

Report to: **Audit and Best Value Scrutiny Committee**

Date: **19 June 2008**

By: **Chief Executive and Deputy Chief Executive and Director of Corporate Resources**

Title of report: **External Audit and Inspection Plan 2008/09**

Purpose of report: **To appraise the Committee of the External Audit and Inspection Plan.**

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**RECOMMENDATION:**

**The Committee is recommended to consider the External Audit and Inspection Plan for 2008/09.**

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**1. Financial Appraisal**

1.1 The proposed audit and inspection fee for 2008/09 is £192,273 and this will be funded from within existing budgets. The full audit and inspection fee for 2007/08 was £265,874 which included the one off cost of the corporate inspection. The core audit fee of £175,850 for 2008/09 represents an increase of 0.49% on the comparable figure for 2007/08. This maintains our favourable risk discount of just over 22%, which is close to the maximum allowed of 30% and reflects positively on the control environment, the work of internal audit and the quality of the final accounts. This should mean that our audit fee remains one of the lowest for a county council in the country. However this rise is still above the average fee change estimated by the Audit Commission for county councils which is a reduction of 7%. It is likely that this is due to the changes in fees relating to the separation of the audit of the Pension Fund. In 2008/09 a separate fee of £50,000 will be charged directly to the Pension Fund and the Audit Commission indicated that this should lead to an offsetting reduction in the core audit fee of around £31,000, giving an increase of 38%. PKF have advised us that our core audit will only attract an offsetting reduction of £10,000 which reflects the actual time spent on auditing the pension fund in 2007/08. This means that the Pension Fund audit fee will have risen by 400%. We will be pursuing this matter further with the Audit Commission.

1.2 In addition to the audit and inspection fee there are additional charges for: work on the Age Well PFI (£7,000); grant claim certification (£30,000); and the National Fraud Initiative 2008 (expected to be around £4,000). The first two additional charges will be recharged to departmental budgets.

**2. Supporting Information**

2.1 Attached is the Audit and Inspection Plan for 2008/09 which has been drafted in consultation with officers and will be considered by Cabinet on 8 July. There has also been consultation with the Council's internal audit service to ensure that the plans of internal and external audit are complimentary and make best use of audit resources. This is the second plan prepared by the Council's new external auditors PKF and includes work to be carried out by both PKF and the Audit Commission, in their role as the Council's Relationship Manager and future Comprehensive Area Assessment (CAA) Inspection Lead.

2.2 In summary, the proposed work for this year focuses on:

- Audit of the Accounts and Core Financial Systems review (PKF);
- Use of Resources Assessment 2008 (PKF);
- Preparatory work for the expanded Use of Resources Assessment 2009 (PKF);
- Data Quality and performance information (PKF);

- Certification of grant claims (PKF);
- Provision of an opinion on the accounting treatment of the Age Well PFI (PKF);
- Relationship Management, Direction of Travel Assessment and preparatory work for the new CAA regime (AC)

The main risks identified by the external auditors are set out in Appendix A. There are no proposals for any voluntary improvement work within this years plan.

2.3 As noted in paragraph 1.1 there will be a separate audit plan for the Pension Fund. This is currently being prepared and will be reported to Members once it has been finalised.

CHERYL MILLER  
Chief Executive

SEAN NOLAN  
Deputy Chief Executive and Director of Corporate Resources

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Local Member: All

#### BACKGROUND DOCUMENTS

None



Accountants &  
business advisers

# **East Sussex County Council**

## **Annual Audit and Inspection**

### **Plan 2008/09**

May 2008

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- A Risk Planning Matrix
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### **Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are 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.

# 1 Executive summary

- 1.1 The Audit and Inspection Plan sets out the work that the auditor and the Audit Commission propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to planning, the requirements of the Comprehensive Performance Assessment and movement towards Comprehensive Area Assessment. It reflects audit and inspection work specified by the Audit Commission for 2008/09, current national risks relevant to your local circumstances and your local risks and improvement priorities.
- 1.2 During 2008/09 the role of Relationship Manager will be replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in your local area, lead the future CAA framework and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies.

## Key audit risk areas

- 1.3 These are set out in detail in Appendix A, and include:
- amendments to the Statement of Accounts included in the SORP 2008 consultation
  - the implementation of a significant upgrade to the Council's principal financial accounting package (SAP)
  - the Age Well PFI scheme, and the need for the Council to ensure it will obtain value for money from the process
  - the future development of the waste PFI scheme and the possible future financial impact of LATS.

## Fees

- 1.4 The proposed total audit and inspection fee for the year is £192,273. The change in fee reflects early work on the 2008/09 Use of Resources assessment, which has been offset by the removal of the fee for the audit of the pension fund from the County Councils fee, as this is now a standalone audit.

Work	2007/08	2008/09
Audit	175,000	<b>175,850</b>
Inspection	92,504	<b>16,423</b>
<b>Total audit and inspection</b>	262,504	<b>192,273</b>

## Key outputs

1.5 The key audit and inspection outputs will be:

Output	Year	Month
<b>Planning</b>		
Audit and Inspection Plan	-	May 2008
<b>Accounts</b>		
Auditor's opinion, covering: <ul style="list-style-type: none"> <li>• Statement of Accounts</li> <li>• Use of Resources conclusion</li> </ul>	2008/09	September 2009
ISA 260 Report on the 2008/09 Accounts	2008/09	September 2009
<b>Use of resources</b>		
Report and scores on use of resources – 2007/08	2007/08	December 2008
Report on Data Quality and performance information	2007/08	December 2008
Local use of resources risks work (appendix A)	2008/09	To be agreed
<b>CPA and Inspections</b>		
Direction of Travel	2008	February 2009
<b>Annual reporting</b>		
Annual Audit and Inspection Letter	2008	March 2009

## 2 Introduction

- 2.1 This joint audit and inspection plan sets out the audit and inspection work to be undertaken in 2008/09 by PKF and the Audit Commission.
- 2.2 This plan has been drawn up from our risk based approach to audit planning and planning meetings held. It reflects the Audit Commission's elements of the co-ordinated and proportionate audit and inspection programme.
- 2.3 As the audit for the 2007/08 financial year has not yet been completed the audit planning process for 2008/09, including the risk assessment, will continue as the year progresses. The information and fees in this plan will be kept under review and updated as necessary. Any significant changes to the Plan will be reported to the Audit and Best Value Scrutiny Committee (ABVSC).

### Audit work – PKF

- 2.4 The work of the auditors that is covered by this plan can be summarised as follows:

#### Accounts

- provide an opinion on the Statement of Accounts for the year ended 31 March 2009

#### Use of resources

- assessment of the arrangements to secure economy, efficiency and effectiveness in the use of resources
- review of data quality arrangements and selected performance information for 2007/08
- undertake any other use of resources work in response to local risks and improvement priorities.

### Inspection work – Audit Commission

- 2.5 From April 2009, the Audit Commission, jointly with other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA) as a replacement for Comprehensive Performance Assessment (CPA). As a result, the role of the Relationship Manager will be replaced by the Comprehensive Area Assessment Lead (CAAL).
- 2.6 The CAAL is the primary point of contact with the Council and inspectorates and co-ordinates all inspection activities, ensuring that this is underpinned by the principal of targeting work where it will have the greatest effect. This work includes preparing an annual Direction of Travel statement of performance improvements in the year.
- 2.7 During 2008/09 the Commission for Social Care Inspectorate is undertaking inspection activity.

## 3 Accounts

3.1 The Code of Audit Practice requires us to provide an opinion on whether your Statement of Accounts “presents fairly” your financial position, and has been prepared properly, in accordance with relevant legislation and applicable accounting standards.

### Scope of audit

3.2 In carrying out this work we:

- consider the extent to which your accounting and internal control systems are a reliable basis for recording transactions and from which to prepare the accounts
- consider the robustness of your processes for preparing the accounts, undertake analytical procedures and tests of transactions and balances in the accounts
- consider the adequacy of the disclosures in your Statement of Accounts.

3.3 We shall apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

3.4 From 2008/09 the audit of the Council's pension fund will be treated as a separate audit engagement rather than as part of the audit of the Council's accounts. We will prepare a separate audit plan for this audit and issue a separate audit report to those charged with the governance of the pension fund.

### Key financial systems and internal controls

3.5 Auditing standards require auditors to obtain a detailed understanding of an organisation, its environment, risk assessment processes, the information systems, internal controls, and monitoring activities. This must be sufficient to identify and assess the risks of material misstatement of the Statement of Accounts whether due to fraud or error and be sufficiently well documented to enable the auditor to design and perform further audit procedures based on identified risks.

3.6 In carrying out this review, we shall consider the environment within which those controls operate and evaluate specific controls that respond to significant risks. Following our evaluation, we will assess whether we shall be placing reliance on particular controls and where reliance is to be placed will conduct testing of the relevant controls.

3.7 Your key financial systems are:

- Main Accounting System
- Cash and bank
- Payments and creditors (incl.)
- Income and debtors
- Investments and investment income
- Payroll and employment costs
- Information technology
- Social Services transactional systems
- Transport transactional systems



### ***Working with Internal Audit***

- 3.8 The Audit Commission expects appointed auditors and Internal Audit departments to work together to ensure that audit work is most effectively targeted, thereby minimising duplication and the overall level of audit resource required.
- 3.9 We have planned the audit on the basis that we will be able to place full reliance on the work of Internal Audit and that its work will be directed to each of the key financial systems noted above.

### ***Fraud risk assessment***

- 3.10 We have a responsibility to consider specifically the potential risk of material misstatement of your Statement of Accounts as a result of fraud and error, including the risk of fraudulent financial reporting.
- 3.11 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corruption lies with management and 'those charged with governance', the Audit and Best Value Scrutiny committee.
- 3.12 We have discussed possible risks of fraud with officers and for all fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your accounts and our audit programme.

### **Statement of Accounts**

- 3.13 We will consider the adequacy of your arrangements for closing down the ledger and producing an accurate, timely and comprehensive Statement of Accounts and supporting working papers. We will provide officers with a detailed list of schedules and working papers required for the audit.
- 3.14 We will review the appropriateness and consistency of application of the accounting policies adopted by the Council and ensure that these are consistent with the *Local Authority Accounting in the United Kingdom - Statement of Recommended Account Practice* (SORP).
- 3.15 We will read the other information included in the Statement of Accounts and, if appropriate the annual report, to ensure that this is consistent, complete and not misleading based on our overall knowledge.
- 3.16 We will review your Annual Governance Statement to assess whether it has been presented in accordance with relevant guidance, is adequately supported, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.
- 3.17 We are aware that in future years you wish to accelerate production of the Statement of Accounts and audit and will work with you to identify ways in which this can be achieved.

## Whole of Government Accounts (WGA)

- 3.18 As part of the WGA process we are required to review and report on the consolidation pack you have prepared for submission. The actual procedures to be performed have been developed by the Audit Commission in discussion with the National Audit Office. Our work involves ensuring consistency between the audited accounts and the consolidation pack, and the agreement of balances with other bodies.

### Key accounts risks

- 3.19 Detailed accounts risks may not become apparent until after completion of the 2007/08 audit although our assessment to date suggests that the following risks are likely to impact on our audit:
- proposed amendments to the Statement of Accounts included in the SORP 2008 consultation
  - the implementation of a significant upgrade to the Council's principal financial accounting package (SAP)
- 3.20 We have documented these risks and our planned audit response in Appendix A.

### Other emerging issues

- 3.21 In addition there are some current and emerging issues that we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although they may become so as changes in circumstances arise. They include:
- the desire of the council to achieve earlier close down, and subsequent audit, of the year end financial statements
  - International Financial Reporting Standards (IFRS) in local government are expected to be adopted from 2010/11 and will require transitional arrangements to be put in place by the Council.

## 4 Use of resources

4.1 The Code requires us to:

- be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money conclusion)
- be satisfied that there are adequate arrangements in place for collecting, recording and publishing performance information.

### Value for money conclusion

4.2 We will give an overall conclusion on whether you have proper arrangements in place to secure value for money (VFM). The Audit Commission has developed relevant criteria for auditors to apply in reaching this conclusion.

4.3 In meeting this responsibility, we will review evidence that is relevant to your corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.

4.4 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

### Use of resources assessment – 2008

4.5 Included as part of our 2008/09 plan, we will review the arrangements in place throughout the 2007/08 financial year to secure economy, efficiency and effectiveness in the use of resources. Our work will be undertaken during 2008 and will continue to assess the Council against the existing Audit Commission Key Lines of Enquiry which focus on the importance of having sound and strategic financial management in the following areas:

Theme	Description
Financial reporting	Preparation of financial statements External reporting
Financial management	Medium-term financial strategy Budget monitoring Asset management
Financial standing	Managing spending within available resources
Internal control	Risk management System of internal control Probity and propriety
Value for money	Achieving value for money Managing and improving value for money

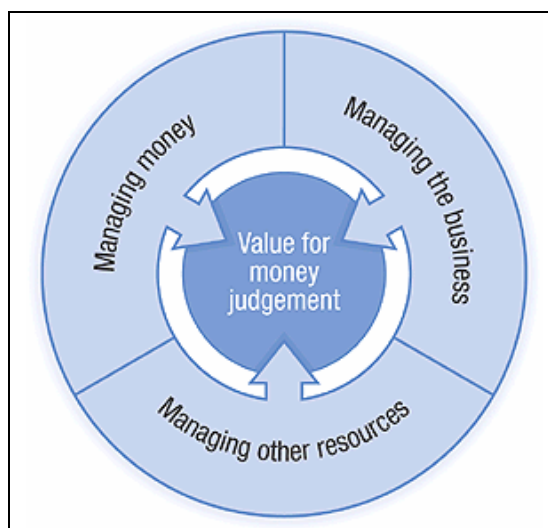
4.6 This assessment will focus on the progress made since the previous assessment and on changes to specific Key Lines of Enquiry. There are a number of modifications to the criteria, with several of the non-bold criteria now becoming bold (and assuming “must have”

status), and these changes may have an impact on the scores for each of the themes above, as well as the overall assessment score for the Council.

- 4.7 A score of 1 to 4 will be given, based on underlying criteria, for each theme and details of the scores and judgements will be reported to you. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services. The auditor's scores are reported to the Audit Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.
- 4.8 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion for 2007/08.

### ***Use of resources assessment – 2009***

- 4.9 There are likely to be changes to the assessment approach and scoring mechanism for the 2008/09 financial year to more closely align this work with future Comprehensive Area Assessments and the work of other regulators.
- 4.10 Whilst the assessment methodology has yet to be finalised, the consultation document identifies three Key Lines of Enquiry themes, instead of the previous five themes, and recognises value for money as integral to each of the assessments and is at the heart of the process:



- 4.11 Whilst the scope of the new use of resources review has been significantly expanded, the Audit Commission has stated that, to some extent, the additional resources required to complete the assessment at Single Tier and County councils can be mitigated through rotational review of each criteria, building on the information from the previous approach. However, some of the work will need to be undertaken earlier in the year and we have included an estimate of this earlier work in this 2008/09 plan. The remainder of the work required to complete the 2008/09 assessment will be included in the 2009/10 Plan and fee.
- 4.12 We will give separate scores on the three key themes. In addition there will be a single, annual judgement on value for money in the use of resources, given by the Audit

Commission, which is scored and published for each organisation following a consistency review of the professional judgements reached by the local auditor.

- 4.13 We await finalised details of the overall approach to be applied, the detailed criteria on which the assessments will be based and the scoring mechanism. We will discuss these, and arrangements for the audit, with the Council once received.
- 4.14 The work will be used to support the auditor's value for money conclusion for 2008/09.

## Data Quality

- 4.15 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- Stage 1 – review of overall management arrangements to secure data quality
  - Stage 2 – completeness check of reported performance information
  - Stage 3 – data quality spot check and in-depth review of specified performance indicators for 2007/08.
- 4.16 The work at Stage 1 will link to our review of your arrangements to secure data quality as required for our value for money conclusion and, together with the results of Stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at Stage 3. The results of the work at Stage 3 will inform the Commission's CPA assessment.
- 4.17 To reflect the past performance of the Council in this area, we anticipate that our work on stage 1 will be a lighter touch review of the key changes in criteria and approach of the Council. At stage 3 it is expected that between one and four indicators will be subject to in-depth review for a County Council.

## National Fraud Initiative

- 4.18 In 2008/09 the National Fraud Initiative will be undertaken by the Audit Commission under its new data matching powers inserted into the Audit Commission Act 1998 by the Serious Crime Act 2007. The Audit Commission has not yet set a fee for this work and will do so in April 2008 when the new statutory provisions come into force. The fee will be invoiced separately by the Audit Commission.

## Key use of resources risks

- 4.19 We have included in Appendix A our assessment of the risks relevant to our use of resources audit work and our planned response to those risks. In determining the extent to which we recognise risks relating to use of resources we have had regard to the fact that the Council was assessed as a '4' overall for Use of Resources assessment in 2007 and was categorised as a three star authority by CPA in 2007. The key risks are:
- the Age Well PFI scheme and the process by which the Council will ensure it is achieving value for money

- dealing with risks arising from the future development of the waste management contract and the potential financial impact of the Landfill Allowance Trading Scheme (LATS)

## Other emerging issues

4.20 In addition there are some continuing and emerging issues that we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although they may become so as changes in circumstances arise. They include:

- further development of business transformation programme in adult social care, ensuring that there is the best use of resources in adult social care in response to demand led pressure on services and the impact of Putting People First.
- the continued need to deliver financial savings in the light of known future central funding and likely Council Tax levels, particularly in light of current issues with collection fund balances, without impacting on policy development and service quality.
- arrangements surrounding the financial and performance management processes for the new East Sussex Local Area Agreement
- the Countywide arrangements for managing the concessionary bus pass scheme, which although a district based service has some management processes based at the County Council, and changes to which took effect from 1 April 2008.

## 5 Inspection

- 5.1 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.
- 5.2 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 5.3 The Council's CPA category and Direction of Travel assessment is, therefore, a key driver in the Commission's inspection planning process. CPA 2007 categorised the Council as a three star authority that was improving well.
- 5.4 We have applied the principles set out in the CPA framework, '*CPA - The Harder Test*', recognising the key strengths and areas for improvement in the Council's performance. Strengths in the Council's performance include:
- Improving performance in priority areas as measured by national performance indicators, the Council's analysis of local indicators and assessed by external regulators
  - Consistent delivery of services for children and young people at an above average level with outstanding capacity to improve further
  - Robust business processes and governance arrangements as measured by the use of resources assessment
  - Strong leadership and management of the authority which ensures that action plans are developed and progressed for those areas identified for improvement.
- 5.5 Areas for improvement in the Council's performance include:
- Maintaining a focus on the improvement programme in adult social care services
  - Increasing its efforts to persuade the waste collection authorities to agree a county-wide waste strategy
  - Reconsidering how it can deliver an improved transport infrastructure, including energising partners to look for innovative solutions to rural transport matters
  - Strengthening its approach to equality and diversity.
- 5.6 We are aware of the actions being taken to address the above improvement areas and will assess the progress made through the direction of travel assessment. Our overall planning has not identified any specific issue that needs to be assessed by targeted inspection.
- 5.7 Our inspection activity for 2008/09 will comprise of the following:

Inspection activity	Reason/impact
CAAL role	To act as the Audit Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An annual assessment, carried out by the CAAL, of how well the Council is securing continuous improvement. The Direction of Travel label will be reported in the CPA scorecard alongside the CPA category. The Direction of Travel assessment summary will be published on the Commission's website.



## 6 Grant claims

6.1 As agents of the Audit Commission we are required to express an opinion on certain grant claims submitted by the Council. There are de-minimis arrangements in place for the certification of claims, which are:

- amounts below £100,000 will not be certified
- amounts between £100,000 and £500,000 will be subjected to limited audit testing to agree form entries to underlying records, but the eligibility of expenditure will not be tested
- amounts greater than £500,000 will be audited in accordance with the outcome of a control environment risk assessment.

6.2 The dates for completion of this work are laid down by the Government Departments to which the claims are submitted. We will liaise with the relevant Council officers to ensure we complete our work within the given timetable.

## 7 Fees and audit arrangements

### Audit and Inspection fees

- 7.1 The Audit Commission's guideline for fee levels applicable to audited bodies remains a formula-based calculation that is adjusted to reflect the agreed scope of work applicable to local circumstances and risk profile. For audit, the calculation is based on the minimum amount of work required under the risk based audit approach outlined in the Code.
- 7.2 The audit fee, excluding grants and challenge work, for the period from April 2008 to March 2009 will be £175,850 plus VAT. The fee is based on our understanding of audit requirements at the time of drafting this Plan.
- 7.3 The proposed fee is considerably below the indicative fee suggested in the Audit Commission's *Work programme and scales* which reflects the Council's continued strong level of performance in management of its activities.
- 7.4 The fee payable for the 2008/09 programme of inspection work, net of any central government grant, is £16,423.
- 7.5 An analysis of the fee by audit area is shown below:

Work area	2007/08 Fee £	2008/09 Fee £
<b>Code of Audit Practice</b>		
Accounts – core audit	63,950	69,500
Pension fund element of audit	10,000	-
Whole of Government Accounts	3,000	3,100
Other specific risks (appendix A)	3,450	1,800
<b>Subtotal accounts</b>	<b>80,400</b>	<b>74,400</b>
Use of resources assessment -2007/08	11,100	20,000
Initial use of resources assessment – 2008/09	-	9,250
BVPP	1,630	-
Data quality and performance information	21,230	18,400
Other targeted work (appendix A)	16,000	8,000
<b>Subtotal use of resources</b>	<b>49,960</b>	<b>55,650</b>
Planning & Reporting	44,640	45,800
<b>Subtotal audit</b>	<b>175,000</b>	<b>175,850</b>
<b>Inspection</b>		
Corporate assessment	76,084	-
Relationship Management / Direction of Travel	16,420	16,423
<b>Subtotal inspection</b>	<b>92,504</b>	<b>16,423</b>
<b>Total audit and inspection</b>	<b>265,874</b>	<b>192,273</b>

7.6 Your audit fee will be billed in four instalments commencing June 2008

Month	£
June 2008	25,850
September 2008	50,000
December 2008	50,000
March 2009	50,000
<b>Total</b>	<b>£175,850</b>

7.7 As well as the inspection fees of £16,423 identified in 7.5 above, the following fees are separately billable:

Work	Estimate £	Billing arrangement
National fraud initiative	TBA	Billed directly by the Audit Commission.
Complaints from the public and objections	TBA	Should any arise, time spent dealing with them will be billed by PKF where a significant amount of work is involved. We will provide an estimate of the likely time required to respond to the matters before starting the work in those circumstances.
Grants certification	30,000	Fees billed by PKF based on the Audit Commission's grade related rates as set out in the <i>Work Programme and Fee Scales</i> on the basis of hours incurred. The estimate is based on the claims audited for the year ending 31 March 2007.
Age Well PFI opinion review	7,000	Fees will be billed by PKF based on the Audit Commission's grade related rates as set out in the <i>Work Programme and Fee Scales</i> on the basis of hours incurred. The estimate is based on work completed on previous PFI schemes at our bodies.

7.8 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Director of Corporate Resources. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Best Value Scrutiny Committee.

7.9 The fees detailed above are based on the following assumptions:

- Internal Audit will have completed its systems testing in accordance with the plans and agreed timetable, and to an adequate standard
- you will keep us informed of any significant changes to your main financial systems or procedures
- you will provide a comprehensive, good quality set of working papers and records to support the accounts, performance indicators and grant claims prior to the commencement of the audit and there will be no fundamental problems with them
- you will prepare a self assessment to support the use of resources assessment and this will be fully supported by relevant evidence

- you will ensure that audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored
- there are no major changes to the content of government department grant instructions.

## Staffing

7.10 The following staff will be involved in the audit throughout the course of the year:

Audit staff	
<b>Partner</b> Richard Bint Email: richard.bint@uk.pkf.com Tel: 020 7065 0497	Responsible for delivering the audit in line with the Code of Audit Practice, agreeing the Audit Plan, Accounts report to those charged with governance and Annual Audit Letter. Also responsible for signing opinions and conclusions, and for liaison with the senior officers and Audit Committee.
<b>Senior Manager</b> Stuart Frith Email: stuart.frith@uk.pkf.com Tel: 020 7065 0432	Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for managing our accounts and use of resources work and for completion of the Audit Plan, Accounts report to those charged with governance, and Annual Audit Letter.
<b>Assistant Manager</b> Stephen Aynsley-Smith Email: stephen.aynsley-smith@uk.pkf.com Tel: 020 7065 0187	Responsible for managing our audit fieldwork on site for accounts and use of resources.

CPA and Inspection staff	
<b>CAA Lead</b> Sandra Prail Email: s-prail@audit-commission.gov.uk Tel: 07790 775060	Responsible for co-ordinating inspection activity as the primary point of contact with the Council and inspectorates. Will also be responsible for delivering the Direction of Travel statement.  Responsible for providing a focal point for the Commission's work in your local area, ensuring that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies.

## Timetable

7.11 The key audit and inspection outputs will be:

Output	Year	Month
<b>Planning</b>		
Audit and Inspection Plan	-	April 2008
<b>Accounts</b>		
Auditor's opinion, covering:	2008/09	September 2009
<ul style="list-style-type: none"> <li>• Statement of Accounts</li> <li>• Use of Resources conclusion</li> </ul>		
ISA 260 Report on the 2008/09 Accounts	2008/09	September 2009
<b>Use of resources</b>		

Output	Year	Month
Report and scores on use of resources – 2007/08	2007/08	December 2008
Report on Data Quality and performance information	2007/08	December 2008
Local use of resources risks work (appendix A)	2008/09	To be agreed
<b>CPA and Inspections</b>		
Direction of Travel	2008	February 2009
<b>Annual reporting</b>		
Annual Audit and Inspection Letter	2008	March 2009

7.12 We will agree specific dates for our visits with officers, in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers, to discuss progress on the audit and obtain an update on relevant issues.

## Independence

7.13 Auditing Standards require auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.

7.14 We wish to disclose the following to those charged with governance:

- In March 2003 PKF audited the original financial model for the waste management PFI contract (PKF have had no other involvement in this project subsequent to this).
- In late April 2008 a team of consultants joined PKF in Birmingham and they are providing financial advice to one of the potential bidders for the Age Well PFI contract.

7.15 Officers and the Audit Commission are aware of PKF’s involvement in the above. The Commission’s Standing Guidance for auditors acknowledges that firms appointed as auditors by the Commission may be involved with PFI bidders in such ways and subject to meeting certain criteria (which have been met in those instances) it accepts these do not impair independence. We do not believe our objectivity is impaired by these professional assignments.

7.16 We have included in Appendix B to this Plan a statement to the Audit and Best Value Scrutiny Committee setting out the Audit Commission’s objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.

7.17 Following our audit of the Statement of Accounts we will report to the Audit and Best Value Committee on the findings from our audit.

## Quality of Service

7.18 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Richard Bint in the first instance. Alternatively, you may wish to

contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.

- 7.19 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).
- 7.20 In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors”, which is available on their website [<http://www.audit-commission.gov.uk/complaints/>].
- 7.21 If you are in any way dissatisfied, or would like to discuss how we can improve our inspection service, please contact the CAAL in the first instance. Alternatively you may wish to contact the of the Audit Commission’s South East Head of Operations, Chris Westwood.

## Appendix A Risk Assessment Matrix

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
<b>Accounts</b>				
1	<p><b>SORP 2008</b></p> <p>There are a number of amendments to the Statement of Accounts under consultation in the SORP 2008, which may impact on the presentation and disclosures.</p>	<p>Management will discuss and agree any necessary amendments to the Statement of Accounts.</p>	<p>Whilst the number of proposed amendments are significantly reduced for 2008/09, the impact of the changes will require review and agreement.</p> <p style="text-align: right;"><b>Significance – Low</b></p>	<p>We will agree with finance staff the necessary amendments to the accounts and any additional issues to consider as part of the accounts preparation, and undertake audit procedures on those transactions and balances subject to amendment as a result of the SORP 2008.</p>
2	<p><b>Update to financial systems</b></p> <p>The Council will, during the course of the 2008/09 financial year, implement an updated version of SAP.</p> <p>There is a need for this process of implementation to be carefully managed to ensure any risks around efficacy of controls and the loss of data are minimised.</p>	<p>There is a steering group in charge of the implementation, which meets regularly to review progress. Internal Audit are also available to provide advice and review of the processes followed.</p>	<p>There remains a risk that there is a reduction in the effectiveness of the controls environment and possible data loss issues.</p> <p style="text-align: right;"><b>Significance – Low</b></p>	<p>We will review progress with the transfer with Internal Audit and discuss their planned work.</p> <p>We will review, as part of our core financial systems work, the results of any work on the transfer of data between systems.</p>
<b>Use of Resources</b>				
3	<p><b>Age Well PFI scheme</b></p> <p>The County Council is in the process of completing the procurement of the Age well PFI scheme, with a projected financial completion date of February 2010. The scheme is part of the Adult Social Care service plan and represents a significant investment in the service.</p>	<p>The Council has a detailed procurement plan which should ensure that VFM objectives are key to any contracts awarded.</p>	<p>The project does not achieve its stated aim and VFM is not achieved with the project.</p> <p style="text-align: right;"><b>Significance - Medium</b> <b>VFM conclusion criteria: 6, 7</b></p>	<p>As part of our VFM audit we will continue to review the procurement process for the PFI scheme through attendance at regular progress meetings and review of supporting documentation.</p>

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
4	<p><b>Waste Disposal</b></p> <p>The Council has limited future waste landfill capacity and is largely reliant on the (Joint) PFI Project with Veolia to deliver solutions that mitigate that and the potential financial effects of the Landfill Allowance Trading Scheme (LATS).</p> <p>However, the Council expects to still be reliant in LATS in future years and the future costs of LATS cannot be predicted with any certainty.</p> <p>Progress under the PFI scheme has, however, been slower than planned in the key area of creating the Energy from Waste plant at Newhaven. There are potentially financial risks for the Council as a consequence.</p>	<p>The Council has developed strategies to deal with the LATS risk.</p> <p>The PFI scheme is kept under constant review and financial models reworked as necessary.</p> <p>A Corporate Waste Reserve has been established.</p>	<p>Risks remain under the PFI scheme</p> <p>LATS risk remains significant.</p> <p style="text-align: center;"><b>Significance - High</b> <b>VFM conclusion criteria: 6, 7, 9</b></p>	<p>We will keep under review the actions already being taken by the Council to reduce the risk including how it deals with the PFI project.</p> <p>The adequacy of the Waste Reserve will also be kept under review.</p>



## Value for money conclusion criteria

### Reference Criteria

- 1 The Body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.
- 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.
- 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.
- 5 The Body has put in place arrangements to maintain a sound system of internal control.
- 6 The Body has put in place arrangements to manage its significant business risks.
- 7 The Body has put in place arrangements to manage and improve value for money.
- 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.
- 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 B

### Disclosure under ISA 260 (Communication of audit matters to those charged with governance)

To: Governance Committee and Best Value and Audit Overview and Scrutiny Committee East Sussex County Council

Auditors appointed by the Audit Commission are subject to the *Code of Audit Practice* (the Code) which includes the requirement to comply with International Standards on Auditing (ISA) 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.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In the case of East Sussex County Council it has been agreed that the appropriate addressees of communications from the auditor to those charged with governance is the Governance Committee and Best Value and Audit Overview and Scrutiny Committee. The auditor reserves the right, however, to communicate directly with the Council 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
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a *de minimis* amount (currently the higher of £30,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the *de minimis* amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

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 Partner and the second in command (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 Audit Partner 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 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.

#### **Statement by the Appointed Auditor**

In relation to the audit of the financial statements for East Sussex County Council for the financial year ending 31 March 2009, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

Under the requirements of ISA 260, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed.

#### **Statement by the CAAL**

I am not aware of any relationships that may affect the independence and objectivity of the Inspectors who will work with you.