



Three Rivers District Council

External Audit & Inspection Plan 2008-09

April 2008

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# 1 Introduction

## Background

- 1.1 This plan sets out the audit and inspection work to be undertaken for the 2008-09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Area Assessment (CAA), which from 1 April 2008 replaces Comprehensive Performance Assessment ("CPA"). This plan reflects:
- Our Code of Audit Practice responsibilities;
  - Audit and inspection work specified by the Audit Commission for 2008-09;
  - Current national risks relevant to the Council's local circumstances; and
  - Our initial assessment of the Council's local risks and improvement priorities, based on meetings with senior officers, internal audit and review of key Council documents.
- 1.2 During 2008-09, the role of the Relationship Manager will be replaced by the post of a Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities. Our work as auditors feeds into this process via the use of resources assessment and other risk based work as well as appropriate dialogue with the CAAL. Further details of inspection work, to be carried out by the Audit Commission, are provided in Section 6 of this plan.
- 1.3 As we have not yet completed our audit for 2007-08, the audit planning process for 2008-09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

## Our responsibilities

- 1.4 We comply with the statutory requirements governing our audit and inspection work, in particular, the Audit Commission Act 1998, the Local Government Act 1999 and the Code of Audit Practice (the Code).

- 1.5 The Code defines auditors' responsibilities in relation to:
- Audited bodies' arrangements for securing value for money in their use of resources (section two); and
  - The financial statements, including the annual governance statement (section three).
- 1.6 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 1.7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

## 2 Use of Resources Audit

### **Introduction and Approach**

- 2.1 The Code of Audit Practice ("the Code") requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, having regard to a standard set of relevant criteria, issued by the Audit Commission. In meeting this responsibility we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements, and follow up the Audit Commission's work from previous years to assess progress in implementing agreed recommendations.
- 2.2 In accordance with the Code of Audit Practice, we are required to complete a number of pieces of work to support our Value for Money conclusion. These are set out in the following paragraphs as well as in Appendix A.

### **Use of Resources Assessment**

- 2.3 The Audit Commission has specified that auditors will complete a use of resources assessment for 2008-09. Due to the timetable set by the Audit Commission, the UoR work relating to an accounting year is traditionally delivered over a period of time which spans the 31st March year end. Therefore the UoR fee set out in this audit plan funds that part of the 2007/08 UoR work which is carried out after 31st March 2008 and that part of the 2008/09 UoR work that is carried out prior to year end 31st March 2009.
- 2.4 As has been publicised, 2008/09 will see the introduction of a new use of resources assessment, which will form an element of the CAA framework. The use of resources work funded from this plan will mostly cover the 2007/08 assessment although an element of work under the new approach will also be covered. There have been significant changes to the use of resources criteria for 2008-09. Appendix A outlines the new criteria to be assessed as part of our use of resources work and our VFM conclusion. For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate these risks, and plan our work accordingly.
- 2.5 Our initial risk assessment for use of resources work is shown in Exhibit One overleaf. This will be updated through our continuous planning process as the year progresses.

## Risk Assessment and Audit Response

### Exhibit One: Local Risk Based Work to Support the 2008-09 Value for Money Conclusion

| Risk   | Proposed audit response  |
|--|--|
| <p>Partnership working is a central feature of current government policy and focus. Audited bodies will be assessed on the outcomes to citizens from services provided by the public sector as a whole. The council works with a number of partners, including Thrive Home, the Leisure Trust and shared corporate services with Watford Borough Council. This will require effective joined up partnership working.</p> | <p>Partnership working will be covered by the "Managing the business" theme in the Use of Resources assessment.</p> <p>We will monitor the Council's partnership working through discussion with chief officers and review of minutes.</p> |
| <p>As the 2007/08 UoR work has yet to be completed, issues may arise that will need to be monitored in 2008/09.</p>  | <p>Any Use of Resources issues arising from the 2007/08 UoR assessments will be followed up as part of the 2008/09 work.</p>   |
| <p>All types of public body will need to be preparing for and responding to the sustainability agenda.</p>   | <p>The sustainability development agenda will be covered by the "Managing other resources" theme in the Use of Resources assessment.</p>   |

## Data Quality

2.6 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:

- Stage 1 – review of corporate arrangements;
- Stage 2 – analytical review; and
- Stage 3 – risk-based data quality spot-checks of a sample of performance indicators.

2.7 Work will be focused on the overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data.

### **Other mandated work**

- 2.8 The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. This work will be considered as part of our Use of Resources assessment.

## 3 Financial Statements Audit

### Introduction and approach

- 3.1 The Council's financial statements are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:
- Ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
  - Maintain proper accounting records; and
  - Prepare financial statements which present fairly the financial position of the Council and its expenditure and income in accordance with the Statement of Recommended of Practice.
- 3.2 The auditor is required to audit the financial statements and to give an opinion as to:
- Whether they present fairly the financial position of the Council and its expenditure and income for the year in question;
  - Whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
  - Whether the Annual Governance Statement ("AGS") 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.
- 3.3 In order to gain sufficient assurance to support our opinion on the financial statements, we will carry out a review of:
- The Council's arrangements for the preparation of its financial statements, the AGS and the Whole of Government Accounts (WGA) consolidation pack;
  - Internal audit, to determine the extent of reliance we can place on it for the purposes of our audit;

- The internal control framework for key financial systems;
  - The materiality of balances and transactions impacting on the financial statements; and
  - The key risks relevant to the preparation and audit of the financial statements.
- 3.4 The adoption of International Financial Reporting Standards (IFRS) within the public sector has been deferred until 2009/10, but local government remains on target to implement IFRS in 2010/11.

### **Risk assessment and audit response**

- 3.5 We are required to issue an opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2009, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 (SoRP). We will carry out our audit of the accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 3.6 Our audit will be risk based. We have not yet carried out a detailed risk assessment for our audit of the 2008-09 accounts, as we have yet to undertake the audit of the 2007-08 accounts. Our high level risk assessment, summarised in Exhibit Two below, reflects largely national developments and issues, which may present a risk to the Council's timely and accurate preparation of its accounts. We will keep our risk assessment under review, and prepare our audit strategy document in June 2009 to take account of our work in continually assessing risks to the audit of the financial statements.

### **Exhibit Two: 2008-09 Financial Statements Audit – Initial Risk Assessment**

| Area  | Audit Response   |
|---|--|
| As the 2007/08 Final Audit work has yet to be completed, issues may arise that will need to be monitored in 2008/09.  | Audit and Control Issues arising will be monitored at the interim audit phase with residual risks feeding. |
| There are changes expected as a result of the 2008 Statement of Recommended Practice (SORP) that will apply to the 2008/09 accounts. The 2008 SORP is currently under consultation and it expected that there will be a number of presentation and disclosure adjustments that will impact on the 2007/08 accounts. | Developments will be monitored and applied as appropriate at the interim and final audit stage.            |

| Area   | Audit Response  |
|--|---|
| <p>The introduction of IFRS remains on the agenda for 2009/10 and the Council will have to start reviewing the approach to key areas (e.g. the treatment of leases). In addition the council will have to prepare closing balances under IFRS for the 2008/09 accounts, in preparation for full roll out in 2009/10.</p>                               | <p>Developments will be monitored and applied as appropriate at the interim and final audit stage.</p>  |
| <p>The Council has transferred the bulk of its housing stock to a housing association (Thrive Homes). The accounting treatment of related transactions, such as the VAT shelter, will have to be closely monitored.</p>  | <p>This will feed into the controls and risk assessment work performed as part of the interim audit in preparation for the final audit stage.</p>           |
| <p>During 2008/09 the Council will be implementing a shared services arrangement with Watford Borough Council for the provision of corporate services, including the finance function. There is some audit risk attached to the re-configuration of systems, processes and staff that will arise (e.g. loss of data on merged accounting systems).</p> | <p>We will monitor the transfer arrangements to ensure that the risk is sufficiently mitigated by through adequate project management interim controls.</p> |

## 4 Grant Claims and Returns

### Introduction and approach

- 4.1 In addition to our Code responsibilities, we are required by the Audit Commission to certify the Council's grant claims and returns, in accordance with the following arrangements:
- Claims and returns below £100,000 are not subject to certification;
  - Claims and returns between £100,000 and £500,000 are subject to a reduced, 'light touch' certification; and
  - Claims and returns over £500,000 will be subject to a certification approach determined by the auditor's assessment of the control environment and management preparation of claims.
- 4.2 Robust arrangements for preparing, albeit a small number of claims and returns are important to mitigate a number of risks, including:
- Increased costs to the Council, both in terms of incurring additional fees and also officer time in dealing with issues arising from certification work;
  - Delayed payment of grant or financial penalty from grant paying departments, due to delays in claim certification;
  - Risk of unexpected grant repayment due to amendments and qualifications; and
  - Potential adverse impact on external assessment of the Council's governance and internal control arrangements.
- 4.3 To assist the Council in ensuring that arrangements for preparing 2008-09 claims and returns are robust, we will:
- Follow up on any issues raised during our 2007-08 certification work in relation to the Council's preparation of grants;
  - Agree the timetable and estimated budget in advance of carrying out our certification work; and
  - Prepare a grants report, summarising issues from the 2008-09 audit, to facilitate continuous improvement.

## 5 Audit team and working together

### The team

5.1 The key members of the audit team for 2008-09 are shown in Exhibit Three.

#### Exhibit Three: Key team members

| Name  | Responsibilities   |
|---|--|
| <p><b>Martin Grundy</b><br/>Engagement Lead<br/>martin.grundy@gtuk.com</p>  | <p>Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and the Audit Committee.</p>   |
| <p><b>Tom Foster</b><br/>Audit Manager<br/>thomas.foster@gtuk.com</p>   | <p>Manages and co-ordinates the different elements of the audit work, including certification grant claim and returns. Key point of contact for the Director of Internal Services and the accountancy team.</p>  |
| <p><b>Martin Ellender</b><br/>Performance Manager<br/>martin.ellender@gtuk.com</p>                                    | <p>Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment, and data quality work.</p>  |
| <p><b>Bob Jacobs</b><br/>Information Technology Audit Manager<br/>bob.s.jacobs@gtuk.com</p>                           | <p>Responsible for the delivery of the Information Technology aspects of our audit.</p>  |
| <p><b>Gary Hammersley</b><br/>Comprehensive Area Assessment Lead (CAAL).<br/>g-hammersley@audit-commission.gov.uk</p> | <p>To provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies.</p> |

5.2 The core audit team will be supported by other specialist and support staff, as necessary, during the course of the audit, including:

- Governance and Risk Assurance specialists; and
- Technical Accounting specialists.

### **Independence**

5.3 We are not aware of any relationships that may affect the independence and objectivity of the audit and inspection team, which we are required by auditing and ethical standards to communicate to you. We comply with the ethical standards issued by the APB and with the Audit Commission's requirements in respect of independence and objectivity as summarised at Appendix C.

### **Audit outputs**

5.4 The table below summarises the audit reports we plan to issue in respect of the 2008-09 audit plan.

#### **Exhibit Four: Summary of Planned Outputs**

| <b>Planned output</b>  | <b>Indicative Date</b> |
|--|------------------------|
| 2008-09 Audit plan   | April 2008             |
| 2008-09 Annual report to those charged with governance ('ISA 260' report which will cover accounts and value for money conclusion) | September 2009         |
| Data quality audit reporting   | November 2009          |
| Use of resources – 2008-09 reporting of scores and recommendations   | November 2009          |
| Annual audit letter  | November 2009          |
| 2008-09 Grant Claims Report  | January 2010           |

5.5 Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies, issued by the Audit Commission. Reports are addressed to members or officers and 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.

### **Quality of service**

5.6 We are committed to achieving and maintaining the highest quality of service. If you have any comments on our service, please contact the Engagement Lead, in the first instance. Alternatively you may wish to contact Grant Thornton's National Head of Government Audit, Richard Tremear.

5.7 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

### Meetings

5.8 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

5.9 The meetings will be organised by Grant Thornton and our proposal for this is as described in the table below.

#### Exhibit Five: Proposed meetings

| Council officers       | Audit team   | Timing                                       | Purpose  |
|------------------------|--|--|--|
| Chief Executive        | Engagement Lead (EL) and Audit Manager (AM).                         | At least every six months                    | General update plus audit plan, accounts and VFM progress.   |
| Director of Resources  | EL and AM  | At least every six months                    | General update plus audit plan, accounts and VFM progress.   |
| Head of Internal Audit | EL and AM  | At least every six months                    | Update on audit progress and issues.   |
| Head of Accountancy    | EL and AM  | At least every six months                    | Update on financial statement audit issues.  |
| Audit Committee        | EL and AM, with Performance Lead and IT Audit Manager as appropriate | In accordance with Audit Committee timetable | Formal reporting of:<br><br>Audit Plan<br><br>Annual governance report<br><br>Annual audit letter<br><br>Other issues and reports as appropriate |

## 6 Audit Commission Inspection

### CPA & inspection

- 6.1 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 6.2 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. The Council is categorised as good.
- 6.3 We have applied the principles set out in the CPA framework, CPA – district council framework from 2006, recognising the key strengths and areas for improvement in the Council's performance.
- 6.4 On the basis of our planning process we have identified where our inspection activity will be focused for 2008/09 as follows.

### Exhibit Six: Audit and Inspection Fee

| Inspection activity  | Reason/impact  |
|--|--|
| Relationship Manager (RM) / Comprehensive Area Assessment Lead (CAAL) role | To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.   |
| Direction of travel (DoT) assessment                                       | An annual assessment, carried out by the CAAL, of how well the Council is securing continuous improvement. The DoT statement will be reported in the annual audit and inspection letter. The DoT assessment summary will be published on the Commission's website. |

### **Performance work**

- 6.5 Given the shift towards area assessment and the subsequent focus on partnership working, we are proposing a countywide project to examine strategic partnership arrangements and perceptions. The work will include a diagnostic survey, interviews and workshops. The work will result in a report or presentation.

### **The inspection fee**

- 6.6 The total fee estimate for the inspection work planned for 2008/09, excluding performance work, is £6,031 (including CLG grant). 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'.

## 7 Audit & Inspection Fee

### The audit fee

- 7.1 Grant Thornton is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 7.2 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- Our cumulative knowledge of the Council;
  - Planning guidance issued by the Audit Commission;
  - The specific results of previous and ongoing audit work;
  - Meetings with Council officers;
  - Liaison with internal audit; and
  - The results of other review agencies' work where relevant.
- 7.3 The structure of scale fees is set out in the Audit Commission's work programme and fee scales 2008-09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 7.4 The Audit Commission has undertaken a national consultation exercise on their proposed work programme and fees for 2008-09. This follows the consultation exercise on the proposed new approach to auditors' use of resources assessments and the introduction of Comprehensive Area Assessment.
- 7.5 Our planned audit fee for the 2008-09 is **£106,560**.
- 7.6 The total planned audit fee of **£106,560** compares with **£109,600** for 2007-08.
- 7.7 The inspection fee for work to be performed directly by the Audit Commission, is expected to be **£6,031**. This will be billed separately by the Audit Commission.
- 7.8 A breakdown of the audit and inspection fee is provided below:

## Exhibit Seven: Audit and Inspection Fee

| Area   | Plan 2008-09<br>£ | Plan 2007-08<br>£ |
|--|-------------------|-------------------|
| Financial statements                                   | 46,500            | 49,500            |
| Use of Resources                                       | 19,750            | 19,000            |
| Data Quality   | 12,110            | 12,000            |
| Whole of Government Accounts                           | 2,700             | 2,900             |
| Audit Planning & Meetings                              | 25,500            | 26,200            |
| <b>Total Audit Fee</b>                                 | <b>106,560</b>    | <b>109,600</b>    |
| Audit Commission Inspection Work                       | 6,031             | 8,886             |
| <b>Total Inspection Fee</b>                            | <b>6,031</b>      | <b>8,886</b>      |
| Estimate for certification of grant claims and returns | 31,500            | 31,500            |
| <b>TOTAL FEE</b>                                       | <b>144,091</b>    | <b>149,986</b>    |

7.9 The planned fee above, excludes:

- Certification of grant claims and returns - we will revise the estimate of the cost of certifying 2008-09 grant claims and returns once the 2007-08 certification process has been completed;
- The Audit Commission's fee for participation in the National Fraud Initiative, which continues to be billed separately; and
- Dealing with any local government elector questions and objections, which will be billed separately, as required.

### Assumptions

7.10 In setting the audit fee, we have assumed that:

- The level of work required to audit the financial statements will reduce as a result of the housing stock transfer in 2007/08.
- The level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007-08;
- The Council will inform us of significant developments impacting on our audit;
- Internal audit meets the appropriate professional standards;

- Internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- The Council continues provides best practice quality working papers and records to support the financial statements by 30 June 2009.
- Requested information will be provided within agreed timescales; and
- Prompt responses will be provided to draft reports.

7.11 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.

7.12 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable. The fee stated above falls within this threshold.

#### **Process for agreeing changes in audit fees**

7.13 Any changes to the plan and proposed fee will be agreed with the Director of Corporate Resources in advance, and reported to the Audit Committee. Changes may be required if the Council's residual audit risks alter, or is a different level of work is required, for example by the Audit Commission or as a result of changes in legislation, professional standards or financial reporting requirements.

#### **Billing arrangements (audit fee)**

7.14 The audit and inspection fee will be billed as follows:

#### **Exhibit Eight: Billing schedule (Audit Fee)**

| <b>Fee</b>      | <b>Billing Profile</b> |
|-----------------|------------------------|
| £26,640         | June 2008              |
| £26,640         | September 2008         |
| £26,640         | December 2008          |
| £26,640         | March 2009             |
| <b>£106,560</b> | <b>Total</b>           |

### **Additional services & non-code work**

- 7.15 Under section 35 of the Audit Commission Act 1998, the Commission may undertake additional services work at the request of the audited body. Grant Thornton may also agree to carry out additional work outside of the core audit, or non-audit work provided it does not present a conflict of interest and is in accordance with Audit Commission guidance. The scope and fees for any such work will be agreed with the Director of Internal Services in advance and will be reported to the Audit Committee. The Council has not requested any additional services in 2008-09.

# Appendix A Work under the Code of Audit Practice

## Financial statements

- 1 Your appointed auditor will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 Your appointed auditor is required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.
- 3 Your appointed auditor is also required to review whether the Annual Government Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Government Statement is misleading or inconsistent with our knowledge of the Council.

## Value for money conclusion

- 4 The Code requires your appointed auditor to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires the auditor to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at [his/her] conclusion.
- 5 In meeting this responsibility, your appointed auditor will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, for example Communities and Local Government, we will normally place reliance on their reported results to inform our work.
- 6 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

### Use of resources assessment

- 7 The assessment will emphasise the importance of improved value for money outcomes for local people. It is based on wider considerations other than cost and performance. It will also look at how commissioning and procurement are improving efficiency and how non-financial resources are used to support value for money.
- 8 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.
- 9 The overall judgement will be based upon the evidence from three themes scored by the auditor and will give particular emphasis to the value for money outcomes being achieved. The assessment criteria below are based on our current proposals as outlined in our consultation document.

### Use of resources assessment criteria

|                          |   |
|--------------------------|---|
| Managing money           | <ul style="list-style-type: none"><li>• Financial health</li><li>• Financial planning</li><li>• Understanding costs</li><li>• Financial monitoring and forecasting</li><li>• Financial reporting</li></ul>                                |
| Managing the business    | <ul style="list-style-type: none"><li>• Leadership</li><li>• Performance management</li><li>• Commissioning and procuring services</li><li>• Risk management and internal control</li><li>• Ethical behaviour and counter-fraud</li></ul> |
| Managing other resources | <ul style="list-style-type: none"><li>• Natural resources</li><li>• Physical assets</li><li>• People and IT</li></ul>   |

- 10 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations for improvement.
- 11 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CAA.

## **Data quality**

- 12 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- Stage 1 – review of corporate arrangements;
  - Stage 2 – analytical review; and
  - Stage 3 – risk-based data quality spot-checks of a sample of performance indicators.
- 13 Work will be focused on the overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data, including data from partners where relevant.
- 14 Our fee estimate reflects an assessment of risk in relation to the Council's data quality arrangements and performance indicators. This risk assessment may change depending on our assessment of your overall corporate arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

## **Whole of government accounts**

- 15 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The 2008-09 WGA consolidated pack will need to be produced in accordance with the International Financial Reporting Standards (IFRS).

## **National Fraud Initiative (NFI)**

- 16 The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

## **Certification of grant claims and returns**

17 We will continue to certify the Council's claims and returns on the following basis:

- Claims and returns below £100,000 will not be subject to certification;
- Claims and returns between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
- Claims and returns over £500,000 will be subject to a certification 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 certification approach for these claims.

## Appendix B 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. 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.

The standard 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 Executive 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 non-Code work in the plan.

The Code also states that the Audit 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 Audit Commission work who wish to engage in political activity should obtain prior approval from the Engagement Lead;

- 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 Audit 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 Audit Commission should not accept engagements which involve commenting on the performance of other Audit Commission auditors on Audit Commission work without first consulting the Audit Commission;
- Auditors are expected to comply with the Audit Commission's policy for both the Engagement Lead 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 Audit Commission's written approval prior to changing any Engagement Lead in respect of each audited body; and
- The Audit Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or Audit Manager 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.