

# Audit and Inspection Plan

## Carlisle City Council

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## Introduction

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

- the impact of the new Code of Audit Practice which comes into effect in April 2005;
- your local risks and improvement priorities;
- current national risks relevant to your local circumstances; and
- the impact of International Standards on Auditing (UK and Ireland) (ISAs).

Your relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

## Our responsibilities

In carrying out our audit and inspection duties we have to comply with the statutory requirements governing them, and in particular:

- the Audit Commission Act 1998 and the Code of Audit Practice (the Code) with regard to audit; and
- the Local Government Act 1999 with regard to best value inspection and audit.

The Code has been revised with effect from 1 April 2005. The key changes include:

- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
- a clearer focus on overall financial and performance management arrangements.

Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- ensuring compliance with the general duty of best value, where applicable;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the audited body's affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual Statement on Internal Control.

Further details for the new Code are set out in Appendix 1.

## The fee

The total fee estimate for the audit and inspection work planned for 2005/06 is £100,976 (2004/05: £105,100). The fee is based on the Audit Commission's fee guidance contained within its operational plan and reflects the Council's Comprehensive Performance Assessment (CPA) overall score of '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; and
- provide a report on the Council's best value performance plan.

Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including Internal Audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.

The expected outputs from this work are outlined in Appendix 3.

## CPA and inspections

Following the Council's classification as a 'good' council in the October 2003 CPA, we have applied the principles of strategic regulation recognising the key strengths and weaknesses in Carlisle City Council's performance.

We noted in our 'Direction of travel' report that a number of key developments have been made by the Council during 2004 in priority services areas and in strengthening the Council's wider community leadership role. The Council needs to continue to implement its plans for improvement and ensure that it maximises opportunities to work with other bodies across Cumbria, and beyond, to deliver economic, efficient and effective services for the people of Carlisle.

The key areas for improvement set out in the Council's improvement plans and updated through our 'Direction of travel' report in December 2004 included the following.

- Improving the Council's capacity to deliver on its vision for the city, through more effective partnership working on strategic issues such as housing, waste management and procurement.
- Improving the targeting of resources towards priorities through integrated performance and resource management.
- Developing the Council's internal capacity through member and staff planning that focuses in the future needs of the organisation.

These will be reviewed as part of the 2005/06 audit and a further 'Direction of travel' report will be drafted in November.

**SUMMARY OF INSPECTION ACTIVITY**

Inspection activity	Reason/impact
Direction of travel statement.	To provide focus for continuous improvement.

## Use of resources

The new 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. 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.

**SUMMARY OF USE OF RESOURCES AUDIT RISKS**

Audit risk	Response
Inspection and assessment work was carried out during the summer of 2004 across all the Cumbrian waste authorities. This work identified that there was no effective or county-wide implementation plan to integrate waste collection and disposal and that the high waste quantities produced in Cumbria were not being effectively tackled.	<b>Waste management: follow-up performance work</b> This follow-up piece of work will focus on the progress made by the councils in areas identified for improvement through our recommendations, the commitments made at the ACE waste seminar, and hence form a view of how the councils are developing and implementing an effective Cumbria waste management strategy in partnership.
During 2004, work was carried out to assess the effectiveness of partnership activity in reducing the impact of drugs within local communities. A range of actions were recommended to organisations that could be implemented by April 2005.	<b>Safer communities – the impact of drug use: follow-up performance work</b> The first phase of this year's work will be to review progress against those actions. The second phase of the work later in the year will review if those actions have fed through into improved services to drug users, their families and support networks, voluntary/community groups and communities as a whole. Our report will consider the implications for Carlisle City Council.
Partnership working is an important area for many of the Council's improvement priorities and is central to achieving VFM. As part of our responsibilities to assess use of resources this is a key area of review because of the relative poor performance across Cumbria.	<b>Highways and Transport – road safety performance work</b> We will review the effectiveness of partnership working across organisations through the Cumbria Strategic Partnership, Local Strategic Partnerships, and Crime and Disorder Reduction Partnerships to improve road safety within Cumbria and reduce the number of skilled and seriously injured. We will consider the action being taken including the effective use of resources across organisations.
Possible impact on balances, priorities and Council tax level resulting from the impact of storm and flood damage.	<b>Flooding</b> Review the impact on medium term financial planning and how priorities will be affected and revised.

Audit risk	Response
The Freedom of Information (FoI) Act is a new requirement for public sector bodies. There is a risk that suitable arrangements will not be in place and the Authority will fail to comply with the new requirement.	<p><b>Freedom of Information (FoI)</b></p> <p>Review arrangements in place to ensure that the Authority can meet key requirements (for example, responding to FoI requests within 20 days). Assess arrangements in place to raise staff awareness of this issue (for example, training and key contacts).</p>
The Commission's National Fraud Initiative (NFI) 2004 will provide information that may lead to the detection of fraud. The Authority may not have suitable arrangements to deal with the matches detected.	<p><b>National Fraud Initiative (NFI)</b></p> <p>We will assess how the Authority responds to the results generated by the NFI process and investigates the matches.</p>

## Financial statements

### International Standards on Auditing

In carrying out our audit of financial statements we are required to follow the auditing standards which are issued by the Auditing Practices Board. The APB has recently adopted a new set of auditing standards, the International Standards on Auditing (UK and Ireland), for the audit of all financial statements for periods commencing on or after 15 December 2004. The ISAs therefore apply to the audit of your financial statements for the year ended 31 March 2006.

ISAs largely reflect the previous requirements of UK auditing standards (SASs) but there are some important differences. The most significant change involves ISA 315 'Understanding the entity and its environment and assessing the risks of material misstatement'. As you have an adequate control environment for opinion purposes, we have previously concentrated on your core accounting processes and generally relied upon Internal Audit work on other significant systems. With ISA 315, we need to understand where all the material figures in your accounts are derived from, what controls you have in place to detect any material errors or misstatements and ensure those are tested. This would be expensive for us to undertake and we are working closely with Internal Audit to ensure audit work is aligned to address these requirements as far as possible.

### Internal Audit

Internal Audit and ourselves have always co-operated on work to be undertaken on financial systems. However, under the new requirements, it is not sufficient to agree which systems each of us should audit. It is necessary to document the system, identify the relevant controls and ensure they are suitably tested. As the audited body have the prime responsibility for documenting systems, putting controls in place and ensuring they work, the most efficient arrangement is to agree between all three parties on the contribution each of us should make.

We propose that we should reach a common agreement by May 2005 on the principles of our approach with some final details to be added as required for specific circumstances.

Our proposed fee for systems work assumes that we will be able to rely on Internal Audit's work for systems, and will only have to complete minimal testing as needed for our opinion purposes.

## Final accounts audit

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

We are also required to review whether the Statement of Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the Statement is misleading or inconsistent with our knowledge of the Authority.

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

SUMMARY OF OPINION RISKS	
Opinion risks	Response
<p><b>Statement of Internal Control</b></p> <p>The Statement of Internal Control required a number of adjustments in 2003/04 and noted improvement measures to be addressed.</p>	<p>We will review the Authority's arrangements for producing the SIC and audit the Statement during our audit of the accounts.</p>
<p><b>Flooding</b></p> <p>The flooding at Carlisle City Council has destroyed a number of documents upon which we would have expected to place reliance for our audit.</p>	<p>We will review the impact of the flooding upon audit working papers.</p>
<p><b>Whole of Government Accounts</b></p> <p>Earlier closedown due to Whole of Government Accounts is bringing deadlines forward creating a significant challenge particularly following the demands on staff time following the flooding.</p>	<p>We will review compliance with the extensive list of working paper requirements and managed audit arrangements report provided.</p>
<p><b>Internal Audit workshop</b></p> <p>There have been significant changes to the Audit Commission's Code of Audit practice, and to international standards on auditing (ISAs). This impact 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 are aware of the impact of these requirements.</p>	<p>We will provide an Internal Audit workshop which will identify 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 efficient audit.</p>
<p><b>Final accounts workshop</b></p> <p>The Authority needs to take account of the impact of the changes within the statement of recommended practice (SORP) 2004 when preparing the 2004/05 financial statements. The main changes include new requirements for group accounting/joint arrangements, and the new capital finance regime (Prudential Code).</p>	<p>We will provide a final accounts workshop which will identify the significant issues that will need to be considered when producing the Authority's 2004/05 financial statements.</p>

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

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

When we have finalised our risk assessment in respect of your financial statements, we will update our plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

## Grant claim certification

We will continue to certify the Council's grant claims.

- Claims for £50,000 or below will not be subject to certification.
- Claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit.
- 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.

## The team

Name	Title
Fiona Daley	Relationship Manager and Appointed Auditor
Mark Heap	(Interim District Auditor)
Tina Meyer	Audit Manager
Keith Power	Area Performance Lead/(Interim Relationship Manager)
Barry Lennox	Audit Team Leader

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

In relation to the audit of your financial statements we will comply with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

## Future audit plans

As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. A key area identified is:

- effectiveness of partnership working in addressing issues relevant to children and younger people.

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

## Status of our reports to the Council

*Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.*

*ISA 260 ('Communication of audit matters to those charged with governance') requires us to report relevant matters relating the audit to those charged with governance. For the Council, we have agreed that this responsibility will be discharged by reporting relevant matters to full Council or an appropriately constituted committee.*

## The new Code of Audit Practice

### The Audit Commission's objectives in revising the Code

The Commission's objectives in revising the Code are to achieve the following key outcomes:

- a more streamlined audit targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, with a focus on audited bodies' corporate performance and financial management arrangements; and
- better and clearer reporting of the results of audits.

The new Code has been developed on the basis of the Commission's model of public audit, which defines auditors' responsibilities in relation to:

- the financial statements of audited bodies; and
- audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources.

### The main changes being made through the introduction of the new Code

The main changes being introduced through the new Code are:

- auditors' three responsibilities under the old Code, in relation to the financial aspects of corporate governance, the accounts and performance management, will be replaced by two responsibilities in relation to the accounts and use of resources, thereby mirroring their statutory responsibilities under the Audit Commission Act 1998. Auditors' work in relation to the financial aspects of corporate governance will in future largely be covered by their work on the accounts – reflecting recent developments in auditing standards – with audit work in relation to financial standing carried out as part of the work in relation to the use of resources;
- a clear focus, in auditors' work on audited bodies' arrangements for the use of resources, on overall financial and performance management arrangements. This work supports a new requirement for an explicit annual conclusion by the auditor in relation to audited bodies' arrangements for securing value for money in the use of their resources;
- a more explicit focus on improvement (through the risk assessment process) and on the need for auditors to have regard to the risks arising from audited bodies' involvement in partnerships and joint working arrangements and, where appropriate, to 'follow the public pound' into and across such partnerships;
- an emphasis on clearer, more timely reporting based on explicit conclusions and recommendations; and
- a new style narrative audit report to meet statutory and professional requirements.



## Audit and inspection fee

Audit area	Plan 2004/05	Plan 2005/06
Accounts	*	67,844
Use of resources	*	30,496
<b>Total audit fee</b>	<b>97,678</b>	<b>98,340</b>
Inspection	7,422	2,636
<b>Total audit and inspection fee</b>	<b>105,100</b>	<b>100,976</b>
Grant claim certification	50,500	45,500
Voluntary improvement work	-	-

\* Comparative information is not available for 2004/05 due to the change in the Code of Audit Practice which has reduced the three areas under the old Code to two areas.

The total audit and inspection fee compared to the indicative fee banding equates to 30 per cent above mid-point.

The fee (plus VAT) will be charged in 12 equal instalments from July 2005 to June 2006.

## Assumptions

In setting the fee we have assumed:

- you will inform us of significant developments impacting on our audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all material systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing;
- officers will provide good quality working papers and records to support the accounts;
- officers will provide requested information within agreed timescales; and
- officers will provide prompt responses to draft reports.

Where these requirements are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.

Changes to the plan will be agreed with you. These may be required if:

- new risks emerge; and
- additional work is required of us by the Audit Commission or other regulators.

## Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to full Council or an appropriately constituted Committee.

Planned output	Start date	Draft due date	Key contact
Audit plan*	February 2005	April 2005	Audit Manager
Report assessing progress on follow up from waste review	June 2005	July 2005	Performance Lead
Report assessing progress on implementation of agreed action plan from safer communities review (Phase I)	July 2005	August 2005	Performance Lead
Report assessing impact of changes (Phase II)	January 2006	March 2006	Performance Lead
Interim audit memorandum	February 2006	April 2006	Audit Manager
BVPI audit memorandum	May 2006	October 2006	Audit Manager
Statutory report on the best value performance plan (BVPP)	September 2005	December 2005	Audit Manager
Audit Opinion	July 2006	September 2006	District Auditor
Report to those charged with governance (ISA 260)	August 2006	September 2006	Audit Manager
Final accounts memorandum	July 2006	September 2006	Audit Manager
Report on assessing the effectiveness of partnership arrangements to improve road safety	Sept 2005	October 2005	Performance Lead
Annual audit and inspection letter (including direction of travel assessment)	October 2006	16 December 2006	Relationship Manager

\* To be revisited during the year to reflect outcome of 2004/05 final visit and 2005/06 interim visit.

## The Audit Commission's requirements in respect of independence and objectivity

Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISAs when auditing the financial statements. ISA 260 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. Ethical standard 1 also places requirements on auditors in relation to integrity, objectivity and independence.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case the appropriate addressee of communications from the auditor to those charged with governance is full Council or an appropriately constituted committee. The auditor reserves the right, however, to communicate directly with full 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; 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.