

Audit and Inspection Plan

May 2006



Audit and Inspection Plan

Chorley Borough Council

Audit 2006/2007

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

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

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

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

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

Status of our reports to the Council

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

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

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Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake in 2006/07. The plan has been drawn up from our risk-based approach to audit planning and reflects:
 - the Code of Audit Practice;
 - Audit and inspection work specified by the Audit Commission for 2006/07;
 - your local risks and improvement priorities; and
 - current national risks relevant to your local circumstances.
- 2 Your relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Our responsibilities

- 3 In carrying out our audit and inspection duties we have to comply with the statutory requirements governing them, and in particular:
 - the Audit Commission Act 1998;
 - the Code of Audit Practice (the Code) with regard to audit; and
 - the Local Government Act 1999 with regard to best value inspection and audit.
- 4 The Code defines auditors' responsibilities in relation to:
 - the financial statements of audited bodies; and
 - audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources. Auditors are now required to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - we will give the first such conclusion by September 2006 as part of the 2005/06 audit, which will in part be informed by the recent use of resources work together with an update position.

The fee

- 5 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 6 Inspection fees are based on the actual number of days included in the plan for each programmed activity.
- 7 The total fee estimate for the audit work planned for 2006/07 is £100,876. The total fee estimate for inspection work planned for 2006/07 is £4,204, which is net of 80 per cent ODPM grant. The total audit and inspection fee for 2006/07 is £105,080. This compares with a total audit and inspection fee of £100,267 in 2005/06 reflecting a rise of 4.8 per cent, which is in line with the Audit Commission's expected fee increase.
- 8 In addition, we estimate that we will charge approximately £27,400 for the certification of claims and returns, which reflects a budgeted reduction of £5,600 from 2005/06. Further details are provided in paragraph 38 and in Appendix 1.
- 9 The audit and inspection fees include all work identified in this plan unless specifically excluded. Further details are provided in Appendix 1, which includes specific audit risk factors, the assumptions made when determining the audit fee, specific actions Chorley Borough Council could take to reduce its audit fees and the process for agreeing any additional fees.
- 10 Changes to the plan and the fee may be necessary if our audit risk assessment changes during the course of the audit. This is particularly relevant to work related to:
 - the opinion on the 2006/07 accounts, since we have yet to audit the accounts for 2005/06 and detailed financial reporting requirements for 2006/07 are not yet known; and
 - selected performance indicators audit, since we have yet to assess your overall arrangements for securing the quality of this data and then to undertake a formal risk assessment.
- 11 We will formally advise you if any changes to the fee become necessary.

CPA and inspections

- 12 The CPA framework for district councils from 2006 is currently subject to consultation. It is expected that the proposed methodology published in April 2006 will be available for some councils during 2006/07 as an opportunity for re-categorisation.
- 13 If the new methodology identifies the need or opportunity for a revised corporate assessment for Chorley Borough Council, we will discuss an amendment to this plan and agree an additional fee for completion of the work.
- 14 Following the Council's classification as a fair in 2004 we have applied the principles of strategic regulation recognising the key strengths and weaknesses in Chorley Borough Council's performance. We have found that:
- the Council is consistently improving outcomes for local people and is addressing previous weaknesses in leadership and strategic direction. It has set a clearer path for itself and its communities through a revised community strategy and corporate plan. It is strengthening internal systems to support improvement and the performance management framework is improving; and
 - A more focussed and meaningful array of performance measures is needed in order to challenge and monitor outcomes. Business unit plans, service objectives and personal objectives for individual staff need to be integrated and more clearly linked to corporate priorities. There remains scope for members to become more involved in performance management.
- 15 As a consequence our inspection activity will focus on those areas highlighted below.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager role	To act as the Commission's primary point 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 review	To provide focus for continuous improvement. Likely to be included in a future CPA scorecard.

Summary of key audit approach and risks

- 16 This section summarises our assessment and the planned response to the key audit risks which may have an impact on our objectives to:
- provide an opinion on your financial statements;
 - provide a conclusion on your use of resources;
 - provide a scored judgment on the use of resources to feed into the CPA process;
 - undertake audit work in relation to specified performance indicators to support the service assessment element of CPA; and
 - provide a report on the Council's best value performance plan (BVPP).
- 17 In assessing risk our approach to audit planning requires us to identify audit work that is relevant to your significant business risks that are not adequately controlled. The start point for this is the audited body's business risks. Business risks are defined by the Code of Audit Practice as 'risks to the achievement of the audited bodies statutory functions and objectives'.
- 18 To consider the significance of the risk we need to consider what the impact would be if the risk came to fruition both in terms of qualitative and quantitative measures.
- 19 If in our judgement risks are not likely to have a significant (or material) impact on the audited body then there is no further work required for us to do.
- 20 In order to identify such risks we have carried out the following:
- reviewed your risk register;
 - reviewed your corporate plan;
 - reviewed budget documents - to identify new projects or risks, or general financial management risks;
 - reviewed agenda papers/minutes of meetings - board/council/committees and officer groups;
 - held discussions with key officers at the Council;
 - considered the issues raised within the Audit Commission's Auditor Briefing which highlights a number of national risks which may be relevant at Chorley Borough Council; and
 - reviewed the results of the prior year audit work.
- 21 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.

Value for money conclusion

- 22 The Code of Audit Practice requires us to issue a value for money conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources. The Audit Commission has developed relevant criteria for auditors to apply in reaching our value for money conclusion as required under the Code of Audit Practice. These criteria are listed in Appendix 2. In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. We will give the first such conclusion by the end of September 2006 as part our audit of the 2005/06 accounts. This may influence our risk assessment for similar work to be carried out as part of the 2006/07 and we will keep you informed of any changes to this plan that may become necessary.

Use of resources judgement

- 23 Over and above the Code requirements described above, the Audit Commission requires auditors to make more qualitative assessments of the effectiveness of those arrangements in the form of a series of use of resources judgements. The key lines of enquiry (KLOEs) issued in June 2005 will be updated in Spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment. Our fee estimate 2006/07 assumes that the KLOEs will be broadly similar to those used in 2005/06. If this changes we will discuss with you the implications, including any impact on the fee.
- 24 These judgements may also be used by the Commission as the basis for its overall use of resources judgement.
- 25 Using our cumulative knowledge and experience, including the results of previous work and other regulators' work, we have identified the following areas of audit risk to be addressed.

Table 2 Summary use of resources audit risks

Audit risk	Response
<p>Financial Reporting - the following key improvements were identified.</p> <ul style="list-style-type: none"> • Complete and cross reference the working paper checklist to electronic working papers along with a predictive analytical review. • Introduce a robust QA of the accounts prior to audit to ensure compliance with the SoRP. 	<p>As part of our annual use of resources assessment and opinion audit we will follow up on what progress has been made in strengthening financial reporting arrangements.</p>

Audit risk	Response
<ul style="list-style-type: none"> • Consult with stakeholders on summary accounts and then publish a format in response to that consultation. • Consider the benefits of producing an annual report in a user friendly format. <p>Failure to address these areas will prevent the Council from improving its engagement with stakeholders and its UoR score for financial reporting.</p>	
<p>Financial Management - a number of areas were identified for improvement including:</p> <ul style="list-style-type: none"> • communication and linkage of the medium term financial strategy to other internal strategies; • the new Community Plan priorities need to be incorporated within the updated MTFS; • linkage between operational activity based cost driver indicators and risk assessments in budget monitoring reports; • financial performance of the Council's partners needs to be regularly reviewed; • regular financial management training for members and non-financial officers is needed; • performance measures and benchmarking should be used to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives. <p>Failure to address these areas will prevent the Council from gaining service improvement through better financial management and improving its UoR score.</p>	<p>We will review the Council's progress in strengthening financial management arrangements as part of our annual assessment of Use of Resources.</p> <p>We plan to carry out a specific review of arrangements including workshops to raise awareness of improvement through better financial management.</p>

Audit risk	Response
<p>Financial Standing - the key areas for improvement is for members to monitor key financial health indicators and for the Council to consider the opportunity cost of reserve levels against benefits accrued.</p> <p>Failure to address these areas may prevent the Council from securing sustainable financial health and improve its UoR score for financial standing.</p>	<p>As part of our annual use of resources assessment we will follow up what progress has been made in strengthening financial standing arrangements.</p>
<p>Internal Control - key areas for improvement include:</p> <ul style="list-style-type: none"> • the need for further effective management of Council business risks through explicit consideration of the upside of risks within decision making and embed as part of wider management arrangements; • formalising risk management arrangements for all the Council's significant partnerships; and • developing a strong counter fraud and wider ethical governance culture which is supported and promoted by members and senior officers. <p>Failure to address these areas will prevent the Council from demonstrating strong standards of governance and improving its UoR score for internal control.</p>	<p>We will review the Council's progress in strengthening internal control arrangements as part of our annual assessment of Use of Resources.</p> <p>High ethical standards are a cornerstone of good governance. We will work with the Council in trying to promote high ethical standards at Chorley Borough Council.</p> <p>We propose to undertake a piece of work around ethical governance. The work will assess whether the Council has complied with arrangements under part III of the Local Government Act 2000 for authorities to put in place rigorous mechanisms for improving the standards of conduct of public office holders.</p> <p>We can use questionnaires and workshops to assess member and officer level understanding around ethical behaviour and how well the Council promotes ethical standards.</p>
<p>VFM - key areas to strengthen include:</p> <ul style="list-style-type: none"> • information on costs and how these compare to others and to the quality of services achieved needs to be used to review and challenge VFM throughout services and corporately; 	<p>We will review the Council's progress in strengthening VFM arrangements as part of our annual assessment of Use of Resources.</p>

Audit risk	Response
<ul style="list-style-type: none"> • clear VFM targets are needed for senior managers and members to assess VFM and monitor its achievement; • the structures and processes for assessing the wider VFM issues of policy decisions for the whole community need to be formalised; • information bringing together costs and quality of services needs to be regularly reported to members; and • VFM from procurement needs to be more clearly demonstrated at both strategic and transaction cost levels. <p>Failure to address these areas will prevent the Council from securing further improvements in value for money and maintaining or improving its UoR score for VFM.</p>	

Local Use of resources risks	
Audit risk	Response
<p>Large Scale Voluntary Transfer of housing stock presents significant risks for the Council, its tenants and other stakeholders, in relation to the cost and quality of future services if such a transfer takes place. When local authorities transfer their housing stock their role in the local housing market changes from providers and managers of housing accommodation to a focus on enabling, strategic planning, and facilitating to ensure local people in need can access decent and affordable housing.</p>	<p>We will review the arrangements up to the ballot stage, We will also consider the plans the Council develops to complete any housing stock transfer, and assess the effects this has on the remainder of the organisation as it enters a new arrangement for the provision of housing</p> <p>The approach includes:</p> <ul style="list-style-type: none"> • reviewing arrangements for project management of any transfer process; • reviewing on going arrangements for managing the enabling and retained functions; • examining the arrangements for consultation and participation by key stakeholders; and

Audit risk	Response
	<ul style="list-style-type: none"> • seeking assurance that the entire transfer process is managed effectively.
<p>One of the biggest emerging business continuity risks is around IT fraud and abuse.</p>	<p>We intend to use the IT – ‘Your business at risk’ short diagnostic tool to review and raise awareness of IT risks, benchmark and highlight areas for improvement in relation to IT fraud and abuse.</p>
<p>New systems in place surrounding the Local Area Agreement for the Lancashire Area do not mitigate all of the risks arising from partnership working.</p>	<p>We will review the LAA arrangements covering governance and financial issues through using the Audit Commission risk diagnostic tool.</p>

Performance information

- 26 In 2006/07, auditors are required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA, subject to the basis of the agreed methodology. This work will be risk based and will link at least in part to our review of the Council’s overall arrangements to secure data quality, as required for our value for money conclusion. Our fee estimate includes an element for this work on the basis that we will assess Chorley Borough Council as medium to high risk in relation to its performance indicators.
- 27 Based on discussions with Internal Audit we will continue to rely on the work performed by Internal Audit for the spot checking and completeness checks on a sample of indicators.
- 28 This risk assessment may change depending on our assessment of your overall arrangements. When we have finalised our risk assessment we will update our plan including any impact on the fee.

Table 3 Summary use of Performance indicators audit risks

Audit risk	Response
<p>Previous weaknesses in the data quality of performance indicators are not addressed through the proposed changes to quality assurances framework.</p> <p>Overall risk that the management of performance is mis-directed due to inaccurate performance information.</p>	<p>For 2006/07 there are new requirements in respect of our audit of your performance indicators based on a three stage approach. We must:</p> <ul style="list-style-type: none"> • undertake a review of overall management arrangements to secure data quality; • perform a completeness check of reported performance information, including an arithmetic check of calculations for CPA indicators; and • undertake data quality spot checks, comprising a more in-depth review of specified performance indicators.

Best value performance plan

- 29 We are required to report on whether or not you have complied with legislation and statutory guidance in respect of the preparation and publication of your Best Value Performance Plan (BVPP).

Financial statements

- 30 We will carry out our audit of the 2006/07 financial statements and follow the International Standards on Auditing (UK & Ireland).
- 31 We are also required to review whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the statement is misleading or inconsistent with our knowledge of the Council.
- 32 On the basis of our preliminary work to date we have identified the following audit risks.

Table 4 Summary of Opinion risks

Opinion risks	Response
<p>The 2006/07 financial statements will be based on the 2006 Statement of Recommended Practice (SORP). The draft SORP currently includes a number of significant amendments to the existing SORP, in particular around the capital financing charge, the consolidated revenue account, and the revaluation reserve.</p>	<p>We will work closely with the Council's Accountancy Section to ensure that it is fully aware of the proposed changes and will review the authority's closedown arrangements to ensure that there is sufficient in the plan to address the necessary changes.</p> <p>We will be holding local final accounts workshops which should focus on any proposed changes.</p>
<p>There are a number of opinion and financial health related risks associated with the potential LSVT.</p>	<p>We will monitor the compliance with the SoRP and the impact on financial health in 2006/07.</p> <p>It is important that the Council considers the advice given by the Audit Commission's Technical Team to ensure full compliance with the Statement of Recommended Practice in terms of accounting entries in 2006/07 accounts and to protect its future financial standing post any potential LSVT.</p>

- 33** Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will be prepared and fully supported by working papers by June 2007.
- 34** We have yet to undertake the audit of the 2005/06 financial statements and our 2006/07 financial statements audit planning will continue as the year progresses. This will take account of:
- the 2005/06 opinion audit;
 - our documentation and initial testing of material information systems;
 - our assessment of the 2006/07 closedown arrangements; and
 - any changes in financial reporting requirements.
- 35** When we have finalised our risk assessment in respect of your financial statements, we will update our plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

Whole of government accounts

- 36 The government is introducing whole of government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required to be audited. The Audit Commission is currently discussing the scope of the likely audit work with the NAO and other stakeholders. The fee for this work is not included in this plan and we will discuss this with the Director of Finance when further details are available.

Claims and returns certification

- 37 We will continue to certify the Council's claims and returns.
- Claims for £50,000 or below will not be subject to certification.
 - Claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit.
 - Claims over £100,000 have an audit approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.
- 38 Charges for this work is based on skill-related fees scales set out in the Audit Commission's work programme and fee scales 2006/07. The grant claim and certification returns we are expecting to audit for Chorley include housing benefits and subsidy, pooling capital receipts, national non domestic rates, and other regeneration related claims. Based on this, and on the assumption that the level of grant claims will decrease. We estimate that the fees for grant certification work will be around £27,400.

Voluntary improvement work

- 39 We are not proposing to do any voluntary improvement work at Chorley Borough Council during 2006/07. We encourage the Council through its normal procurement processes to consider using the Audit Commission for any improvement work which is not covered by the risk areas we have identified in this plan.

Outputs from the audit and inspection plan

- 40 The expected outputs from our planned audit and inspection work are listed in Appendix 3.

The team

Table 5

Name	Title
Mike Thomas	District Auditor and Relationship Manager
Gareth Kelly	Audit Manager
Wanda Rossiter	Area Performance Lead
Allen Graves	Team Leader
Sophia Iqbal	Auditor

- 41 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.
- 42 We comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

Future audit plans

- 43 As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. Key areas identified include:
- arrangements for ongoing delivery of corporate plan objectives;
 - delivery arrangements through the Local Strategic Partnership;
 - strategic housing function post any potential LSVT; and
 - impact of any potential future local government re-organisation.
- 44 We will discuss these in more detail as the audit year progresses.

Appendix 1 – Audit and inspection fee

Table 6

Fee estimate	Plan 2006/07	Plan 2005/06
Audit	20,472	19,374
Accounts	21,064	23,747
Use of resources	59,340	54,116
Total audit fee	100,876	97,237
Inspection	0	*
Relationship management	1,682	*
Service inspection	0	*
Corporate inspection (DoT)	2,522	*
Total inspection fee	4,204	3,030
Total audit and inspection fee	105,080	100,267
Certification of claims and returns	27,400	32,995
Voluntary improvement work	0	0

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

The total audit fee compared to the indicative fee banding equates to only 8 per cent above the mid-point.

- 1 The fee (plus VAT) will be charged in 12 equal instalments from April 2006 to March 2007.
- 2 The fee above includes all work contained in this plan except:
 - any work required in relation to the Whole of Government Accounts; and
 - any specific work required for CPA in 2006/07.

Specific audit risk factors

- 3 In setting the audit fee we have taken account of the following specific risk factors:
 - issues highlighted as part of our Use of Resources assessment;

- embedding integrated financial, performance and risk management arrangements; and
- the need for proactive ethical governance.

Assumptions

- 4 In setting the audit 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 information systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing (ISA);
 - officers will provide good quality working papers and records to support the financial statements;
 - officers will provide requested information within agreed timescales;
 - officers will provide prompt responses to draft reports; and
 - your Performance Indicators will be adequately prepared and reviewed.
- 5 The key lines of enquiry (KLOEs) issued in June 2005 will be updated in Spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment.
- 6 Where these requirements are not met or our assumptions change, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 7 Changes to the plan will be agreed with you. These may be required if:
 - new risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - there are any changes to financial reporting requirement, professional auditing standards or legislation which results in additional work.

Specific actions Chorley Borough Council could take to reduce its audit fees

- 8 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. In our recent 2004/05 audit and inspection letter we have identified the following actions that Chorley Borough Council could take include:
 - continuing to develop the quality assurance arrangements around BVPIs;

- ensuring a complete quality assurance framework is in place for grant and certification claims;
- responding in a more timely basis on Audit Commission draft reports;
- developing more embedded financial and performance management arrangements; and
- building on the strengths identified from the use of resources assessment and develop action plans to focus on those areas required to be in place to develop financial management arrangements and improve value for money.

Process for agreeing any changes in audit fees

- 9 If we need to amend the audit or inspection fees during the course of this plan we will firstly discuss this with the Director of Resources. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for establishing strategic and operational objectives

- 1 The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

Arrangements for ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

Arrangements for ensuring compliance with established policies, procedures, laws and regulations

- 5 The body has put in place arrangements to maintain a sound system of internal control.

Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working

- 6 The body has put in place arrangements to manage its significant business risks.

Arrangements for ensuring compliance with the general duty of best value

- 7 The body has put in place arrangements to manage and improve value for money.

Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body

- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

Arrangements for ensuring that the audited body’s affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption

- 12 The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

Appendix 3 – Planned outputs

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

Table 7

Planned output	Start date	Draft due date	Key contact
Audit and Inspection Plan	1 February 2006	31 March 2006	Audit Manager
BVPP opinion and PI audit memorandum	TBA	31 December 2006	Audit Manager
Report on financial statements to those charged with governance (ISA 260)	August 2007	September 2007	Audit Manager
Opinion on financial statements	June 2007	September 2007	Audit Manager
VFM conclusion	July 2007	September 2007	Performance Lead
Final accounts memorandum	July 2007	October 2007	Audit Manager
Ethical Governance	October 2006	February 2007	Performance Lead and Audit Manager
Financial Management	May 2006	August 2006	Audit Manager
Annual audit and inspection letter (including direction of travel assessment)	October 2007	December 2007	Audit Manager and Relationship Manager

Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISA UKIs when auditing the financial statements. Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff. Standards also place requirements on auditors in relation to integrity, objectivity and independence.
- 2 The standards define ‘those charged with governance’ as ‘those persons entrusted with the supervision, control and direction of an entity’. In your case the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 3 Auditors are required by the Code to:
 - carry out their work with independence and objectivity;
 - exercise their professional judgement and act independently of both the Commission and the audited body;
 - maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
 - resist any improper attempt to influence their judgement in the conduct of the audit.
- 4 In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors’ functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under s 35 of the Audit Commission Act 1998.
- 5 The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows.
 - Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director.
 - Audit staff are expected not to accept appointments as lay school inspectors.

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