

# Audit and Inspection Plan

## East Sussex County Council

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<b>Reference:</b>	SU009 Audit and Inspection Plan
<b>Date:</b>	April 2005

## Introduction

This plan sets out the work that we propose to undertake in 2005/06. It has been drawn up from our risk-based approach to planning and reflects:

- your local risks and improvement priorities;
- current national risks relevant to your local circumstances; and
- the impact of International Standards on Auditing (ISAs).

As your relationship manager, I 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 revised Code of Audit Practice which comes into effect in April 2005;
- the Audit Commission Act 1998; and
- the Local Government Act 1999.

The key changes to the Code 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.

Corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the Council's 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 its financial standing;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that its affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption.

The Council is responsible for reporting on these arrangements as part of its annual Statement on Internal Control (SIC).

Further details on 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 £172,500, which is a 1 per cent reduction on last year (2004/05: £174,000). It 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 'good'. The proposed fee is 15 per cent below the median fee for similar sized councils rated as 'good'.

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 to feed into the CPA process; and
- provide a report on the Council's best value performance plan (BVPP).

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 classification as 'good' following the CPA update in December 2004, we have applied the principles of a proportionate response to strategic regulation for the audit year 2005/06 and do not plan to undertake any service inspections. Our inspection activity will be limited to the ongoing contact with the Council and other regulators and the annual evaluation of your progress against your improvement priorities.

SUMMARY OF INSPECTION ACTIVITY	
Inspection activity	Reason/impact
Ongoing contact with the Council and other regulators in order to inform the direction of travel statement.	To be included in CPA scorecard and to provide focus for continuous improvement.

## Use of resources

The Code requires us to issue a conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources. In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements.

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. Our audit response can be graded as a detailed piece of work, a high level review to further evaluate the risk or a light touch watching brief.

SUMMARY OF USE OF RESOURCES AUDIT RISKS	
Audit risk	Response
<p><b>Health partnerships</b></p> <p>Ineffective partnerships can impact on the quality of service delivery and opportunities to build capacity might not be taken.</p> <p>Our work on partnership working between health bodies and the Council last year in respect of older people's services identified significant scope for improvement.</p>	<p>Detailed review</p> <p>We will formally assess the progress made on improving joint working relating to our previous work on the whole systems review of older people's services in May and November 2005.</p>
<p><b>Pooled budgets</b></p> <p>The performance of pooled budgets is a risk to the Council both in terms of the achievement of value for money and its financial standing.</p>	<p>Detailed review</p> <p>We will evaluate the governance arrangements and consider the achievement of value for money. Internal audit work undertaken and that planned will be considered as part of this.</p>
<p><b>Children's services</b></p> <p>The integration of children's services is a new initiative that involves the reconfiguration of statutory services and failure to do so properly might have significant impact on the quality of service outcomes for children.</p>	<p>High level review</p> <p>We will monitor the Council's arrangements for the delivery of integrated children's services under the new statutory framework.</p>
<p><b>Best Value</b></p> <p>We have assessed the risk of giving an inappropriate opinion on the 2005/06 best value performance plan (BVPP) as low risk.</p>	<p>Opinion review</p> <p>We will audit the performance information contained in the BVPP.</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 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.

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

SUMMARY OF OPINION RISKS	
Opinion risks	Response
A new accounting system has been introduced and 2005/06 is the first full year of operation.	We will tailor our audit work based on the 2004/05 opinion audit. In particular we will consider the arrangements for the production of the accounts and the associated working papers.
The number of pooled budgets is likely to increase. Accounting for the pooled budgets could be undertaken incorrectly and material misstatements might be included in the financial statements as a result.	We will consider the financial outturn of the pools and examine the entries made for the Council's share.
Financial Reporting Standard (FRS) 9 requires the production of group accounts and the failure to do so could impact on the audit opinion.	We will liaise with Council in its preparations for producing full group accounts during the audit year.
The pension fund audit was protracted in 2003/04 because of the closedown arrangements and time taken to respond to audit queries.	We will tailor our audit work based on the 2004/05 opinion audit.

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

- evidence from the 2004/05 audit;
- documentation and initial testing of material systems; and
- our assessment of the 2005/06 closedown arrangements.

When we have finalised our risk assessment, we will update our plan in advance of the audit, including any impact on the fee quoted above.

## Grant claim certification

We will continue to certify the Council's grant claims. Our approach is:

- 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.

In 2003/04 the number of grant claims in each category was 3, 6 and 44 respectively.

## Voluntary improvement work

No voluntary improvement work has been agreed at this time. We will discuss any opportunities for such work as they are identified.

## The team

Name	Title
Darren Wells	Relationship Manager and Appointed Auditor
Grahame Brown	Audit Manager
Barbara Deacon	Local Performance Lead
Jeremy Jacobs	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

We will identify possible areas for the inclusion in the next audit plan as the year progresses and will discuss them with you.

## Status of our reports to the Council

*We will provide reports, or other output as agreed, to the Council for each of the risk areas identified above.*

*Reports are:*

- prepared for the sole use of the Council;*
- not to be disclosed to a third party or quoted or referred to without our consent; and*
- written without assuming any responsibility by ourselves to any other person.*

*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 and Best Value Committee.*

*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.*

## 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 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	*	102,000
Use of resources	*	60,000
<b>Total audit fee</b>	<b>163,000</b>	<b>162,000</b>
Inspection	11,000**	10,250
<b>Total audit and inspection fee</b>	<b>174,000</b>	<b>172,250</b>
Grant claim certification	53,500 estimated	56,000 estimated
Voluntary improvement work	0	To be agreed

*\*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.*

*\*\*Net of 50 per cent grant from the Office of the Deputy Prime Minister (ODPM).*

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.

Fees for 2003/04 grant claims were approximately £50,500, which reflected the new regime for their audit and compares to £82,500 for 2002/03. The increase in fees between 2004/05 and 2005/06 allows for a small net increase in the number of claims to be audited and increased fee rates.

## 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 ISAs;
- 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 in final form.

Planned output	Start date	Draft due date	Key contact
Audit plan*	February 2005	March 2005	Grahame Brown
Interim audit memorandum	February 2006	April 2006	Grahame Brown
BVPP opinion and performance indicator audit memorandum	June 2006	October 2006	Grahame Brown
Final accounts opinion	July 2006	N/A (Opinion to be given by October 2005)	Grahame Brown
Report to those charged with governance	July 2006	September 2006	Grahame Brown
Final accounts memorandum	July 2006	October 2006	Grahame Brown
Use of resources conclusion	April 2006	October 2006	Grahame Brown
Local performance work	TBA	TBA	Barbara Deacon
Annual direction of travel review	TBA	TBA	Darren Wells
Annual audit and inspection letter	October 2006	December 2006	Darren Wells

*\*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 Governance 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 section 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.