

Chief Executive's Office

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Date: 30 June 2005

Chorley
Borough Council

Town Hall
Market Street
Chorley
Lancashire
PR7 1DP

Chief Executive:
Jeffrey W Davies MA LLM

Dear Councillor

A meeting of the Audit Committee is to be held in the Council Chamber, Town Hall, Chorley on Monday, 11th July, 2005 commencing at 3.30pm

AGENDA

1. **Apologies of absence**
2. **Declarations of any interests**

Members of the Committee are reminded of their responsibilities to declare any personal interest in respect of matters contained in this agenda in accordance with the provisions of the Local Government Act, 2000, the Council's Constitution and the Members' Code of Conduct. If the personal interest is a prejudicial interest, then the individual Member should not participate in a discussion on the matter and must withdraw from the room and not seek to influence a decision on the matter.

3. **Minutes (Pages 1 - 2)**

To confirm as a correct record the minutes of the meeting of the Audit Committee held on 10 March 2005 (enclosed).

4. **Statement on Internal Control (Pages 3 - 14)**

Report of Corporate Governance Group (enclosed).

5. **Internal Audit Annual Report for 2004/05 (Pages 15 - 26)**

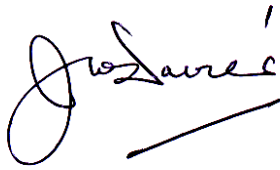
Report of Director of Finance (enclosed).

6. **Audit and Inspection Plan for 2005/06 (Pages 27 - 38)**

The Audit Commission's Audit and Inspection Plan is enclosed.

Continued....

7. **Any other item(s) which the Chair decides is/are urgent**

A handwritten signature in black ink, appearing to read "Joe Lawrence", with a horizontal line underneath.

Chief Executive

Distribution

1. Agenda and reports to all Members of the Audit Committee for attendance.
2. Agenda and reports to Group Director, Director of Finance and Audit Manager for attendance.
3. Agenda and reports to Councillor Edgerley for information.
4. Agenda and reports to all remaining Chief Officers for information.
5. Agenda to all remaining Members of the Council for information.
6. Agenda and reports to Mr Thomas (District Auditor) and Mr G Kelly (Audit Manager, Audit Commission)

AUDIT COMMITTEE**3****10 March 2005**

Present: Councillor Lennox (Chair), Councillors McGowan (Vice-Chair), Bell, Mrs Case, Goldsworthy, Russell, R Snape and J Wilson.

05.AU.04 MINUTES

RESOLVED – That the minutes of the meeting of the Audit Committee held on 13 January 2005 be confirmed as a correct record.

05.AU.05 ANNUAL INTERNAL AUDIT PLAN 2005/06

The Acting Director of Finance submitted the Annual Internal Audit Plan for 2005/06 setting out the priority areas to be reviewed during the new financial year.

The report indicated that the traditional approach to organising audit work involved the production of a Strategic Audit Plan covering a 3 to 5 year period. Latest CPFA Code of Practice for Internal Audit recommended the compilation of an Annual Audit Plan each financial year to review the key business risks that are pertinent to the Council at the time.

The Internal Audit Plan for 2005/06 was structured into the following sections:

- Corporate Governance
- Risk Management
- Main Financial Systems
- Business Risk Areas
- Effectiveness/Best Value Audit
- Information Technology Audit
- Contracts Audit
- Contingency

The report reminded the Committee of the role of the Audit Section and the range of work planned in order to reassure members that the internal audit arrangements in Chorley remained sound and effective.

The Internal Audit Plan for 2005/06 was based on a resource of 640 Audit days and was the number of chargeable days available within the existing budget and comprised of a mix of in-house and bought in resources from Lancashire Audit Services.

RESOLVED – That the 2005/06 Internal Audit Plan be approved and the Executive Cabinet be recommended its adoption.

05.AU.06 CORPORATE GOVERNANCE

The Committee received from the District Auditor a report on the review that had been undertaken in July to August 2004 of the Council's corporate governance arrangement, setting out the findings and the key development areas in respect of the five themes set out within the CPFA and SOLACE framework.

The report indicated the findings of the self-assessments on each of the key governance dimensions in terms of policy, procedures and structures as well as the effectiveness of these arrangements.

RESOLVED – That the report be noted.

05.AU.07 BEST VALUE PERFORMANCE PLAN AND BEST VALUE PERFORMANCE INDICATORS REPORT

The Committee received from the District Auditor a report on the matters that had arisen from the audit of the Council's Best Value Performance Plan (BVPP) and the Best Value Performance Indicators (BVPI's) for the 2003/04 financial year.

Under the Local Government Act 1999 Best Value Authorities are required to publish a Best Value Performance Plan each year setting out an assessment of current performance and targets for improvement.

Auditors are also required by the Code of Audit Practice to review Best Value authorities' systems for producing specified performance information.

The findings of the review indicated that the authority was compliant in all significant areas and followed statutory guidance. The systems for producing and reporting on performance information were in place and were effective overall, however a number of inaccuracies that the District Auditor and Internal Audit had identified suggested that these systems needed to be strengthened.

RESOLVED – That the report be noted.

05.AU.08 OPINION MEMORANDUM 2003/04

The Committee received from the District Auditor a report summarising the matters that had arisen from the audit of the Council's core processes and accounts for the year ended 31 March 2004.

It was the responsibility of the Council's external auditors to form an independent view on the accounts and to issue an opinion as to whether they present fairly the financial position of the Council.

The key issues that had arisen from the audit were summarised in the report and the detailed matters arising, set out in an Action Plan.

RESOLVED – That the report be noted.

Chair

Report of	Meeting	Date
Corporate Governance Group	Audit Committee	11/07/05

STATEMENT ON INTERNAL CONTROL

PURPOSE OF REPORT

- 1 To summarise the statutory obligations now placed on the Council to produce a Statement on Internal Control (SIC) and publish it alongside its financial statements (from 2004/5 onwards).
- 2 To explain the structure and processes that have been put in place within the Council to enable the SIC to be produced.
- 3 To invite Members to review and approve the draft SIC (shown at the Appendix) which has been produced in accordance with CIPFA guidelines.
- 4 Thereafter the approved SIC will need to be formally signed-off by the Leader, Chief Executive and the statutory officers (Directors of Finance and Legal Services) before being submitted for external audit as part of the 2004/5 financial statements.

CORPORATE PRIORITIES

- 5 The corrective actions arising from the SIC process are vital to the achievement of corporate objectives and priorities.

RISK ISSUES

- 6 The issues raised and recommendations made in this report involve risk considerations in the following categories:

Strategy	✓	Information	✓
Reputation	✓	Regulatory/Legal	✓
Financial	✓	Operational	
People	✓	Other	

- 7 The significant internal control issues emanating from the SIC process are in essence, key strategic business risks faced by the Council.

BACKGROUND

- 8 Regulation 4 of the Accounts and Audit Regulations (2003) requires every Council to conduct an annual, internal review of the effectiveness of its system of internal control and publish a **Statement on Internal Control (SIC)** each year alongside the authority's financial statements.

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- 9 CIPFA guidance requires the most senior officer (chief executive or equivalent) and the most senior member (leader or equivalent) to sign the SIC. They must therefore be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment. The SIC is about **corporate controls** and is not confined to financial issues (hence the signatories required). The internal review should cover the Council's arrangements for:
- Establishing / monitoring the **achievement of its objectives**;
 - **Policy and decision making**;
 - Ensuring **compliance** with established policies, procedures, laws & regulations;
 - **Risk management**;
 - Ensuring the **economic, efficient & effective use of resources**;
 - **Financial management**;
 - **Performance management**.
- 10 The SIC is a corporate document and should therefore involve (in addition to the specified signatories) a variety of people charged with delivering governance, including:
- the monitoring officer in meeting his/her statutory responsibilities;
 - the responsible financial officer who is responsible for the accounting control systems and the preparation of the statement of accounts;
 - directors and managers assigned with the ownership of risks and the delivery of services;
 - members (e.g. through audit or scrutiny committees); and
 - others responsible for providing assurance (e.g. Internal & External Audit).

STEPS ALREADY TAKEN TO COMPILE THE SIC

- 11 A Corporate Governance Group (CGG) was formed in January to conduct a detailed review of the Council's system of internal control, comprising of:
- Director of Legal Services (Monitoring Officer)
 - Director of Finance (S151 Officer)
 - Head of Corporate & Policy Services
 - Audit & Risk Manager
- 12 The CGG undertook an extensive control self-assessment following CIPFA's detailed guidance and produced a draft SIC. The majority of the information contained in the draft SIC was derived from the CGG's own cumulative knowledge of the internal control system, but reference was made to independent information / assurance sources wherever possible; including:
- Comprehensive Performance Assessment (CPA);
 - Audit Commission facilitated corporate governance assessment;
 - Audit Commission Annual Audit Letter;
 - Internal corporate risk assessment (including emerging risks);
 - Results of service level business risk assessments;
 - Annual report of Internal Audit.
- 13 Management Team was subsequently invited to review and challenge the draft SIC at an away day at the end of May. The SIC shown at the Appendix therefore now represents a consensus officer view on the Council's current internal control environment (Section 3) and the Significant Internal Control Issues that need to be addressed (Section 5).
- 14 It is anticipated that the actions arising from the SIC exercise will feed into the Corporate Improvement Plan and decisions subsequently made as to responsibility, time scale and the resources needed.

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- 15 The SIC has been compiled so as to incorporate the "Statement on the System of Internal Financial Control" previously required by the Code of Practice on Local Authority Accounting and is intended to be used in the authority's accounts in place of that Statement.

COMMENTS OF THE HEAD OF HUMAN RESOURCES

- 16 Not applicable to this report.

RECOMMENDATIONS

- 17 That Members review and approve the draft SIC (shown at the Appendix) which has been produced in accordance with CIPFA guidelines.
- 18 That the approved SIC be formally signed-off by the Leader, Chief Executive and the statutory officers (Directors of Finance and Legal Services) before being submitted for external audit as part of the 2004/5 financial statements.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 19 None.

Background Papers			
Document	Date	File	Place of Inspection
Accounts & Audit Regulations	2003	FINANCE UNIT	KING ST. OFFICES

Report Author	Ext	Date	Doc ID
Garry Barclay	5468	30/06/05	AC SIC Report

APPENDIX

CHORLEY BOROUGH COUNCIL

STATEMENT ON INTERNAL CONTROL

The Council's Responsibility

- 1.1 Chorley Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the Council must also ensure that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

The Purpose of the Internal Control System

- 2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them economically, efficiently and effectively.

The Council's Internal Control Environment

- 3.1 Chorley Borough Council is a large organisation, employing over 500 people and has a gross budget in excess of £40 million. Given its responsibility for the proper stewardship of public funds, the Council has striven to develop a sound internal control framework, a fact acknowledged by the Audit Commission who rate Chorley as a low-risk authority. In their most recent Annual Audit & Inspection Letter the Audit Commission stated that:

"Systems of internal control are generally sound and risk management continues to be embedded into the Council's planning and performance management arrangements".

"Internal Audit continues to provide an effective service. We are pleased to report that once again we are able to rely on the work undertaken by the section, and that the work undertaken provides an effective component of the Council's control environment and governance arrangements".

- 3.2 Moreover, the Audit Commission have recently facilitated a detailed review of the Council's corporate governance arrangements against the best practice framework established by CIPFA (Chartered Institute of Public Finance & Accountancy) and SOLACE (Society of Local Authority Chief Executives) and found that:

"A number of the CIPFA/SOLACE framework key elements are already in place and the Council is working to develop others, mainly through the Corporate Improvement Plan".

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- 3.3 The key elements of the Council's control and governance arrangements are described in the paragraphs below: These arrangements have been in place for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts.

Establishing & Monitoring the Achievement of Objectives

- 3.4 The Council's priorities are derived from consultation on the Borough's first Community Plan and the approved Corporate Plan clearly sets out the Council's organisational objectives and priorities.
- 3.5 The Council has developed integrated business planning guidelines for individual services, which require links to be demonstrated with corporate priorities and statutory obligations. Business plan monitoring reports are produced on a quarterly basis. This is supported by a system of individual performance and development reviews.

Policy & Decision Making

- 3.6 The Council has adopted a constitution, which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.
- 3.7 Policy and decision-making is facilitated through the Executive Cabinet. Meetings are open to the public except where personal or confidential matters are being disclosed. In addition, individual executive members of the Council can make decisions under delegated authority.
- 3.8 The Council has an Overview and Scrutiny Committee and three subsidiary panels which can call for reconsideration of any executive decision which has been made by the Executive Cabinet, an individual executive member, a committee of the Executive Cabinet or an officer.
- 3.9 The Council publishes a Forward Plan which contains details of key decisions on executive matters to be made by the Executive Cabinet, a committee of the Executive Cabinet and officers. The Council has specified what is significant expenditure in terms of the definition of a key decision.
- 3.10 The Council has an approved Corporate Plan which sets out organisational objectives and priorities, derived from consultation on the Community Plan.

Compliance

- 3.11 The Council aims to ensure compliance with established policies, procedures, laws and regulations through a variety of mechanisms, including:
- Performance management system;
 - Internal Audit;
 - External Audit;
 - Monitoring Officer;
 - Section 151 Officer.
- 3.12 The Council has designated the Director of Legal Services as Monitoring Officer, who plays a key role in ensuring compliance. After consulting with the Chief Executive, the Monitoring Officer will report to the full Council if she considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

Risk Management

- 3.13 The Council has introduced a robust structure and system for identifying and evaluating all significant business risks at both the strategic and operational / service levels. The key elements of which are:
- A member approved Risk Management Policy Statement;
 - Risk Management Board (chaired by Group Director) reporting to Management Team;
 - Executive Member for Risk Management;
 - An Integrated Strategic Risk Register / Corporate Improvement Plan;
 - Service level risk assessments built into the business planning process.
- 3.14 The Risk Management Board has clearly defined Terms of Reference to further develop, improve and embed the Council's risk management framework.

Economy, Efficiency & Effectiveness

- 3.15 The Council has constantly sought ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. These now include:
- Efficiency Steering Group;
 - E-Workforce Group;
 - Improve4U Steering Group and Focus Teams;
 - Corporate Procurement Working Group;
 - Overview & Scrutiny Committee & its three Panels;
 - External Audit & Inspection (inc. best value);
 - Internal Audit.
- 3.16 The Efficiency Steering Group has a particularly important role to play in securing the delivery of value for money services and been established to:
- Act as the co-ordinating body for the efficiency programme in support of the Council's corporate plans and priorities;
 - Champion efficiency both within the Council and externally with partners, suppliers and customers;
 - Meet government & Council reporting requirements regarding Annual Efficiency Statements;
 - Monitor and review the efficiency programme on an ongoing basis to ensure that it is meeting objectives;
 - Fully integrate efficiency into the 3-year business planning and budgeting cycle.

Financial Management

- 3.17 The Council has designated the Director of Finance as the officer responsible for the administration of its financial affairs under Section 151 of the Local Government Act 1972.
- 3.18 The financial management of the Council is conducted in accordance with the Financial Procedure Rules set out in the Council's Constitution. The Council has also adopted and implemented the relevant financial codes of practice covering such areas as treasury management and the Prudential Code.
- 3.19 The Council has in place a three-year Financial Strategy, updated annually, to support the medium-term aims of the Corporate Plan.

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- 3.20 The Council maintains a sound Internal Audit function which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. Internal Audit report three times annually to the Audit Committee and are a prime source of assurance to the authority regarding its financial management (including the adequacy of its financial systems, budgetary control and the efficient and effective use of resources). Internal Audit also provides assurance in the areas of governance, risk management and compliance.
- 3.21 The Council has an objective and professional relationship with its external auditors and statutory inspectors.

Performance Management

- 3.22 The Council has a Performance Management Framework as set out in the document 'Our Corporate Planning and Performance Management Framework'. The system is driven by a Community Plan and the new Community Strategy which will replace is expected to be adopted by the Chorley Partnership (LSP) in September 2005. The Community Plan and the new Community Strategy articulate the shared vision of the Council and its Partners. Derived from this is a Corporate Plan which articulates our corporate priorities. This is cascaded through Unit Business Plans and individual performance and development reviews to ensure that everyone understands their individual and unit contribution to corporate goals.
- 3.23 Separate detailed guidance exists for Business Planning and the Performance Review process. Performance against targets in priority areas is monitored by Management Team, the Executive Cabinet and the Overview and Scrutiny Committee. Where necessary corrective action is identified and implemented.
- 3.24 The Council uses a bespoke performance management software system, Performance Plus. The system uses a traffic light system to monitor not only individual performance indicators, but also their combined effect on the achievement of corporate objectives. These reports are produced every two months to ensure that trends in performance can be identified and corrective action introduced if appropriate.

Reviewing the Effectiveness of the Internal Control System

- 4.1 The Council's extensive control framework has not emerged by accident. A variety of corporate review mechanisms are in place to ensure that its policies, procedures and processes are continuously evaluated and updated. The main review vehicles are listed below:

Corporate Governance Group

- 4.2 To oversee the production of the SIC itself, the Council has established a Corporate Governance Group with the following membership.
- Director of Finance (S.151 Officer);
 - Director of Legal Services (Monitoring Officer);
 - Head of Corporate & Policy Services;
 - Audit & Risk Manager.
- 4.3 Using the detailed guidance provided by CIPFA as the basis, the Group have produced a Schedule of Controls Assurance & Evidence; a process which also aims to identify any significant internal control or compliance issues within the authority. Although the cumulative knowledge and experience of the Group is the prime source of information, reference is made to independent sources of controls assurance wherever possible; including:

- Comprehensive Performance Assessment (CPA);
- Audit Commission facilitated corporate governance assessment;
- Audit Commission Annual Audit Letter;
- Audit Commission Best Value Reviews;
- Internal corporate risk assessment (including emerging risks);
- Results of service level business risk assessments;
- Annual Report of Internal Audit.

4.4 The Schedule of Controls Assurance and Evidence is reviewed and challenged by the Council's corporate Management Team who agree the form and content of the draft SIC itself, including the significant control issues to be disclosed. The draft SIC and supporting evidence is subsequently submitted to the Audit Committee for approval prior to formal sign-off and publication.

Risk Management Board

4.5 The corporate Risk Management Board meets on a quarterly basis to monitor developments in the risk management arena and to ensure that the Council's in-house arrangements continue to represent best practice. It's principal terms of reference are to:

- Oversee the regular review of strategic risks and ensure that any significant emerging risks are addressed via the Corporate Improvement Plan;
- Monitor the effectiveness of service level risk management within the Council's integrated business planning process;
- Analyse individual service level business risk assessments to identify any cross-departmental issues that need to be addressed corporately;
- Oversee the effective application of risk management within all significant partnership / partnering arrangements, contracts and projects;
- Oversee the execution of the Council's responsibilities in respect of civil resilience, business continuity planning and disaster recovery;
- Provide oversight of the arrangements for managing health and safety risks within the Council;
- Analyse accident, insurance claim and other incident data generated throughout the Council and co-ordinate action in respect of significant risk issues;
- Form risk management sub-groups to investigate and act upon specific issues which require resolution;
- Develop training on risk management for all levels of people connected to the Council, including officers and members;
- Disseminate information on risk management developments within the Council to the general public, members, Management Team, senior officers and employees;
- Advise managers of any changing requirements on the reporting or assessment of risk, arising from private or public sector best practice or any other relevant source.

4.6 The Risk Management Board regularly reports to Management Team on the management of risk throughout the Council.

Monitoring Officer

- 4.7 The Director of Legal Services (Monitoring Officer) has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council adopts the revised Constitution each year at its Annual Meeting.

Overview and Scrutiny Committee

- 4.8 The Council has an Overview and Scrutiny Committee and three subsidiary panels which can call for reconsideration of an executive decision which has been made by the Executive Cabinet, an individual executive member, a committee of the Executive Cabinet or an officer to enable them to consider whether the decision is appropriate.

Audit Committee

- 4.9 The Council has appointed an Audit Committee whose terms of reference extend to reviewing the adequacy of internal controls, monitoring the performance of internal audit and agreeing to the external audit plan.

Internal Audit

- 4.10 Internal Audit is responsible for monitoring the quality and effectiveness of the systems of internal control. A risk-based Internal Audit Plan is produced each financial year. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant head of service. The report includes recommendations for improvements that are included within a Management Action Plan and require agreement or rejection by service managers. The process includes follow-up reviews of agreed recommendations to ensure that they are acted upon.
- 4.11 A significant element of the necessary controls assurance is therefore taken from the work of Internal Audit. Internal Audit provides independent and objective assurance across a wide range of the authority's activities and Internal Audit plans are now constructed around the key business risk issues facing the authority.
- 4.12 The Internal Audit Annual Report (for 2004/5) contains a statement / judgement on overall levels of internal control (a view based on the relative significance of the systems reviewed during the year, in the context of the totality of the control environment).
- 4.13 The Internal Audit Section is subject to regular inspection by the Council's external auditors, who place reliance on the work carried out by them.

External Audit

- 4.14 In accordance with the Audit Commission's Code of Audit Practice, the Council receives regular reports on elements of its internal control environment, including performance management, risk management, financial management and governance.
- 4.15 During 2004/5 the Council invited the Audit Commission to facilitate a review of its Corporate Governance arrangements. The actions arising from this review are incorporated within the Corporate Improvement Plan.

5. Significant Internal Control Issues

5.1 The significant internal control issues currently being addressed or still to be addressed by the Council are noted below. Few of the issues identified are completely new as they were also raised in the Council's Comprehensive Performance Assessment (CPA) and specific actions are already contained in the Corporate Improvement Plan (CIP) to address them. Therefore, where applicable, the "Planned Action" column below gives the appropriate references in the CIP, the latest version of which (version 6) is available on the Council's web site at www.chorley.gov.uk under "Your Council".

No.	ISSUE	PLANNED ACTION
<i>Establishing & Monitoring the Achievement of Objectives</i>		
1	Further improving the engagement of communities and other stakeholders.	<ul style="list-style-type: none"> ▪ CIP (actions 4 & 6)
2	Clarifying the Council's ambition in terms of specific, measurable and sustainable outcomes.	<ul style="list-style-type: none"> ▪ CIP (actions 1 & 2)
3	Raising the profile of equality and diversity issues within the Council.	<ul style="list-style-type: none"> ▪ CIP (action 3) ▪ Embed the equality and diversity agenda across the organisation.
<i>Policy & Decision Making</i>		
4	Enabling elected members to more effectively fulfil their roles and responsibilities within the modern local government environment.	<ul style="list-style-type: none"> ▪ CIP (actions 4b & 9)
<i>Compliance</i>		
5	Establishing a member level mechanism to oversee the implementation of a best practice governance framework.	<ul style="list-style-type: none"> ▪ Extend the Audit Committee's remit to cover governance & risk issues. ▪ Adopt a local code of corporate governance consistent with the CIPFA/SOLACE framework. ▪ Implement best practice policies and procedures in whistle blowing, codes of conduct and anti-money laundering. ▪ Ensure that all changes to governance & constitutional documents are clearly communicated to staff.
6	Introducing formalised procedures to identify and comply with legislative change.	<ul style="list-style-type: none"> ▪ Introduce a centralised capture and monitoring mechanism in Legal Services.
7	Implementing appropriate project management disciplines across the Council to facilitate the achievement of corporate objectives.	<ul style="list-style-type: none"> ▪ Adopt a risk-based approach to the application of project management methodology.
<i>Risk Management</i>		
8	Effectively managing the risks associated with partnerships and partnering arrangements.	<ul style="list-style-type: none"> ▪ Identify the Council's key partners & partnering arrangements & adopt a structured approach to partnership risk management.

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	<i>Economy, Efficiency & Effectiveness</i>	
9	Systematically implementing the Council's Procurement Strategy.	<ul style="list-style-type: none"> ▪ CIP (action 14) ▪ Implement the Procurement Strategy Action Plan.
10	Systematically capturing and utilising management information to facilitate the achievement of corporate objectives.	<ul style="list-style-type: none"> ▪ Progressively develop and integrate the management information system.
	<i>Performance Management</i>	
11	Embedding a more effective and consistent approach to performance management across the Council.	<ul style="list-style-type: none"> ▪ CIP (actions 8a & 15)

JG Wilson
Leader of the Council

JW Davies
Chief Executive

G Hall
Director of Finance (Section 151 Officer)

RA Lyon
Director of Legal Services (Monitoring Officer)

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Report of	Meeting	Date
Director of Finance	Audit Committee	11/07/05

INTERNAL AUDIT ANNUAL REPORT 2004/5

PURPOSE OF REPORT

1. To summarise the **work undertaken** by the Internal Audit Service during the 2004/5 financial year;
2. To give an **opinion on the adequacy and effectiveness of the control environment** in the Council as a whole and in individual service areas;
3. To give an appraisal of the Internal Audit Service's **performance**.

CORPORATE PRIORITIES

4. The Internal Audit Service has an impact on the following corporate priorities:
 - Investing in our **Capacity** to deliver;
 - Serving our **Customers** better.
5. In particular, with regard to capacity, one of the key objectives of Internal Audit is to evaluate the extent to which the Council is making an **economic, efficient and effective use of resources**.

RISK ISSUES

6. The report contains no specific risk issues for consideration by Members. All Internal Audit activity is geared towards the identification and management of business risks.

THE ROLE OF INTERNAL AUDIT

7. The **Accounts and Audit Regulations 2003** require every local authority to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices". Such practices are laid down as standards in the **CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom**.
8. The CIPFA Code of Practice now defines Internal Audit as "**an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by**

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evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources".

INTERNAL AUDIT OPINION

9. Under Regulation 4 of the Accounts and Audit Regulations (2003) every Council is now required to conduct an annual, internal review of the effectiveness of its system of internal control and publish a **Statement on Internal Control (SIC)** each year alongside the authority's financial statements.
10. The most senior officer (chief executive or equivalent) and the most senior member (leader or equivalent) are required to sign the SIC. They must therefore be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment. The SIC is about **corporate controls** and is not confined to financial issues (hence the signatories required). The internal review should cover the Council's arrangements for:
 - Establishing / monitoring the **achievement of its objectives**;
 - **Policy and decision making**;
 - Ensuring **compliance** with established policies, procedures, laws & regulations;
 - Ensuring the **economic, efficient & effective use of resources**;
 - **Financial, performance & risk management**.
11. The prime responsibility for maintaining and reviewing the system of internal control rests with the Council's senior management. Therefore a management group comprising of the Director of Legal Services (Monitoring Officer), Director of Finance (S151 Officer), Head of Corporate & Policy Services and Audit & Risk Manager have carried out a detailed, evidenced-based review of the Council's system of internal control. In arriving at a view on the areas listed in 10 (above) the management group sought to take account of any agreed findings made by **independent assurance sources** such as Internal and External Audit.
12. With regard to **Internal Audit**, a schedule of audit work undertaken during 2004/5 is shown at Appendix 1, which gives individual opinions on the adequacy of control for each of the systems examined during the year. The majority of these reviews have already been reported in some detail by way of interim / progress reports to the Audit Committee during the course of 2004/5. To arrive at an annual judgement on the overall level of control a view needs to be taken on the relative significance of each system reviewed and the nature and significance of the weaknesses identified. Taking this into account, **in our overall opinion the Council, in general, continues to operate within a sound control environment**. Although we have given a limited assurance rating for a number of the areas examined during 2004/5, this is largely due to non-compliance with established protocols rather than underlying control weaknesses.
13. Our overall audit opinion should also be seen in the context that Internal Audit's assurance role is in a transitional stage between one of reviewing largely financial-based systems to that of evaluating the wider business risk / internal control environment (the latter now being recognised as best auditing practice). Future Internal Audit work will be constructed more around reviewing the key business risk, governance and control issues facing the authority and as such will be of significantly greater value as a source of assurance supporting the SIC. This wider role for Internal Audit will in turn lead to a wider remit for the Audit Committee itself, therefore proposals to review the Committee's terms of reference will be presented at the next meeting.

PERFORMANCE

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14. Appendix 2 sets out the **key performance data** for the Internal Audit Service during 2004/5. This shows the key **inputs** and **outputs** for the Service, including:

- An analysis of chargeable and non-chargeable **time**;
- An analysis of overall **costs** and cost per chargeable day;
- An analysis of the percentage of the annual **Audit Plan** completed, **reports issued** and **recommendations** accepted by management;
- An analysis of the average **customer satisfaction** score per audit assignment.

15. 2004/5 was a challenging year due to the continuing maternity leave of two team members in April / May 2004 and their subsequent return to work on a part-time basis. The shortfall in resources was met by extending our partnering arrangement with Lancashire County Council's Internal Audit Service.

16. During 2004/5 the authority received **617 days** of Internal Audit coverage. The Internal Audit Service produced **20 reports** containing **187 agreed recommendations** relating to controls assurance, improvements in procedure and advice on best practice.

17. The following **achievements and developments** within the Service are worthy of specific mention:

- Establishing a corporate framework & process to evaluate the Council's system of internal control to support the **Statement on Internal Control (SIC)**;
- Facilitating **workshops in business risk assessment** as part of the new integrated business planning process;
- Reviewing key financial systems to meet the **Audit Commission's Code of Practice and managed audit** requirements;
- Providing controls advice & assurance in respect of the new **Radius financial systems**.

18. Service quality has remained high as we have sought to maintain the standards achieved under **CPA, an Audit Commission scored judgement of 4 (out of a possible 4)**. Indeed our partnering arrangement with LCC has led to an enhanced service in areas like ICT audit.

19. In their recent **Annual Audit & Inspection Letter** to the Council, the **Audit Commission** commented:

"Our assessment is that Internal Audit continues to provide an effective service. We are pleased to report that once again we are able to rely on the work undertaken by the section, and that the work undertaken provides an effective component of the Council's control environment and governance arrangements".

COMMENTS OF THE HEAD OF HUMAN RESOURCES

20. Not applicable to this report.

RECOMMENDATION

21. That the Internal Audit Annual Report for 2004/5 be noted.

Gary Hall
Director of Finance

Background Papers			
Document	Date	File	Place of Inspection
Accounts & Audit Regulations	2003	FINANCE UNIT	KING ST. OFFICES

Report Author	Ext	Date	Doc ID
Garry Barclay	5468	24th May 2005	Annual Report 04-05

AUDIT AREA	CONTROLS RATING	CONTROL ISSUES
1. Main Financial Systems		
Review of Key Systems	Adequate	
Treasury Management	Adequate	
HR / Payroll Systems Interface	Adequate	
Non Domestic Rates System	Adequate	
Benefits (Landlords / Customer Services)	Adequate	
2. Other Significant Systems		
Housing Rents	Limited / Adequate	Although no major control issues emerged from the review, a number of non-compliance matters were reported and recommendations were made to improve the procedural guidance issued to staff.
Homelessness Monitoring System (HMS)	Limited	We identified a number of anomalies and errors in the information held on the HMS. The data held on the system is used to complete government returns and calculate a variety of national and local performance indicators. The documented procedures in relation to the system were found to be out-of-date.
Section 106 Agreements	Limited	Such agreements are made with developers to undertake certain works (or make payments) that are in addition to their formal planning requirements (e.g. to provide children's play facilities on a new housing development).
		Recommendations were made to introduce a corporate control and oversight mechanism, including a statutory register of S106 activity and corporate standards / administrative procedures.

AUDIT AREA	CONTROLS RATING	CONTROL ISSUES
Election Fees	Inadequate	<p>At the Chief Executive's request we undertook a review of the fees paid to officers during the 2004 postal voting pilot scheme.</p> <p>Although all the payments made had been formally approved, we identified the need to review the existing tariff of fees and charges (that had been established to cover traditional forms of election).</p> <p>The Head of HR has therefore agreed to undertake a review in order to clarify and formalise the arrangements prior to the next local elections.</p>
3. Corporate Governance		
Statement on Internal Control	Not Applicable	
Review of Regulation of Investigatory Powers Act (RIPA) Procedures	Limited	<p>Under RIPA any covert surveillance activity conducted by councils (e.g. by Environmental Services) must be formally authorised and appropriate internal procedures established (including the maintenance of a central record of authorisations).</p> <p>Recommendations were made to improve staff training and awareness of RIPA requirements and introduce formal, centralised monitoring of authorisations and compliance generally.</p>
National Fraud Initiative 2004	Not Applicable	
Audit Commission Reports Follow-Up	Not Applicable	

AUDIT AREA	CONTROLS RATING	CONTROL ISSUES
4. Information Technology Audit		
System Access Controls	Limited	<p>A number of control weaknesses were identified in the systems access arrangements throughout the authority, including:</p> <ul style="list-style-type: none"> ▪ A lack of corporate standards and controls for authorising new users and changing user permissions. ▪ The excessive use of systems administration access levels. ▪ Weaknesses in access monitoring and password management.
Orchard Modules	Limited	Several weaknesses were established in the overall control of the Orchard System, including password management and the control of user accounts, access rights and permissions.
Database Administration	Limited	The lack of enforced standards and documentation has resulted in a number of diverse database systems across the Council. This creates a number of problems for system integration and adds to the problem of providing adequate technical support to the users.
5. Contracts Audit		
Town Hall Improvements	Not Applicable	

AUDIT AREA	CONTROLS RATING	CONTROL ISSUES
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6. Effectiveness / Best Value Audit		
Systems For Best Value PI Generation	Adequate	
Review of the Corporate Training Budget	Limited	<p>We made several recommendations to improve the economic, efficient and effective use of resources in this area, including:</p> <ul style="list-style-type: none"> ▪ The need to evaluate central corporate training activity and initiatives to ensure they fully meet the needs of the organisation. ▪ Introducing thorough post-training evaluation of both service specific and corporately managed training. ▪ Ensuring that all avenues of external funding are fully explored.

7. Unplanned Reviews		
Housing Repairs On-Call Procedures	Limited	<p>This review was commissioned by the Head of HR (following concerns raised by members) after allegations had been made that there were serious weaknesses in the housing repairs on-call system.</p> <p>Although our review found the overall system to be robust, a number of operational and viability issues were identified, largely due to the small pool of duty officers available (caused by dissatisfaction over rates of pay). Following adjustments to the payment regime by Housing Services, the duty officer pool is now back to full compliment.</p>

KEY TO CONTROL RATINGS

Inadequate	Cannot place sufficient reliance on the controls in place. Substantive control weaknesses exist.
Limited	Can only place limited reliance on the controls in place. Significant control or compliance issues need to be resolved.
Adequate	Can place sufficient reliance on the controls in place. Only minor control weaknesses exist.

NOTE

The above control ratings relate only to the point in time when the final audit report was issued. They represent a historic rather than a current judgement as managers are charged with implementing corrective action plans to address the control issues raised. This is in turn supported by a programme of follow-up reviews by the Internal Audit Service.

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PERFORMANCE DATA 2004/5

APPENDIX 2

INPUT ANALYSIS USE OF AUDITORS TIME (DAYS)	LANCS AVERAGE 2003/4		CHORLEY PLAN 2004/5		CHORLEY ACTUAL 2004/5	
	Days	%	Days	%	Days	%
NON-CHARGEABLE TIME (In-house)						
Unavailable Days (Leave / Training)	301	26	220	23	225	24
Non-Chargeable Management	69	6	71	7	87	9
Administration	99	9	20	2	21	2
SUB-TOTAL	469	41	311	33	333	35
CHARGEABLE TIME (In-house & bought-in)						
Audit of Main Financial Systems	207	18	115	12	114	12
Audit of Other Significant Systems	198	17	170	18	174	18
Corporate Governance / Risk Management	65	6	140	15	152	16
Effectiveness / Best Value Audit	6	1	50	5	54	6
Information Technology Audit	34	3	50	5	68	7
Contracts Audit	25	2	30	3	26	3
Contingency (inc. consultancy / advice)	138	12	85	9	30	3
SUB-TOTAL	673	59	640	67	618	65
TOTAL DAYS IN YEAR	1142	100	951	100	951	100
Number of Auditors (in-house / FTE)	4.4		3.3		3.3	
Chargeable Days Provided In-house	650		540		518	
Bought In Audit Days	23		100		100	
Chargeable time as a % of total time available	59%		72%		65%	

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PERFORMANCE DATA 2004/5

APPENDIX 2

INPUT ANALYSIS (COSTS)	LANCS AVERAGE 2004/5 (*) £	CHORLEY BUDGET 2004/5 £	CHORLEY ACTUAL 2004/5 £
Staff Costs (In house)	116808	130850	108133
Bought In Audit Costs	4819	2500	23000
Running Costs	9092	11780	10423
Central Charges	26371	45270	46550
TOTAL COST OF SERVICE	157092	190400	188106
Cost Per Chargeable Audit Day	233	298	304
(*) 2003/4 figures plus 2004/5 pay award (2.75%)			
OUPUT ANALYSIS	LANCS AVERAGE 2003/4	CHORLEY TARGET 2004/5	CHORLEY ACTUAL 2004/5
% Audit Plan Achieved	88%	88%	100%
% Planned Audit Reports Issued Within Target Time	Not Measured	77%	76%
Number of Recommendations Made	201	No Target	199
% Recommendations Made Agreed For Implementation	98%	93%	94%
Average Customer Satisfaction Score Per Audit (on a scale 1-5 where 5 is high)	Not Measured	4.2	4.6
Retention of Full Managed Audit Status	Not Measured	Retained	Retained

Audit and Inspection Plan

Chorley Borough Council

INSIDE THIS PLAN

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

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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

Reference:	CH010 Audit and Inspection Plan
Date:	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; and
- the impact of International Standards on Auditing (UK and Ireland) (ISAs).

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 £94,638 (2004/05: £107,500). 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

Following the Council’s CPA classification as a ‘fair’ council in March 2004, we have applied the principles of strategic regulation recognising the key strengths and weaknesses in Chorley Borough Council’s performance. As a consequence our inspection activity will focus on the following.

SUMMARY OF INSPECTION ACTIVITY	
Inspection activity	Reason/impact
Direction of travel statement.	This is annual work carried out at all councils. It assesses progress the Council is making on achieving continuous improvement.

Use of resources

The new Code of Audit Practice requires us to undertake a use of resources assessment. This will involve reviewing five areas using a key lines of enquiry matrix covering:

- financial management;
- financial standing;
- financial reporting;
- internal controls; and
- value for money.

We are also required to issue a separate 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
- consider relevant cross cutting and national risks that affect both the Council and other relevant organisations.

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 which we will address through our use of resources work.

SUMMARY OF USE OF RESOURCES AUDIT RISKS	
Audit risk	Response
<p>Financial management</p> <p>The Council has identified the need to further develop its financial management arrangements to assist sustained improvement.</p>	<p>We aim to support the Council through an integrated approach with the CIPFA model as it takes steps to strengthen its financial management, and ensure that resource allocation and financial monitoring support the delivery of corporate objectives.</p>
<p>Financial standing</p> <p>The Council’s financial position, whilst reasonably sound, remains under constant pressure.</p>	<p>We will continue to closely monitor how the Council responds to securing financial health, in particular with any potential service delivery changes.</p>
<p>Performance management</p> <p>The Council has identified as a corporate priority the need to develop and embed business planning and target setting within the performance management system so as to underpin its ability to deliver improvements in services.</p>	<p>We will assist the Council by following up on the 2004/2005 review to ensure the embedded use of business plans and targets to support the effective management of performance.</p>

<p>Potential LSVT</p> <p>Proposed transfer of housing stock, may change the Council's role from local housing market providers and managers of housing accommodation to focus on enabling, strategic planning and to ensure access to decent and affordable housing for local people</p> <p>Risk of LSVT transfer related costs and recharges threatening a balanced general fund budget position. If on the event of a no ballot risks remain around the funding pressures on future repairs and maintenance budgets.</p>	<p>We aim to support and review how the Council addresses the significant risks it, its tenants and other stakeholders will encounter in relation to the cost and quality of future housing related services.</p>
<p>Partnerships</p> <p>An increasing number of national and local objectives are delivered through partnerships. Effective working relationships, especially between the districts and Lancashire County Council, are key to the successful delivery of effective partnership working.</p>	<p>We will carry out a cross cutting review of partnership working arrangements across Lancashire to assess how well partners are working together to deliver key public services. This work will include a review of effectiveness and potential for future improvements. The scope of the work and specific probes is still to be agreed with partners.</p>
<p>Legislative and regulatory changes</p> <p>The Council recognises the need to respond to emerging legislative changes, for example, on the Freedom of Information Act, Local Authorities indemnities for officers and members Order 2004 and the Race Relations 1976 statutory duties Order 2001.</p>	<p>To arrive at an appropriate conclusion on the Council's arrangements for ensuring legality and statutory compliance, it is important we are aware of how it is responding to changes in legislative and regulation requirements.</p>
<p>Best Value Performance Plan/ Indicators</p> <p>The Council acknowledges the importance of the continued statutory BVPP compliance and the accuracy and timely reporting of performance indicators.</p>	<p>We will undertake the audit of the Plan and performance indicators in line with statutory guidance.</p>

Financial statements

We will carry out our audit of the 2005/06 financial statements and have regard to the newly introduced 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 Council.

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

SUMMARY OF OPINION RISKS	
Opinion risks	Response
<p>Whole of Government Accounts and early closedown</p> <p>Early closedown and increased use of estimates in response to the Whole of Government Accounts agenda will place additional pressure on staff, which could increase the risk of poorer quality accounts.</p>	<p>We will assess the robustness of the closedown processes and the use of accounting estimates and share good practice where possible. We will share as early as possible our audit requirements with a view to early testing of accounts, where appropriate.</p>
<p>Statement of Internal Control</p> <p>Risk of the statement of internal control (SIC) disclosures not being supported by a robust evidence gathering system.</p>	<p>The Council recognises this risk and has created a Internal Controls Steering Group to oversee the collation of evidence to feed into the SIC. We will examine the robustness of the evidenced assurances available to support SIC disclosures.</p>
<p>SORP 2005</p> <p>Risk of non compliance with 2005 Statement of Recommended Practice (SORP) accounting requirements, which is likely to include a focus on group accounts, prudential regime and FRS17 pensions.</p> <p>The impact of changes in service delivery on HRA and general fund accounts.</p>	<p>We will highlight early changes in accounting and audit requirements with finance staff. While at the opinion audit stage we will examine the statements to ensure compliance with the SORP.</p> <p>We will maintain a monitoring brief of any service delivery changes and its impact on the Council's accounts.</p>

However, we have yet to undertake the audit of the 2004/05 financial statements and our 2005/06 financial statement audit planning will continue as the year progresses. This 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.

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; and
- 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.

Voluntary improvement work

There is potential for us to undertake voluntary improvement work but no additional work in the 2005/2006 plan has been agreed at this stage.

The team

Name	Title
Mike Thomas	Relationship Manager and Appointed Auditor
Gareth Kelly	Audit Manager
Wanda Rossiter	Area Performance Lead
Allen Graves	Audit 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.

Future audit plans

As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. Key areas identified include:

- Housing strategy post outcome on the proposed LSVT
- Consideration of further service delivery probes to assess the effectiveness of partnership working.

We will discuss these in more detail as the audit year progresses.

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 Audit 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	*	55,186
Use of resources	*	36,422
Total audit fee	97,100	91,608
Inspection	10,400	3,030
Total audit and inspection fee	107,500	94,638
Grant claim certification	Not yet complete	33,831
Voluntary improvement work	0	0

* 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 total audit and inspection fee compared to the indicative fee banding equates to 15 per cent below mid point.

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 significant developments impacting on our audit;
- Internal audit meets the appropriate professional standards;
- 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 to the Audit Committee.

Planned output	Start date	Draft due date	Key contact
Audit and Inspection Plan*	1 February 2005	31 March 2005	Mike Thomas Appointed Auditor/RM Gareth Kelly Audit Manager
BVPP opinion and PI audit memorandum	June 2005	November 2005	Gareth Kelly Audit Manager
Financial management report	October 2005	January 2006	Gareth Kelly Audit Manager
Performance Management follow up on action plan	December 2005	March 2006	Wanda Rossiter Performance Lead
Use of resources judgement	June 2005	October 2005	Gareth Kelly/ Wanda Rossiter
Interim audit memorandum	March 2006	June 2006	Gareth Kelly Allen Graves Principal Auditor
Report to those charged with governance (ISA 260)	August 2006	September 2006	Gareth Kelly Audit Manager
Final accounts memorandum	July 2006	October 2006	Gareth Kelly Audit Manager
Annual audit and inspection letter (including direction of travel assessment)	October 2006	December 2006	Mike Thomas Appointed Auditor/ 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 Audit Committee. The auditor reserves the right, however, to communicate directly with the Board 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 s 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.