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**Meeting**                                      **Audit Committee**  
**Date**    **30 June 2008**  
**Subject**                                        **External Audit and Inspection Plan 2008/09**  
**Report of**                                        **Executive Director for Resources**  
**Summary**                                        This report advises the committee of the Audit Commission external audit and inspection plan for the coming year.

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**Officer Contributors**                      Jonathan Bun, Head of Strategic Finance  
**Status (public or exempt)**                Public  
**Wards affected**                                Not applicable  
**Enclosures**                                    Appendix A –External Audit and Inspection Plan 2008/09  
**For decision by**                                Audit Committee  
**Function of**                                        Council  
**Reason for urgency / exemption from call-in (if appropriate)**                None

Contact for further information: Jonathan Bunt, Head of Strategic Finance on 020 8359 7249

## **1. RECOMMENDATIONS**

- 1.1 That the Audit Commission External Audit and Inspection Plan for 2008/09 be noted.
- 1.2 That the Committee consider whether there are any areas on which they require additional information or action.

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 None.

## **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

- 3.1 The External Audit and Inspection Plan addresses fundamental aspects of financial standing and performance management in Barnet, which relates to the Council's 'More Choice, Better Value' priority.

## **4. RISK MANAGEMENT ISSUES**

- 4.1 The External Audit and Inspection Plan has been formulated by assessing both the Council's local risks and current national risks relevant to the Council's local circumstances.

## **5. EQUALITY AND DIVERSITY ISSUES**

- 5.1 The External Audit and Inspection Plan covers the inspection and assessment of all services within the authority which, in turn, impact on all members of the community.

## **6. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS**

- 6.1 The indicated level of fees have been incorporated by the Council when setting the annual budget and Council Tax for 2008/09.

## **7. LEGAL ISSUES**

- 7.1 The relevant statutory provisions are referred to in the External Audit and Inspection Plan.

## **8. CONSTITUTIONAL POWERS**

- 8.1 Constitution Part 3, Section 2 details the functions of the Audit Committee including "To comment on the scope and depth of external audit work and to ensure it gives value for money".

## **9 BACKGROUND INFORMATION**

- 9.1 The External Audit and Inspection Plan is attached at Appendix A. It sets out the approach and proposed work to be undertaken by the Council's appointed external auditor, Grant Thornton UK LLP, to enable a view to be reached on

the Council's:

- Use of Resources
- Financial Statements
- Grant Claims and Returns
- Direction of Travel Statement

9.2 The fee schedule for the planned work for 2008/09 is set out in section 6 of Appendix A.

## **10. LIST OF BACKGROUND PAPERS**

10.1 None.

Legal: MAM

CFO: JB



London Borough of Barnet

External Audit and Inspection Plan 2008-09

May 2008

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# 1 Introduction

## Background

- 1.1 This plan sets out the audit and inspection work to be undertaken for the 2008-09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Area Assessment ("CAA"), which from 1 April 2008 replaces Comprehensive Performance Assessment ("CPA"). This plan reflects:
- Our Code of Audit Practice responsibilities;
  - Audit and inspection work specified by the Audit Commission for 2008-09;
  - Current national risks relevant to the Council's local circumstances; and
  - Our initial assessment of the Council's local risks and improvement priorities, based on meetings with senior officers, internal audit and review of key Council documents.
- 1.2 During 2008-09, the role of the Relationship Manager will be replaced by the post of a Comprehensive Area Assessment Lead ("CAAL"). The CAAL will provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities. Our work as auditors feeds into this process via the use of resources assessment and other risk based work as well as appropriate dialogue with the CAAL.
- 1.3 As we have not yet completed our audit for 2007-08, the audit planning process for 2008-09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

## Our responsibilities

- 1.4 We comply with the statutory requirements governing our audit and inspection work, in particular, the Audit Commission Act 1998, the Local Government Act 1999 and the Code of Audit Practice (the Code). Further details of inspection work, to be carried out by the Audit Commission, are provided in section seven of this plan.

- 1.5 The Code defines auditors' responsibilities in relation to:
- Audited bodies' arrangements for securing value for money in their use of resources (section two); and
  - The financial statements, including the annual governance statement (section three).
- 1.6 We comply with the statutory requirements governing audit work, in particular:
- The Audit Commission Act 1998; and
  - The Code of Audit Practice.
- 1.7 The Code of Audit Practice ("the Code") defines auditors' responsibilities in relation to:
- The financial statements (including the annual governance statement); and
  - The audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 1.8 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 1.9 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 1.10 While the Borough's Pension Fund remains part of the overall responsibilities of the Borough Council, in reality it is substantially administered separately. The Audit Commission has recognised this and that the accounting and audit arrangements should also be separate. Therefore, in accordance with the Commission's instructions, we are issuing a separate audit plan for the fund's audit and this element of our audit work will also be subject to a separate audit fee, in line with the Commission's fee guidance for pension fund audits.

## 2 Use of Resources Audit

### Introduction and Approach

- 2.1 The Code of Audit Practice ("the Code") requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, having regard to a standard set of relevant criteria, issued by the Audit Commission. In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements, and follow up the Audit Commission's work from previous years to assess progress in implementing agreed recommendations.
- 2.2 In accordance with the Code of Audit Practice, we are required to complete a number of pieces of work to support our Value for Money conclusion. These are set out in the following paragraphs, as well as in Appendix B.

### Use of Resources Assessment

- 2.3 Later, in the summer of 2008, we will be completing a further use of resources assessment for the year 2007-08 using the current criterion across the areas of financial reporting, financial management, financial standing, internal control and value for money.
- 2.4 Additionally, 2008-09 will be the first year of a new style Use of Resources assessment, which will form an element of the CAA framework.
- 2.5 There have been significant changes to the criteria for 2008-09. Appendix A outlines the new criteria to be assessed as part of our use of resources work and our VFM conclusion. For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate these risks, and plan our work accordingly. We will ensure that we work with officers and members (through the Audit Committee and more widely) to ensure that they are fully informed of the new Use of Resources criteria and guidance, so that the Authority is prepared for the process.
- 2.6 Additionally, our initial risk assessment for wider use of resources assessment and work is shown in Table One overleaf. This will be updated through our continuous planning process as the year progresses.



## Risk Assessment and Audit Response

**Table One: Local Risk Based Work to Support the 2008-09 Value for Money Conclusion**

Risk	Proposed audit response
<p>Over the past few years, the Council has set challenging targets, of which it has met less than fifty percent. Whilst it is recognised that targets need to be challenging, they also should be realistic. Further guidance has been issued to staff supporting the requirement of targets to be set in context.</p>	<p>We will review the Council's performance management framework, specifically how targets are set and then monitored. In addition, we will consider the actions the Council takes in response to this monthly process. This review will take the form of a separate performance audit study and its scope will be agreed separately with appropriate officers.</p>
<p>The Council is forward thinking in its assessment of growth in the area and what that means for its infrastructure requirements. As a response to the issue, the Council developed the Barnet Financing Plan or 'Barnet Bond'. This proposes to use a combination of private and public revenue sources to aid with the raising and repayment of funding for core enabling infrastructure.</p> <p>This approach to financing has been well received in the wider Government departments, with discussions under way with the Treasury. Progress has been developing well with discussions taking place more recently.</p>	<p>We will continue to review the progress of the Barnet Bond and assess the impact on capital and investment schemes.</p> <p>We will also review future financing arrangements in the light of changes around the capital market and borrowing conditions. The dynamics of a future market driven model will be different.</p>
<p>The Local Area Agreement (LAA) is being revised and agreed with partners. The LAA new arrangements are based on a stronger role for local authorities to lead their communities, shape their areas and, with other local service providers innovate and respond to local needs.</p> <p>It is important that partners within the local health communities take an active role in wider partnerships such as the LAA and LSP. This is particularly important in relation to tackling health inequalities and providing services to people with long term problems.</p>	<p>We will review arrangements for partnerships under 'managing the business' theme in the new use of resources.</p> <p>We will also follow up on any recommendations that will result from the health inequalities audit that is taking place in the summer of 2008.</p>

Risk	Proposed audit response
<p>The Council has entered a joint waste strategy under the North London Waste Authority that covers the period from 2004-2020. This strategy also sets out the framework for how waste will be managed, when the authority's current 'main waste disposal' contract comes to an end in 2014. There is considerable financial risk attached to the ending of this contract and it is important for the Council to manage this by joining up with other councils to minimise the impact.</p>	<p>We will continue to monitor the management of this financial risk, through discussions with key officers within the Council.</p>
<p>Internal Audit has recently completed its review of the internal control checklist process for 2006-07, for which it gave no assurance that the service objectives would be achieved in the year. It is clear that managers are not using the process accurately when describing and managing their risks, with action plans not being thoroughly completed and followed up.</p>	<p>We will review these arrangements under 'managing the business' assessments under the use of resources assessments, however we will monitor the implementation of the internal audit recommendations through their updates to the Audit Committee.</p>
<p>The 2007 Use of Resources assessment highlighted the need for an improved Asset Management Strategy and further development of procedures for maintaining and enhancing assets.</p>	<p>We will follow up the issues raised in previous years and ensure that the Authority is following its own improvement agenda for asset management.</p>
<p>Barnet has significant repayments of loans to make in 2008-09 and following years. To make these repayments, it requires capital receipts to be generated from asset sales. The Authority has programmes in place to do this, but this issue is still a risk, which requires our review.</p>	<p>We will monitor Barnet's progress in actioning its planned asset sales and cash receipts generation.</p>

## **Data Quality**

2.7 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:

- Stage 1 – review of corporate arrangements;
- Stage 2 – analytical review; and
- Stage 3 – risk-based data quality spot-checks of a sample of performance indicators.

2.8 Work will be focused on the overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data.

## **Other mandated work**

2.9 The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. This work will be considered as part of our Use of Resources assessment. We are aware that the NFI is taken very seriously at Barnet and the results of the exercise have proved beneficial to the Council.

## 3 Financial Statements Audit

### Introduction and Approach

- 3.1 The Council's financial statements are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:
- Ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
  - Maintain proper accounting records; and
  - Prepare financial statements, which present fairly the financial position of the Council and its expenditure and income in accordance with the Statement of Recommended of Practice.
- 3.2 The auditor is required to audit the financial statements and to give an opinion as to:
- Whether they present fairly the financial position of the Council and its expenditure and income for the year in question;
  - Whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
  - Whether the Annual Governance Statement ("AGS") 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.
- 3.3 In order to gain sufficient assurance to support our opinion on the financial statements, we will carry out a review of:
- The Council's arrangements for the preparation of its financial statements, the AGS and the Whole of Government Accounts ("WGA") consolidation pack;
  - Internal audit, to determine the extent of reliance we can place on it for the purposes of our audit;

- The internal control framework for key financial systems;
  - The materiality of balances and transactions impacting on the financial statements; and
  - The key risks relevant to the preparation and audit of the financial statements.
- 3.4 The adoption of International Financial Reporting Standards ("IFRS") within the public sector has been deferred until 2009-10, but local government remains on target to implement IFRS in 2010-11.

### **Risk Assessment and Audit Response**

- 3.5 We are required to issue an opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2009, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 ("SoRP"). We will carry out our audit of the accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board ("APB").
- 3.6 Our audit will be risk based. We have not yet carried out a detailed risk assessment for our audit of the 2008-09 accounts, as we have yet to undertake the audit of the 2007-08 accounts. Our high-level risk assessment, summarised in Table Two below, reflects largely national developments and issues, which may present a risk to the Council's timely and accurate preparation of its accounts. We will keep our risk assessment under review, and prepare our audit strategy document in June 2009 to take account of our work in continually assessing risks to the audit of the financial statements.

**Table Two: 2008-09 Financial Statements Audit – Initial Risk Assessment**

Area	Audit Response
There have been movements in the overall structure of the internal audit function, and there are also concerns that the programme of work to be delivered is appropriately risk based, fits the authority's needs and the audit resources and skills are available.	We will complete a review of the internal audit function as part of our accounts audit to assess if reliance can be placed on their work, and whether the programme of work reflects risk and best practice.
Although IFRS is not being implemented until 2010-11, it is important that the Council has the necessary arrangements in place to adequately prepare the financial statements by this time.	We will continue to work with the Council to ensure that necessary adjustments take place. This will include working with the Council through senior management presentations.
At present, Barnet has received no claims under the equal pay legislation, but may do so in 2008-09 and future years.	We will continue to monitor and discuss the equal pay situation with the Council's officers.

## 4 Grant Claims and Returns

### Introduction and Approach

- 4.1 In addition to our Code responsibilities, we are required by the Audit Commission to certify the Council's grant claims and returns, in accordance with the following arrangements:
- Claims and returns below £100,000 are not subject to certification;
  - Claims and returns between £100,000 and £500,000 are subject to a reduced, 'light touch' certification; and
  - Claims and returns over £500,000 will be subject to a certification approach determined by the auditor's assessment of the control environment and management preparation of claims.
- 4.2 Robust arrangements for preparing, albeit a small number of claims and returns are important to mitigate a number of risks, including:
- Increased costs to the Council, both in terms of incurring additional fees and also officer time in dealing with issues arising from certification work;
  - Delayed payment of grant or financial penalty from grant paying departments, due to delays in claim certification;
  - Risk of unexpected grant repayment due to amendments and qualifications; and
  - Potential adverse impact on external assessment of the Council's governance and internal control arrangements.
- 4.3 To assist the Council in ensuring that arrangements for preparing 2008-09 claims and returns are robust, we will:
- Follow up on any issues raised during our 2007-08 certification work in relation to the Council's preparation of grants;
  - Agree the timetable and estimated budget in advance of carrying out our certification work; and
  - Prepare a grants report, summarising issues from the 2008-09 audit, to facilitate continuous improvement.

## 5 2008-09 Inspection plan

### CPA and inspection

- 1 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008-09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.
- 2 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 3 The Council's CPA category is, therefore, a key driver in the Commission's inspection planning process. For CPA 2007, the Council was categorised as four stars.
- 4 We have applied the principles set out in the CPA framework, '*CPA – The Harder Test*', recognising the key strengths and areas for improvement in the Council's performance.
- 5 Strengths in the Council's performance include:
  - Delivery of consistent good quality services across the board;
  - Outstanding enjoying and achieving outcomes for children and young people
  - Positive partnership working delivering wider community outcomes, such as crime reduction;
  - Good value for money;
- 6 Areas for improvement in the Council's performance include:
  - Sustaining improvements in housing benefits and continued progress in the strengthening of scrutiny; and
  - Increasing the level of achievement of corporate plan targets.
- 7 On the basis of the planning process we have identified where inspection activity will be focused for 2008-09 as follows.

**Table Three: Summary of inspection activity**

<b>Inspection Activity</b>	<b>Reason/impact</b>
Relationship Manager	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT statement will be reported in the Annual Audit and Inspection Letter. The DoT assessment summary will be published on the Commission's website.



## 6 Audit and Inspection Fee

### The fee

- 6.1 We are committed to targeting work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 6.2 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- Our cumulative knowledge of the Council;
  - Planning guidance issued by the Audit Commission;
  - The specific results of previous and ongoing audit work;
  - Meetings with Council officers;
  - Liaison with internal audit; and
  - The results of other review agencies' work where relevant.
- 6.3 The structure of scale fees is set out in the Audit Commission's work programme and fee scales 2008-09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 6.4 The Audit Commission has undertaken a national consultation exercise on their proposed work programme and fees for 2008-09. This follows the consultation exercise on the proposed new approach to auditors' use of resources assessments and the introduction of Comprehensive Area Assessment.
- 6.5 Our planned audit fee for the 2008-09 Code audit work is £420,000. Our planned inspection fee for 2008-09 is £26,874.
- 6.6 The total planned audit and inspection fee of £446, 874 compares with £447,544 (which includes £10,000 for the 2007/08 pension fund audit) for 2007-08.
- 6.7 A breakdown of the audit and inspection fee is provided in Table Six overleaf.

**Table Four: Audit and Inspection Fee**

Area	Plan 2008-09	Plan 2007-08
Financial statements	130,000	140,000
Use of Resources	285,000	276,160
Whole of Government Accounts	5,000	4,840
<b>Total Audit Fee</b>	<b>420,000</b>	<b>421,000</b>
Inspection		
Relationship Management and Direction of Travel	£26,874	£26,544
<b>Total Inspection Fee</b>	<b>£26,874</b>	<b>£26,544</b>
<b>Total Audit and Inspection Fee</b>	<b>£446,874</b>	<b>£447,544</b>
Estimate for certification of grant claims and returns	85,000	90,000

6.8 The planned fee above, excludes:

- Certification of grant claims and returns - we will provide an estimate of the cost of certifying 2008-09 grant claims and returns once the 2007-08 certification process has been completed;
- The fee for the audit of the Borough's Pension Fund, £40,000, is not included in the fee above, but is included in a separate audit plan;
- The Audit Commission's fee for participation in the National Fraud Initiative, which continues to be billed separately; and
- Dealing with any local government elector questions and objections, which will be billed separately, as required.

### **Assumptions**

6.9 In setting the fee, we have assumed that:

- The level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007-08;
- The Council will inform us of significant developments impacting on our audit;
- Internal audit meets the appropriate professional standards;

- Internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - The Council continues to provide best practice quality working papers and records will be provided to support the financial statements by 30 June 2009. As a result of past good performance in this area we have reduced the audit fee relating to the audit of the financial statements;
  - Requested information will be provided within agreed timescales; and
  - Prompt responses will be provided to draft reports.
- 6.10 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 6.11 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.

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

- 6.12 Any changes to the plan and proposed fee will be agreed with the Director of Internal Services in advance, and reported to the Audit Committee. Changes may be required if the Council's residual audit risks alter, or is a different level of work is required, for example by the Audit Commission or as a result of changes in legislation, professional standards or financial reporting requirements.

#### **Billing Arrangements**

- 6.13 The audit and inspection fees will be billed as follows:

**Table Five: Billing schedule**

Fee	Billing Profile
Audit fee £420,000	Quarterly: June 2008, September 2008, December 2008 and March 2009
Inspection fee £26,874	12 equal monthly instalments from April 2008 to March 2009

### **Advice and Assistance**

- 6.14 Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 we have powers to provide 'advice and assistance' (A&A) to another public body where this is requested. We are not proposing to do any additional services work at the Council during 2008-09.

### **Non Code Work**

- 6.15 We may agree to carry out additional work outside of the core audit, or non-audit work provided it does not present a conflict of interest and is in accordance with Audit Commission guidance. The scope and fees for any such work will be agreed with the Director of Internal Services in advance and will be reported to the Audit Committee.

## 7 Audit and Inspection Team and working together

### The Team

7.1 The key members of the audit and inspection team for 2008-09 are shown in Table Eight.

**Table Six: Key team members**

Name	Responsibilities
<p><b>Claire Bryce-Smith</b> Relationship Manager c-bryce-smith@audit-commission.gov.uk</p>	<p>The primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.</p>
<p><b>Richard Tremeer</b> Engagement Lead Richard.tremeer@gtuk.com</p>	<p>Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive, other senior officers, and the Audit Committee.</p>
<p><b>Maryellen Salter</b> Audit Manager Maryellen.salter@gtuk.com</p>	<p>Manages and co-ordinates the different elements of the audit work, including certification grant claim and returns. Key point of contact for the Executive Director of Resources and the accountancy team.</p>
<p><b>Martin Ellender</b> Performance Manager martin.ellender@gtuk.com</p>	<p>Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment, and data quality work.</p>
<p><b>Bob Jacobs</b> Information Technology Audit Manager bob.s.jacobs@gtuk.com</p>	<p>Responsible for the delivery of the Information Technology aspects of our audit.</p>

7.2 The core audit team will be supported by other specialist and support staff, as necessary, during the course of the audit, including:

- Governance and Risk Assurance specialists; and
- Technical Accounting specialists.

### Independence

7.3 We are not aware of any relationships that may affect the independence and objectivity of the audit and inspection team, which we are required by auditing and ethical standards to communicate to you. We comply with the ethical standards issued by the APB and with the Audit Commission's requirements in respect of independence and objectivity as summarised at Appendix B.

### Audit and Inspection Outputs

7.4 The table below summarises the audit and inspection reports we plan to issue in respect of the 2008-09 audit and inspection plan.

**Table Seven: Summary of Planned Outputs**

Planned output	Indicative Date to officers
2008-09 Audit and Inspection plan	April 2008
Direction of Travel Assessment	February 2009
Audit and Inspection Letter	February 2009
2008-09 Annual report to those charged with governance ('ISA 260' report which will cover accounts and value for money conclusion)	September 2009
Data quality audit reporting	November 2009
Use of resources – 2008-09 reporting of scores and recommendations	November 2009
Annual audit letter	November 2009
2008-09 Grant Claims Report	December 2009

5.5 Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies, issued by the Audit Commission. Reports are addressed to members or officers and 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.

## Quality of service

- 5.6 We are committed to achieving and maintaining the highest quality of service. If you have any comments on our service, please contact Richard Tremeer.
- 5.7 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

## Meetings

- 5.8 The audit and inspection team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 5.9 The meetings will be organised by Grant Thornton and our proposal for this is as described in the table below.

**Table Eight: Proposed meetings**

Council officers	Audit team	Timing	Purpose
Chief Executive, Executive Director of Resources	Relationship Manager (RM) / Comprehensive Area Assessment Lead (CAAL)	Quarterly.	To discuss progress of the inspection plan and any CAA issues.
Chief Executive, Executive Director of Resources	Engagement Lead (EL) and Audit Manager (AM).	At least six monthly	General update plus audit plan, accounts and VFM progress.
Head of Internal Audit	EL and AM	Quarterly	Update on audit progress and issues.
Chief Financial Officer	EL and AM	Quarterly	Update on financial statement audit issues.
Audit Committee	EL and AM, with Performance Lead and IT Audit Manager as appropriate	In accordance with Audit Committee timetable	Formal reporting of:  Audit Plan  Annual governance report

			Annual audit letter  Other issues and reports as appropriate
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# Appendix A Work under the Code of Audit Practice

## **Financial statements**

- 1 Your appointed auditor will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 Your appointed auditor is required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.
- 3 Your appointed auditor is also required to review whether the Annual Government Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Government Statement is misleading or inconsistent with our knowledge of the Council.

## **Value for money conclusion**

- 4 The Code requires your appointed auditor to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires the auditor to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at [his/her] conclusion.
- 5 In meeting this responsibility, your appointed auditor will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, for example Communities and Local Government, we will normally place reliance on their reported results to inform our work.
- 6 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

## **Use of resources assessment**

- 7 The assessment will emphasise the importance of improved value for money outcomes for local people. It is based on wider considerations other than cost and performance. It will also look at how commissioning and procurement are

improving efficiency and how non-financial resources are used to support value for money.

- 8 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor’s value for money conclusion.
- 9 The overall judgement will be based upon the evidence from three themes scored by the auditor and will give particular emphasis to the value for money outcomes being achieved. The assessment criteria below are based on our current proposals as outlined in our consultation document.

**Use of resources assessment criteria**

Managing money	<ul style="list-style-type: none"> <li>• Financial health</li> <li>• Financial planning</li> <li>• Understanding costs</li> <li>• Financial monitoring and forecasting</li> <li>• Financial reporting</li> </ul>
Managing the business	<ul style="list-style-type: none"> <li>• Leadership</li> <li>• Performance management</li> <li>• Commissioning and procuring services</li> <li>• Risk management and internal control</li> <li>• Ethical behaviour and counter-fraud</li> </ul>
Managing other resources	<ul style="list-style-type: none"> <li>• Natural resources</li> <li>• Physical assets</li> <li>• People and IT</li> </ul>

- 10 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations for improvement.
- 11 The auditor’s scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CAA.

**Data quality**

- 12 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
  - Stage 1 – review of corporate arrangements;
  - Stage 2 – analytical review; and
  - Stage 3 – risk-based data quality spot-checks of a sample of performance indicators.

- 13 Work will be focused on the overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data, including data from partners where relevant.
- 14 Our fee estimate reflects an assessment of risk in relation to the Council's data quality arrangements and performance indicators. This risk assessment may change depending on our assessment of your overall corporate arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

#### **Whole of government accounts**

- 15 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The 2008-09 WGA consolidated pack will need to be produced in accordance with the International Financial Reporting Standards (IFRS).

#### **National Fraud Initiative**

- 16 The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

#### **Certification of grant claims and returns**

- 17 We will continue to certify the Council's claims and returns on the following basis:
- Claims and returns below £100,000 will not be subject to certification;
  - Claims and returns between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
  - Claims and returns over £500,000 will be subject to a certification 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 certification approach for these claims.

## Appendix B 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. 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.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Executive 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 non-Code work in the plan.

The Code also states that the Audit 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 Audit Commission work who wish to engage in political activity should obtain prior approval from the Engagement Lead;

- 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 Audit 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 Audit Commission should not accept engagements which involve commenting on the performance of other Audit Commission auditors on Audit Commission work without first consulting the Audit Commission;
- Auditors are expected to comply with the Audit Commission's policy for both the Engagement Lead and the second in command (Audit 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 Audit Commission's written approval prior to changing any Engagement Lead in respect of each audited body; and
- The Audit Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or Audit Manager 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.