

Audit and Inspection Plan

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Audit and Inspection Plan

West Berkshire Council

Audit 2006/2007

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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 the requirements of the new Comprehensive Performance Assessment CPA – the Harder Test. It reflects:
 - our responsibilities under 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 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.
- 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 30 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 £231,459 and the total fee estimate for inspection work planned for 2006/07 is £31,500. The total fee, net of ODPM grant, amounts to £255,084 compared to £241,429 in 2005/06 representing an increase of 5.6% compared to the previous year.
- 8 In addition we estimate that we will charge approximately £35,000 for the certification of claims and returns.
- 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 West Berkshire Council could take to reduce its audit fees and the process for agreeing any additional fees.
- 10 Changes to the plan and the fee may be necessary if our audit risk assessment changes during the course of the audit. This is particularly relevant to work related to:
 - the opinion on the 2006/07 accounts, since we have yet to audit the accounts for 2005/06, and detailed financial reporting requirements for 2006/07 are not yet known; and
 - 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 We have applied the principles set out in the new CPA framework, CPA – the harder test recognising the key strengths/weaknesses in West Berkshire's performance. Under the new CPA framework the Council is improving well and its overall CPA category is 2 stars. Most of its priority services have demonstrated improvement. Those services starting from a relatively low base (planning, benefits and transport) are also improving but have some way to go to demonstrate that improvement will be sustained.
- 13 The Council has demonstrated a proven track record on efficiency savings since its establishment in 1998 and has secured savings in excess of £20 million. However, the correlation between costs and performance varies: good cost performance in planning, street cleaning, social services, parks and open spaces and central services; but poor performance in waste, transport, and libraries.
- 14 As a consequence our inspection activity will focus on the following (Table 1):

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager role	To act as the Commission's primary contact with the authority and the interface at the local level between the Commission and the other inspectorates, Government Offices and other key stakeholders.
Direction of travel statement	To provide focus for continuous improvement and to include in CPA scorecard.

Summary of key audit risks

- 15 This section summarises our assessment and the planned response to the key audit risks which may have an impact on our objectives to:
- provide an opinion on your financial statements;
 - provide a conclusion on your use of resources;
 - provide a scored judgment on the use of resources to feed into the CPA process;
 - undertake audit work in relation to specified performance indicators to support the service assessment element of CPA; and
 - provide a report on the Council's best value performance plan (BVPP).
- 16 In assessing risk we have held discussions with key staff, reviewed financial information produced by the Council, taken into account the work of other inspectors where appropriate, and the past performance of the Council.
- 17 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

- 18 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.

Use of resources judgement

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

Table 2 Summary of use of resources audit risks

Audit risk	Response
That the Council does not take forward the issues from our 2006 use of resource assessments.	We will work with the Council and ensure that improvement areas are appropriately addressed leading to improvements in the 2007 use of resources assessment.
The correlation between costs and performance varies. The Council's performance in waste, transport, and libraries is below average. The Council's CPA scores for the Environment and Culture service blocks are the lowest of its scores.	We will work with the Council to determine the most appropriate area where we can assist the Council and contribute to the performance agenda.
Recommendations from previous value for money studies are not fully implemented and benefits secured.	We will review progress in implementing previous value for money studies.
The Council is implementing a waste management scheme from 1 April 2006 funded under the Private Finance Initiative. A key factor in its viability is that the scheme is off balance sheet.	We will maintain on-going liaison with the Council on the progress of the scheme and review the accounting treatment of the scheme.

Performance information

- 22 Auditors are required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA. This work will be risk based and will link in part to our review of the Council's overall arrangements to secure data quality as required for our Use of Resources conclusion. Our fee estimate includes an element for this work on the basis that we will assess Council as medium risk in relation to its performance indicators.
- 23 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 quoted above.

Best Value Performance Plan

- 24 We are required to consider and 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

- 25 We will carry out our audit of the 2006/07 financial statements and comply with the International Standards on auditing (UK and Ireland).
- 26 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.
- 27 On the basis of our preliminary work to date we have identified the following audit risks.

Table 3 Summary of opinion risks

Opinion risks	Response
The 2004/05 financial statements were not fully SoRP compliant. Further changes are proposed in the 2006 SoRP including a number of number of presentational changes.	We will liaise with the Council to ensure that it has appropriate arrangement in place to comply with the SoRP
Following changes in accounting for deferred charges and intangible fixed assets there is a risk that commercial software has been overlooked, although fully financed in the past.	We will review the Council's arrangements for accounting for software to ensure they are disclosed as intangible assets where they exceed the de-minimis level for capitalisation.

Opinion risks	Response
Capital expenditure has in recent years been significantly behind budget	We will review the work undertaken by the Council and assess whether the action taken will ensure future deliverability of the capital programme.

- 28 Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will be improved and that internal audit will complete their planned work on key information systems to the agreed quality and by the agreed date and that the accounts will be prepared and fully supported by working papers by 30 June 2007.
- 29 We have yet to undertake the audit of the 2005/06 financial statements and our 2006/07 financial statements audit planning will continue as the year progresses. This will take account of:
- the 2005/06 opinion audit;
 - our documentation and initial testing of material information systems;
 - our assessment of the 2006/07 closedown arrangements; and
 - any changes in financial reporting requirements.
- 30 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

- 31 The government is introducing whole of government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required to be audited. The Audit Commission is currently discussing the scope of the likely audit work with stakeholders. The Audit Commission estimates the additional cost of this work will be between £1,700 to £3,300.

Certification of claims and returns

- 32 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.
- 33 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 work will remain unchanged we estimate that the fees for grant certification work will be around £35,000.

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Voluntary improvement work

34 We will also consider requests for voluntary improvement work and additional risk-based work which falls outside that which is necessary to discharge our statutory responsibilities. The benefits of this type of work are:

- We are uniquely placed to deliver cross-cutting work
- It contributes to improvement agendas and supports the process of improvement
- It should drive up standards and so improve outcomes for the public.

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Other information

Outputs from the audit and inspection plan

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

The team

Table 4

Name	Title
Mick West	District Auditor and Relationship Manager
John Bull	Audit Manager
David Bryant	Local Performance Lead
Roz Haines	Audit Team Leader

- 36 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.
- 37 We comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

Future audit plans

- 38 As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes, including the scheduling of your corporate assessment and joint area review of children's services and young people which is planned for 2007/08. Key areas identified include:
- Local Area Agreements;
 - Partnership Working; and
 - Waste management.
- 39 We will discuss these in more detail as the audit year progresses.

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Appendix 1 – Audit and inspection fee

Table 5

Fee estimate	Plan 2006/07	Plan 2005/06
Accounts	156,524	144,112
Use of resources	74,935	80,152
Total audit fee	231,459	224,264
RM Role/Direction of Travel	31,500	*
Service inspection		*
Corporate inspection		*
Total inspection fee	31,500	22,887
Total audit and inspection fee	262,959	247,151
ODPM Grant	7,875	5,722
Net Fee	255,084	241,429
Certification of grants and returns	35,000	34,000
Voluntary improvement work		

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

- 1 The total audit fee compared to the indicative fee banding equates to 5 per cent above mid-point.
- 2 The fee (plus VAT) will be charged in 12 equal instalments from April 2006 to March 2007.
- 3 The fee above includes all work contained in this plan except:

Assumptions

- 4 In setting the audit fee we have assumed:
 - you will inform us of significant developments impacting on our audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes appropriate work on all material information systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing (ISA);
 - officers will provide good quality working papers and records to support the financial statements by 30 June 2007. This area is a key component of the Audit Commission's use of resources assessment and it is important that the Council ensures that:
 - there is a continued drive to improve the quality of working papers;
 - comprehensive and cross-referenced working papers are available at the commencement of the audit; and
 - financial statements and working papers are subject to senior officer review prior to passing to audit.
 - officers will provide requested information within agreed timescales;
 - officers will provide prompt responses to draft reports; and
 - The Key Lines of Enquiry for our Use of Resources judgement will be broadly similar to those used in 2005/06. (These may be revised in the light of a post implementation (The key lines of enquiry (KLOEs) issued in June 2005 will be updated in Spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment.)
- 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 results in additional audit work.

Specific actions West Berkshire 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. We have identified the following actions West Berkshire Council could take:
 - Ensure that financial statements prepared for audit have been subject to review by a supervisory officer to ensure consistency within the accounts and compliance with the Code of Practice on Local Authority Accounting in the UK: Statement of Recommended Practice.

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 Resources and Commissioning. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Governance Committee.

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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 and for determining policy and making decisions

- 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 6

Planned output	Start date	Draft due date	Key contact
Audit and inspection plan*	1 Feb 2006	31 March 2006	Audit Manager
Interim audit memorandum	Jan 2007	April 2007	Audit Manager
BVPP report	Sep 2007	Dec 2007	Audit Manager
Report on selected PIs (if applicable)	Sep 2007	Nov 2007	Audit Manager
Report on financial statements to those charged with governance	August 2007	September 2007	Audit Manager
Opinion on financial statements	TBA	TBA	District Auditor
Vfm conclusion	TBA	TBA	Performance Lead
Final accounts memorandum	1 July 2007	October 2007	Audit Manager
Local performance work	TBA	TBA	Performance Lead
Inspections	TBA	TBA	Performance Lead
Annual audit and inspection letter (including direction of travel assessment)	October 2007	16 Dec 2007	Relationship Manager

* To be revisited during the year to reflect outcome of 2005/06 opinion work and 2006/07 interim visit.

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 ISAs when auditing the financial statements. Professional standards 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 standards also place requirements on auditors in relation to integrity, objectivity and independence.
- 2 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 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 section 35 of the Audit Commission Act 1998.
- 5 The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:
 - any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director;
 - audit staff are expected not to accept appointments as lay school inspectors;

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- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;
- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;
- auditors are expected to comply with the Commission's policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
- audit suppliers are required to obtain the Commission's written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body; 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.