

We will also be assessing the Council's progress on achieving improvement during the year through regular monitoring against the Council's own improvement plans, review of performance information and the auditors' judgement on the use of resources. These will be brought together in a 'direction of travel statement' which will draw on the same framework used for corporate assessments to provide a way of tracking progress within the core themes of ambition, prioritisation, capacity and performance management, as well as in achievement of outcomes.

#### SUMMARY OF INSPECTION ACTIVITY

Inspection activity	Reason/impact
Relationship management	Work with other inspectorates, agencies and the appointed auditor to design and present a proportionate plan targeted at areas in the greatest need and opportunities for improvement.  To be the Audit Commissions primary contact with the council.  To summarise the work of the commission in the Annual Audit and Inspection letter.
Planning service	Council is emerging from being a planning standards authority. Will continue to liaise with GOSE to ensure that recent improvements are sustained.
Housing benefits	Continued liaison with BFI to ensure progress being made against the improvement plan.
Direction of travel assessment (by December 2005)	To track performance and improvement. The results will be reported through the Annual Audit and Inspection letter and the annual CPA scorecard update. (Will include brief reviews of progress on implementing the housing service improvement plan and the access to services action plan).
Housing inspection (January or March 2006)	Service inspection in a relatively weak performing area.
Environment inspection (2006/07)	Service inspection in a relatively weak performing area.
Safer and stronger communities (future)	A review of crime and disorder could be programmed for future inspection activity.

## Use of resources

The new 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. In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements.

The outcomes from this work will be:

- a use of resources judgement, which will inform the Council's use of resources rating to be included in the December 2005 CPA scorecard; and
- a VFM opinion, to be given alongside our opinion on the Council's accounts by September 2006.

We will undertake a review of your best value performance plan (BVPP) to ensure it meets the statutory requirement in respect of its content. We will issue an opinion on this plan before the end of December 2005. We will also review and comment on your systems for collecting performance information and in particular the best value performance indicators (BVPIs).

SUMMARY OF USE OF RESOURCES ACTIVITY	
Use of resources activity	Reason/impact
Use of resources judgement	To inform the use of resources overall assessment in the December 2005 CPA scorecard.
VFM opinion	To provide our conclusion as to whether the Council has appropriate arrangements in place to deliver the three Es.
Best value opinion	To provide our conclusion as to whether the Council's best value performance plan meets the statutory requirements, particularly in respect of the accuracy and completeness of the published BVPIs.

The 2005/06 use of resources work does not include an assessment of the Council's annual efficiency statement that will be required under the Gershon Efficiency Review.

## Financial statements

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

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.

Your out-going auditors have yet to undertake the audit of the 2004/05 financial statements. Our 2005/06 financial statement audit planning will continue as the year progresses and 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.

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

SUMMARY OF OPINION RISKS	
Opinion risks	Response
Providing an inappropriate opinion on your 2005/06 financial statements, taking account of the operation of your financial systems.	<p>We will focus our interim audit on your material systems and internal controls that you have in place to ensure the accurate production of your financial accounts. This will include your new systems for payroll/human resources (TRENT) and housing and council tax benefits (IBS).</p> <p>Our final accounts audit will include a risk assessment based upon our knowledge of your material systems and an analytical review of the draft financial statements. Detailed testing of the key controls in material systems and of the figures in the accounts will be performed where further audit evidence is required to support our opinion.</p>
Non-compliance with proper accounting practice.	We will seek assurance that you have complied with the requirements of the SORP, including the requirements of FRS17 and group accounts.

## Voluntary improvement work

There are opportunities for us to work with the Council or Hampshire councils as a group in the following areas.

SUMMARY OF POTENTIAL AND AGREED VOLUNTARY IMPROVEMENT WORK	
Improvement activity	When
Develop Hart's approach to performance management – including framework, annual cycle, culture and organisational structures.	March – May 2005.
Develop clear vision, priorities and SMART targets for the Council.	May – June 2005.
Set out how the approach to performance management should be put into practice and kept on track.	June – July 2005.
Most of the crime and disorder partnerships in Hampshire are performing lower than average in a number of crime areas. In Hart, although the number of crimes is relatively low, the direction of travel shows a deteriorating performance and both violent crime and robbery have increased significantly. This may reflect that the 2002/05 strategy had little focus/concentration on reducing crime. Aspiring to be 'good' or 'excellent', the Council will need to ensure that it is clear on its role in providing leadership and on its partnership working within the C&D partnership and that clear governance arrangements are in place, as well as a framework of accountability to the community.	To be discussed with the Hampshire chief executives.

## 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.

## The team

Name	Title
Neil Childs	Relationship Manager
Martin Robinson	District Auditor
Mike Bowers	Audit Manager
Tim Savill	Local Performance Lead
Sara Rowntree	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 the Staff and General Purposes Committee.*

## 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	*	**58,029
Use of resources	*	28,695
<b>Total audit fee</b>	<b>87,550</b>	<b>86,724</b>
Inspection	12,632	10,678
<b>Total audit and inspection fee</b>	<b>100,182</b>	<b>97,402</b>
Grant claim certification	Not available	23,300

\* 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 audit fee for 2003/04 was increased by £4,000 due to difficulties with final accounts audit.

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 any significant developments that could impact on our audit;
- Internal Audit meets the requirements of professional standards, in particular the CIPFA Code of Practice for Internal Audit;
- 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.

Planned output	Start date	Draft due date	Key contact
Audit and inspection plan*	February 2005	March 2005	Relationship Manager
Housing Inspection report	January 2006	April 2006	Relationship Manager
Interim audit memorandum	April 2006	June 2006	Audit Manager
BVPP opinion and PI audit memorandum	April 2005	October 2005	Audit Manager
Report to those charged with governance (ISA 260)	August 2006	September 2006	Audit Manager
Final accounts memorandum	July 2006	October 2006	Audit Manager
Annual audit and inspection letter (including direction of travel assessment and score card)	October 2006	December 2006	Relationship Manager

\* 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 Staff and General Purposes Committee. The auditor reserves the right, however, to communicate directly with members 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 section 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.