

Audit & Inspection Plan

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Audit and Inspection Plan

Carlisle City 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; and
- 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 and 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 report 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. We will give the first such conclusion by September 2006 as part of the 2005/06 audit.

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 £112,345 and the total fee estimate for inspection work planned for 2006/07 is £4,140 giving a total audit and inspection fee of £116,485. This compares with a current total audit and inspection fee of £106,416 for 2005/06. We will be charging additional audit fee for the years 2005/06 and 2006/07 for additional audit work, including work on the bank reconciliation. This amount will be quantified after completion of each audit.
- 8 In addition we estimate that we will charge approximately £49,000 for the certification of claims and returns. Further details are provided 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 Carlisle City 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 complete the audit of the accounts for 2005/06 and detailed financial reporting requirements for 2006/07 are not yet known; and
 - work on selected performance indicators, 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 has now been published and a procedure for considering councils for re-categorisation has been identified with a timetable for applications during 2006/07.
- 13 If the new methodology identifies the need or opportunity for a revised corporate assessment for Carlisle, 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 good council in 2004 we have applied the principles of strategic regulation, recognising the key strengths/weaknesses in Carlisle's performance. The programme of work since 2004/05 has incorporated inspections for significant risk areas, where appropriate, and the Council has identified actions in response to the inspections findings. It has been assessed that for 2006/07 there are no service areas where a further service inspection would be the best improvement tool.
- 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 of contact with the authority and the interface at the local level between the Commission and the other inspectorates, Government Offices and other key stakeholders. Monthly meetings will be held with the chief executive to ensure a positive dialogue continues regarding the progress of our audit and inspection work.
Direction of Travel review	To provide focus for continuous improvement. To be summarised in the Annual Audit and Inspection Letter.

Summary of key audit 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 judgement 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 starting 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 body's 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 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 Carlisle; 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 conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources (the value for money conclusion). 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 of 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 audit, and we will keep you informed of any changes to this plan that may become necessary.

Table 2 Summary of value for money audit risks

Audit risk	Response
The authority needs to demonstrate proper arrangements for securing economy, efficiency and effectiveness.	We will review the Council's progress in strengthening VFM arrangements as part of our annual assessment of use of resources and our VFM conclusion work.

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 have been 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 for 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 3 Summary of use of resources audit risks

Audit risk	Response
Your business at risk The authority faces risks of inappropriate use of its data and failures of data security.	We will conduct a web-based survey of staff, to assess the extent to which they are aware of and understand the Council's policies to retain the security of its data and to prevent inappropriate use and feed the conclusions of this survey into our use of resources work.
Diversity and equality legislation The authority needs to ensure compliance with a number of legislative measures, including those relating to diversity and equality.	We will review how the Council has responded to a range of legislation, including the Race Relations Act, Disability Discrimination Act, the Local Authorities Indemnities Act and new EU procurement directives, as part of our annual use of resources work.
Use of resources Our use of resources work will examine whether the authority has improved its arrangements for financial reporting, management and standing and internal control.	We will review the Council's progress in strengthening financial reporting, management, financial standing and internal control arrangements as part of our annual assessment of Use of Resources.

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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 Carlisle City Council as medium risk in relation to its performance indicators. For 2006/07 there are new requirements in respect of our audit of your performance indicators based on a three stage approach. We must:
- 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.
- 27 As far as possible we will rely on work performed by Internal Audit relating to the spot checking and completeness checks of information, and the sample of indicators to be selected will be based around discussion with ourselves.
- 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.

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 and 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 Authority.
- 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>Audit deadlines</p> <p>Deadlines for final accounts are challenging and each year presents further requirements for the Statement of Recommended Practice and accounting standards compliance.</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 time 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>Statement of Internal Control (SIC)</p> <p>The SIC is a key statement demonstrating the level of internal control within the authority.</p>	<p>We will review the Authority's ongoing arrangements for producing the SIC and audit the Statement during our audit of the accounts.</p>
<p>Whole of Government Accounts</p> <p>Earlier closedown due to Whole of Government Accounts has brought deadlines forward creating a significant challenge.</p>	<p>We will review the quality of supporting working papers and technical compliance with the Statement of Recommended Practice and financial reporting standards.</p>
<p>Internal Audit systems work</p> <p>There have been significant changes to the Audit Commission's Code of Audit practice, and to international standards on auditing (ISAs). This impacts on the requirements placed on audit. In order to ensure an efficient delivery of audit resources, both internal and external, it is important that both the Council and Internal Audit continue to be aware of the impact of these requirements.</p>	<p>We will provide feedback on the quality of systems documentation provided by Internal Audit which will assist in identifying the significant issues that will need to be considered when agreeing how Internal Audit, the Council and external audit will work in partnership to deliver a cost-effective programme of work.</p>

33 We have yet to finalise 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.

- 34 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

- 35 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 for each authority. Audit requirements for the 2005/06 WGA returns have been established and the Audit Commission has written to the Council in relation to this work together with the fee implications. For 2006/07 the arrangements are not yet clear and the fee for auditing the 2006/07 returns is not included in this plan. We will discuss this with the when further details are available.

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Claims and returns certification

- 36** 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; 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.
- 37** Charges for this work are based on skill-related fees scales set out in the Audit Commission's work programme and fee scales 2006/07. 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 £49,000.

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Voluntary improvement work

- 38 We are not proposing to do any voluntary improvement work at Carlisle during 2006/07.

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Other information

Outputs from the audit and inspection plan

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

The team

Table 5

Name	Title
Mark Heap	District Auditor and Relationship Manager
Keith Power	Area Performance Lead
Tina Meyer	Audit Manager
Barry Lennox	Team Leader

- 40** 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.
- 41** 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.

Appendix 1 - Audit and inspection fee

Table 6

Fee estimate	Plan 2006/07 (£)	Plan 2005/06 (£)
Audit		
Accounts***	87,714	73,284**
Use of resources	24,631	30,496
Total audit fee	112,345	103,780
Inspection		
Relationship management	4,140	*
Service inspection	-	*
Corporate inspection	-	*
Total inspection fee	4,140	2,636
Total audit and inspection fee	116,485	106,416
Certification of claims and returns	49,000	45,500
Voluntary improvement work	-	9,450****

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

** Includes additional £5,000 for our work on systems documentation.

*** A further sum is to be charged to be quantified following the completion of work undertaken on the audit, including work on the bank reconciliation for 2005/06 and 2006/07

**** Represents voluntary improvement work requested by the authority on Internetwork vulnerability assessment

- 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 (discussed in paragraph 36); and

- any specific work required for CPA in 2006/07.

Assumption

- 3 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 by July;
 - 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.
- 4 The key lines of enquiry (KLOEs) issued in June 2005 were 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.
- 5 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.
- 6 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 requirements, professional auditing standards or legislation which result in additional work.

Specific actions Carlisle City Council could take to reduce its audit fees

- 7 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. These would include:
- working papers could be further improved to ensure all balances in the approved draft accounts are technically accurate and clearly cross referenced to supporting evidence;
 - the completion of a balanced bank reconciliation with full supporting working papers at the start of the audit;
 - senior managers could take further responsibility for checking the accuracy of performance indicators and internal audit could usefully check that this had been done; and
 - improve supporting working papers for grant claims, and evidencing that all grant conditions have been followed in the audit file.

Process for agreeing any changes in audit fees

- 8 If we need to amend the audit or inspection fees during the course of this plan we will firstly discuss this with the Head of Finance and Chief Executive. 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	July 2006	September 2006	Audit Manager
BVPP Opinion and PI Audit Memorandum	September 2006	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	July 2007	September 2007	Audit Manager
VFM Conclusion	July 2007	September 2007	Performance Lead
Final Accounts Memorandum	July 2007	September 2007	Audit Manager
Annual Audit and Inspection Letter (including direction of travel assessment)	January 2008	March 2008	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 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 and the second in command (Audit Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
 - audit suppliers are required to obtain the Commission's written approval prior to changing any District Auditor 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 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.