

Audit and Inspection Plan

April 2006



# **Audit and Inspection Plan**

**Hart District Council**

**Audit 2006/2007**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Council**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

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# 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>8</b>
Financial statements	8
Whole of government accounts	9
Value for money conclusion	10
Use of resources judgement	10
Performance information	11
Best value performance plan	11
<b>Claims and returns certification</b>	<b>12</b>
<b>Voluntary improvement work</b>	<b>13</b>
<b>Other information</b>	<b>14</b>
Outputs from the audit and inspection plan	14
The team	14
<b>Appendix 1 – Audit and inspection fee</b>	<b>15</b>
Specific audit risk factors	16
Assumptions	16
Specific actions Hart District Council could take to reduce its audit fees	17
Process for agreeing any changes in audit fees	17
<b>Appendix 2 – Planned outputs</b>	<b>18</b>
<b>Appendix 3 – The Audit Commission’s requirements in respect of independence and objectivity</b>	<b>19</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 30 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.
- 7 The total fee estimate for the audit work planned for 2006/07 is £97,705 and the total fee estimate for inspection work planned for 2006/07 is £15,535. This compares with a total audit and inspection fee of £97,402 in 2005/06.
- 8 In addition we estimate that we will charge approximately £25,500 for the certification of claims and returns. Further details are provided below and in Appendix 1.
- 9 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 Hart District Council could take to reduce its audit fees and the process for agreeing any additional fees.
- 10 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.
- 11 We will formally advise you if any changes to the fee become necessary.

## CPA and inspections

- 12 The CPA framework for District Councils from 2006 has been subject to consultation and pilots are currently underway. It is expected that the proposed methodology will be published by April 2006 and that the opportunity for re-categorisation will be available for some councils during 2006/07. Given the messages contained within the Direction of Travel statement, the use of resources judgement and the performance indicator results it is unlikely that Hart would qualify for a reassessment during this year.
- 13 If, however, the new methodology identifies the need or opportunity for a revised corporate assessment we will discuss an amendment to this plan and agree an additional fee for completion of the work.
- 14 Following the Council's classification as a fair council in 2004 we have applied the principles of strategic regulation recognising the key weaknesses in performance. These include:
- inability to meet statutory deadlines for approving the accounts;
  - major and wide ranging weaknesses in arrangements to manage financial resources with the use of resources judgement showing inadequate performance;
  - difficulty in demonstrating value for money from the use of resources;
  - two years after being assessed as a fair council many of the foundations for improvement are still in their developmental stages and sustained improvement has not yet been demonstrated; and
  - limited financial, managerial and staffing capacity.
- 15 As a consequence our inspection activity will focus on the following.

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**Table 1 Summary of inspection activity**

Inspection activity	Reason/impact
Relationship Manager role	To act as the Commission's primary point 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.

Inspection activity	Reason/impact
Support work	<p>Performance management framework - continuing to challenge and comment on the development of the corporate plan; reviewing the way performance management is linked up particularly in relation to the corporate management team and the cabinet, scrutiny and the performance management board; providing guidance, comment and examples and ideas for reporting on performance at the top level.</p> <p>Diversity and equality - assistance with baseline assessments in the Council's priority areas using audit commission tools developed for CPA. Areas could include race, gender and disability reflecting statutory duties - but the approach is flexible.</p>
Support work by other agencies	<p>As part of our liaison role with other agencies we have agreed that IDeA could work with the cabinet to develop the outcomes for the corporate plan. The second area of support is steering and supporting visits to other councils, involving peer mentoring. Both will add much needed capacity to help the Council take its improvement priorities forward.</p>
Service inspection	<p>Environment inspection - focusing on the poor refuse service and the prospects for improvement following the recent options analysis.</p>

## Summary of key audit risks

- 16 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 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).
- 17 In assessing risk we have had regard to the results of our 2005 assessments and your response to them, to the developments within the Council and to relevant changes taking place nationally.
- 18 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.

## Financial statements

- 19 We will carry out our audit of the 2006/07 financial statements and follow the International Standards on Auditing (UK and Ireland).
- 20 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 Council.
- 21 On the basis of our preliminary work to date we have identified the following audit risks.

**Table 2 Summary of opinion risks**

Opinion risks	Response
<p>The Council has struggled to complete its financial statements for 2004/05, and had not adopted them by 15 March 2006.</p> <p>There have been particular concerns relating to the availability of revenues and benefits financial information in support of the financial statements and grant claims.</p>	<p>We will work closely with the Council's staff to ensure that the requirements for the audit are understood and that the audit progresses as efficiently as possible.</p>
<p>Changes in the 2006 SORP, particularly associated with capital accounting and presentation of the Consolidated Revenue Account.</p>	<p>Seek assurance on compliance with the latest SORP.</p>

- 22 Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will be improved 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 the agreed date.
- 23 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.
- 24 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

- 25 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 to be audited. The Audit Commission is currently discussing the scope of the likely audit work with the NAO and other stakeholders. The fee for this work is not included in this plan and we will discuss this with you when further details are available.

## Value for money conclusion

- 26 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. 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 audit and we will keep you informed of any changes to this plan that may become necessary.

## Use of resources judgement

- 27 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.
- 28 These judgements may also used by the Commission as the basis for its overall use of resources judgement.
- 29 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 3 Summary of use of resources audit risks**

Audit risk	Response
The Council's budget for 2006/07 is finely balanced, with a number of high risk elements that will need to be delivered if the budget is to be achieved.	We will review the robustness of the 2006/07 budget, including the preparation process.
There are a number of staffing changes that the Council is in the process of addressing.	We will monitor the Council's response to these issues and where there is an impact on the audit we will agree our approach and any additional fee with you before proceeding.

## Performance information

- 30 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 Hart District Council as 'medium risk' in relation to its performance indicators.
- 31 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

- 32 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).

## Claims and returns certification

- 33 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.
- 34 Charges for this work are based on skill-related fees scales set out in the Audit Commission's work programme and fee scales for 2006/07. Based on this, and on the assumption that the level of grant work will remain unchanged we estimate that the fees for grant certification work will be around £25,500.

## Voluntary improvement work

- 35** Additional support will be provided by the Relationship Management Team to help the Council take its diversity and equality agenda forward and also to add capacity for the development of the performance management framework. If extended support is required this can be provided as voluntary improvement work at appropriate grade-related fees.

## Other information

### Outputs from the audit and inspection plan

- 36 The expected outputs from our planned audit and inspection work are listed in Appendix 2.

### The team

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**Table 4**

<b>Name</b>	<b>Title</b>
Neil Childs	Relationship Manager
Martin Robinson	District Auditor
Mike Bowers	Audit Manager
Angela Blowman	Local Performance Lead
Sara Rowntree	Audit Team Leader

- 37 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.
- 38 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 3.

## Appendix 1 – Audit and inspection fee

**Table 5**

Fee estimate	Plan 2006/07 (£)	Plan 2005/06 (£)
Audit		
Accounts	63,922	58,029
Use of resources	33,783	28,695
Total audit fee	97,705	86,724
Inspection		*
Relationship management	8,324	*
Service inspection	7,211	*
Total inspection fee	15,535	10,678
Total audit and inspection fee	113,240	97,402
Certification of claims and returns	25,500	23,300
Voluntary improvement work	0	0

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

- 1 The total audit fee compared to the indicative fee banding equates to 18 per cent above mid-point.
- 2 The fee (plus VAT) will be charged in 12 equal instalments from April 2006 to March 2007.
- 3 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 32); and
  - any specific work required for CPA in 2006/07.

## Specific audit risk factors

- 4 In setting the audit fee we have taken account of the following specific risk factors:
- the Council's finely balanced budget for 2006/07, that has a number of high risk elements that will need to be delivered if the budget is to be achieved;
  - the potential for the changes within the Council's senior management to have an impact on its capacity to manage and the impact this might have on the audit;
  - the need to seek assurance from officers that the revisions to the 2006 Statement of Recommended Practice (SORP) have been complied with; and
  - our experience of auditing your performance indicators in 2005.

## Assumptions

- 5 In setting the audit fee we have assumed:
- you will inform us of significant developments impacting on our audit;
  - Internal Audit meets 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 2006/07 financial statements by 1 July 2007, or alternative agreed date;
  - the significant difficulties that the Council experienced when preparing and adopting the 2004/05 accounts will not be repeated;
  - the delays that were experienced in the production of the 2004/05 Housing and Council Tax Benefits grant claim and other grant claims, together with supporting working papers, will not be repeated;
  - officers will provide requested information within agreed timescales;
  - officers will provide prompt responses to draft reports;
  - your performance indicators will be adequately prepared and reviewed; and
  - 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.
- 6 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.

- 7 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 Hart District Council could take to reduce its audit fees**

- 8 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. We have identified the following actions Hart District Council could take.
- The Head of Finance should review and sign off all working papers supporting the financial statements to ensure that they tie in to the approved draft accounts, and clearly cross referenced to supporting evidence, before the audit commences.
  - The accounts should be fully completed and adopted by members before the 30 June 2007 deadline, prior to the financial statements audit commencing.
  - All grant claims should be completed and submitted to the relevant department and the auditor by the agreed date, and supported by detailed working papers that evidence each entry prior to the audit commencing.
  - Provide an updated action plan, reporting how issues raised at audit (in audit letter, use of resources, opinion etc) have been addressed, with cross-references to evidence.
  - Officers should respond to all requests for further information promptly, providing all details that are requested.
  - Senior managers should take responsibility for checking the accuracy of performance indicators and Internal Audit could usefully check that this had been done.

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

- 9 If we need to amend the audit or inspection fees during the course of this plan we will firstly discuss this with the currently acting Chief Executive. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Staff and General Purposes Committee.

## Appendix 2 – Planned outputs

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

**Table 6**

Planned output	Start date	Draft due date	Key contact
Audit and Inspection Plan 2006/07*	1 March 2006	31 March 2006	Relationship Manager
Interim Audit Memorandum	March 2007	June 2007	Audit Manager
BVPP Opinion and PI Audit Memorandum	July 2006	October 2006	Audit Manager
Report on Financial Statements to Those Charged with Governance (ISA 260)	August 2007	September 2007	District Auditor
Opinion on Financial Statements	TBA	September 2007	District Auditor
VFM Conclusion	TBA	September 2007	District Auditor
Final Accounts Memorandum	1 July 2007	October 2007	Audit Manager
Local Performance Work	TBA	TBA	Local Performance Lead
Environment Inspection	TBA	May/June 2007	Local Performance Lead
Annual Audit and Inspection Letter (Including Direction of Travel Assessment)	October 2007	December 2007	Relationship Manager

*\* To be revisited during the year to reflect outcome of 2005/06 final visit and 2006/07 interim visit.*

## Appendix 3 – 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 Staff and General Purposes 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 section 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.

## 20 Audit and Inspection Plan | Appendix 3 – The Audit Commission’s requirements in respect of independence and objectivity

- Firms are expected not to risk damaging working relationships by bidding for work within an audited body’s area in direct competition with the body’s own staff without having discussed and agreed a local protocol with the body concerned.
- Auditors are expected to comply with the Commission’s statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors’ conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors’ independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission’s policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements).
- Audit suppliers are required to obtain the Commission’s written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual’s relevant qualifications, skills and experience.