

Audit and Inspection Plan

May 2006



Audit and Inspection Plan

Manchester City Council

Audit 2006-2007

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake in 2006/07. The plan has been drawn up from our risk-based approach to audit planning and 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 29 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 £399,000 and the total fee estimate for inspection work planned for 2006/07 is £116,000. This compares with a total audit and inspection fee of £475,000 in 2005/06. The main reason for the increase is the inclusion of the corporate assessment within the fee for 2006/07.
- 8 In addition we estimate that we will charge approximately £285,000 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 the 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 Manchester City Council's performance. The Council is rated as a 'three-star' council that is 'Improving adequately'. As the Council will receive a detailed corporate assessment in the coming year, we will focus our 2006/07 work on mandatory requirements as specified in the Commission's Work Programme and Fee Scales 2006/07. These include:
- relationship manager role;
 - direction of travel assessment;
 - corporate assessment; and
 - ALMO inspection.
- 13 A summary of these work areas is set in the table below.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship manager role	To act as the Commission's primary point of contact with the Council 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.
Corporate assessment	We will carry out a corporate assessment in line with the processes outlined in CPA the Harder Test. Our approach will be a combined corporate assessment and Joint Area Review which will include an inspection of services for children and young people.
ALMO inspection	Our Housing Inspectorate will carry out an inspection of Northwards Housing (ALMO), in June 2006.

Summary of key audit risks

- 14 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;
 - 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).
- 15 We have assessed the Council's key audit risks in the following ways:
- discussion of the Council's key business risks with senior officers;
 - improvement planning issues arising from the recent use of resources and direction of travel assessments;
 - local audit risks identified from our previous audit and inspection activity;
 - review of key Council documents, minutes and agendas;
 - consideration of shared risks across all public sectors organisations in Greater Manchester; and
 - consideration of national audit risks and new technical requirements for 2006/07.
- 16 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

- 17 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 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

- 18 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 for 2006/07 assumes that the KLOEs will be broadly similar to those used in 2005/06. If this changes we will discuss with you the implications, including any impact on the fee.
- 19 These judgements are also used by the Commission as the basis for its overall use of resources judgement for the annual CPA.
- 20 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
<p>Preparation for PCT merger</p> <p>The current three PCTs in Manchester are likely to merge into one combined Manchester PCT in 2006. It is intended that the new arrangements will bring greater strategic leadership to the health agenda in the City. There is a risk that the transition could result in a lack of clarity around partnership working, governance arrangements and joint service provision.</p>	<p>We will examine the way in which the Council, in conjunction with its partners, is managing this key risk area. In particular we will use a tracer service to assess:</p> <ul style="list-style-type: none"> • the extent to which services are prepared for the change; • how successfully the planned changes are implemented; and • the extent to which the benefits are realised. <p>The review will be undertaken jointly with the audit of the Manchester PCTs and the scope of the work will be discussed and agreed with Council and local Health sector colleagues.</p>

Audit risk	Response
<p>Asset management</p> <p>The 2005/06 use of resources assessment identified a number of weaknesses in the Council's approach to managing its asset base. Steps are being taken to address the issues identified and in particular a new asset management plan is being developed. There is a risk that without an effective approach to asset management the Council will not be able to demonstrate the effective use of resources and will not maximise capacity and value through the joint use of assets with its partners.</p>	<p>We will review the progress that has been made in enhancing the Council's asset management arrangements. The review will consider the extent to which the asset management strategy:</p> <ul style="list-style-type: none"> • complements partners' strategies creatively and efficiently to achieve Council and community ambitions; • is effectively implemented; and • enables the Council and its partners to build capacity.
<p>Children's placements</p> <p>The latest information indicates that the budget for looked after children will be overspent by some £3.7 million in 2005/06. Concerns about the cost and effectiveness of Children's placements is a common theme across Greater Manchester. As part of the 2005/06 audit we completed the first phase of a review of Children's placements, which involved an assessment of the effectiveness of the joint unit set up by AGMA. There is a risk that health and local government partners in Greater Manchester will not achieve the move to effective joint commissioning which has the potential to hinder the delivery of better and more cost effective outcomes.</p>	<p>Completion of the remaining phase of the pan-Greater Manchester Children's placements review. This element of the review will focus on commissioning and will involve:</p> <ul style="list-style-type: none"> • identifying and sharing the key barriers and possible solutions to achieving better outcomes and better use of resources; and • providing shared learning and facilitation to enable councils to adopt best practice in this area.

Audit risk	Response
<p>Integrated social needs transport</p> <p>The development of effective integrated social needs transport is a key issue for public authorities across Greater Manchester. There is a risk that local government and health partners will provide social needs transport in isolation, both internally and across organisations. Opportunities to achieve best value for money and user focussed services may not be fully realised.</p>	<p>Following the scoping work undertaken in 2005/06, we will complete the pan-Greater Manchester review of Integrated social needs transport. We will:</p> <ul style="list-style-type: none"> • follow-up work which identified inconsistencies in the provision of social needs transport across localities; and • consider the effectiveness of improvement activity in terms of value for money and outcomes for users.
<p>Performance management</p> <p>In 2005/06 we completed a review of corporate performance management arrangements. The review found that a number of the building blocks that are essential features of performance management are in place or in development. However, much remains to be done to ensure that a consistent, rigorous approach to performance management is in place.</p>	<p>We will assess the progress that has been made in implementing the Council's action plan for enhancing performance management arrangements. In particular we will look at evidence that:</p> <ul style="list-style-type: none"> • communication has improved; • managers have been provided with appropriate support; • accurate and timely data is used to review and challenge performance; • roles and responsibilities for review and challenge have been clarified; and • there is investment in learning.

Audit risk	Response
<p>Manchester improvement programme</p> <p>The Manchester Improvement Programme (MIP) is central to the Council's plans for service improvement and delivering efficiencies. New technology is being used to improve customer access and back-office processes. Services are being reviewed to identify efficiency gains and ensure they are addressed. Despite the good early progress that has been made in managing the MIP, there is a risk that planned improvements and efficiencies will not be fully identified and realised.</p>	<p>Building on the initial assessment of the MIP that we have completed, we will assess progress in identifying and delivering the planned improvements.</p>
<p>Governance of partnerships</p> <p>The Council is involved in an extensive number of partnerships, both with public and private sector partners. The Council's legal services section is currently reviewing the governance framework for the Council's partnerships in response to the Audit Commission report <i>Governing partnerships; bridging the gap</i>. There is a risk that resources are not used effectively where governance arrangements and accountability are unclear.</p>	<p>We will work with the Council to assist in the assessment of the Council's governance of partnerships. The review will be linked with similar reviews being undertaken across Greater Manchester. The aim of the review will be to identify and prompt improvements in the Council's governance of partnerships.</p>
<p>Implementation of agreed improvement opportunities</p> <p>As part of the 2004/05 audit we completed an inspection of Waste management and a review of progress that had been made in promoting race equality through Agenda 2010.</p>	<p>We will complete follow-up reviews to ensure that the identified improvement opportunities have been implemented.</p>

- 21 The identification of audit risks is a continuous process which can result in the need to amend or alter our risk assessment and planned work programme. There are a number of developments that could lead to the emergence of new audit risks in the coming year, most notably:
- the Corporate Assessment (CA) and Joint Area Review (JAR). The CA/JAR could identify issues that will need to be taken into account as part of our ongoing audit planning process;
 - the development of the Council's Local area agreement (LAA). We intend to work closely with officers to complete a diagnostic toolkit to help us identify the key issues and audit risks associated with the LAA; and
 - the relocation of a significant part of the BBC to Manchester could give rise to new audit risks. Following the confirmation of the chosen location by the BBC, we will work closely with officers to understand the basis of the project and determine an appropriate audit response.
- 22 We will share the outcome of our ongoing audit planning process and identification of audit risks with the Council over the course of the audit.

Performance information

- 23 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 the Council as medium risk in relation to its performance indicators
- 24 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

- 25 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

- 26 We will carry out our audit of the 2006/07 financial statements and comply with the International Standards on auditing (UK and Ireland).
- 27 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.

- 28 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
<p>New financial systems</p> <p>The Council is introducing a new set of back-office computer systems from 3 April 2006. The Council's 2006/07 financial statements will be produced using the information from the new systems. Despite the considerable efforts that have been made to ensure the systems are 'fit for purpose' and users fully trained, there is a risk that control procedures will not operate effectively. There will be a need to fully document and evaluate the controls within the new systems in accordance with auditing standards.</p>	<p>We will work closely with the Head of Financial Management and the Head of Audit to monitor the operation of the new financial systems. In particular we will work closely with the Head of Audit to agree a realistic joint programme for the documentation, evaluation and testing of controls within the material systems.</p>
<p>2006 SORP</p> <p>The 2006 <i>Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice</i> (the SORP), which will be finalised in Spring 2006, will introduce a number of new accounting requirements for the 2006/07 accounts. There is a risk that the Council may not be able to comply with the new requirements.</p>	<p>We will work closely with officers to form an early view of the Council's ability to meet the new requirements.</p>

Opinion risks	Response
<p>Major projects/externalisations</p> <p>There are a number of major projects that could give rise to accounting issues in 2006/07, including:</p> <ul style="list-style-type: none"> • the planned City Works joint venture; • the continued roll-out of the Housing Options programme, including stock transfers; and • the development and agreements of a number of PFI schemes. 	<p>We will work closely with officers to consider the accounting issues associated with these projects and ensure that there are no material uncertainties or errors.</p>

- 29 Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will be enhanced by the implementation of the new systems, that the new financial systems operate effectively, that Internal audit will undertake a programme of work on an agreed portion of the 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.
- 30 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.
- 31 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

- 32 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 fee for this work is not included in this plan and we will discuss this with the City Treasurer when further details are available.

Certification of claims and returns

- 33** 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.
- 34** Charges for this work are based on skill-related fees scales. The fee scales for any certification work between April 2006 and March 2007 are set out in the Audit Commission's work programme and fee scales 2006/07. The fee scales will be amended from April 2007 onwards. Based on the assumption that the level of grant work will remain broadly unchanged and an inflation linked increase will be applied to fee scales from April 2007, we estimate that the fees for grant certification work will be around £285,000. A more accurate assessment will be produced in summer 2007.

Voluntary improvement work

- 35 There may be potential for us to undertake voluntary improvement work in Manchester in the coming year. Where we have the skills and the capacity to make a positive contribution in an improvement area, we will discuss the potential to undertake additional work with officers. If any additional work is agreed, the work specifications and fees will be agreed with the appropriate officers.

Other information

Outputs from the audit and inspection plan

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

The team

Table 4

Name	Title
Clive Portman	Relationship Manager/District Auditor
Robin Baker	Audit Manager
James Foster	Performance Lead
Dave Wilson	Performance specialist
Andrew McNeil	Audit Team Leader
Paul Vaughan	Audit Team Leader

- 37 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.
- 38 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

- 39 As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. Key areas identified include the following.
- We are likely to follow up any risks from our 2005/06 Greater Manchester cross-cutting work on Health Inequalities as part of our 2007/08 audit.
 - Other Greater Manchester cross-cutting risks will be considered for 2007/08, such as the impact of the new waste disposal contract for Greater Manchester.
 - We are likely to follow-up the improvement opportunities identified from the Culture inspection in 2007/08.
 - The 2007/08 audit is likely to include any audit risks identified from the Corporate assessment, and our initial review of the Council's LAA.
- 40 We will discuss these in more detail as the audit year progresses.

Appendix 1 – Audit and inspection fee

Table 5

Fee estimate	Plan 2006/07 (£)	Plan 2005/06 (£)
Audit		
Accounts	250,000	252,000
Use of resources	149,000	188,000
Total audit fee	399,000	440,000
Inspection		*35,000
Relationship management	11,000	*
Service inspection	6,500	*
Corporate assessment	98,500	*
Total inspection fee	116,000	35,000
Total audit and inspection fee	515,000	475,000
Certification of grants and returns	285,000	310,000
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 18 per cent below the 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:
 - any work required in relation to the Whole of Government Accounts; and
 - the ALMO inspection of Northwards Housing.

Specific audit risk factors

- 4 In setting the audit fee we have taken account of the specific risk factors set out in tables 1, 2 and 3 above. In particular we have taken account of the major programme of new systems being implemented in April 2006 and the timing of the Corporate assessment.

Assumptions

- 5 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 agreed work (the detail of this work to be agreed with the Head of Audit) on 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);
 - the new financial systems will enable officers will provide good quality working papers and records to support the financial statements by 30 June 2007;
 - 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.)
- 6 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.
- 7 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 Manchester City Council could take to reduce its audit fees

- 8 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 the Council could take:
- introduce a robust quality assurance regime to ensure the financial statements presented for audit are free from material errors and uncertainties;
 - deliver the planned improvements in risk management and develop an effective controls assurance framework;
 - enhance the arrangements for checking and verifying the Council's published performance information; and
 - agree an enhanced arrangement whereby Internal audit, or some other review agency, document and test the key controls operating in all of the Council's material subsidiary information systems.

Process for agreeing any changes in audit fees

- 9 If we need to amend the audit [or inspection] fees during the course of this plan we will firstly discuss this with the City Treasurer and the Assistant Chief Executive - Performance. We will then formally notify you of the reasons why the fee needs to change.

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 February 2006	31 March 2006	Audit Manager
Interim audit memorandum	TBA	TBA	Audit Manager
BVPP report	TBA	TBA	Audit Manager
Report on selected PIs (if applicable)	TBA	TBA	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 December 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.