

Manchester City Council

Audit and Inspection Plan 2007-08

15 June 2007

RSM! Robson Rhodes

 **audit**
commission

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1 Introduction

Background

- 1.1 This plan sets out the audit and inspection work to be undertaken for the 2007-08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
- our Code of Audit Practice responsibilities;
 - audit and inspection work specified by the Audit Commission for 2007-08;
 - 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 RSM Robson Rhodes has been appointed as the Council's external auditor from 2007-08. The Audit Commission's 2006-07 audit is not yet complete, and our audit planning process for 2007-08, including the risk assessment, will continue as the year progresses. The information and fees in this plan will be kept under review and updated as necessary.
- 1.3 For councils like Manchester, where the auditor is rotating, the Audit Commission has specified that a number of pieces of work that fall within the 2007-08 audit plan should be undertaken by the outgoing auditor. The relevant sections of this plan indicate where work will be carried out by the Audit Commission.
- 1.4 The Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Our responsibilities

- 1.5 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). Further details of our inspection work are provided in section two of this plan.
- 1.6 The Code defines auditors' responsibilities in relation to:
- audited bodies' arrangements for securing value for money in their use of resources (section three); and
 - the financial statements, including the statement on internal control (section four).
- 1.8 The Audit Commission's *Statement of responsibilities of auditors and of audited bodies*, which has been issued to every Council, sets out the respective responsibilities of the auditor and the Council. Our work is undertaken in the context of these responsibilities.
- 1.9 In addition to our Code responsibilities, we also act as agents of the Audit Commission in certifying the Council's grant claims and returns. Further details are provided in section five.

2 CPA and Inspection

Introduction and Approach

- 2.1 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. The Council's CPA category is therefore a key driver in the Commission's inspection planning process. For CPA 2006, the Council was categorised as 3 stars. We have applied the principles set out in the CPA framework, *CPA – the Harder Test*, recognising the key strengths and areas for improvement in the Council's performance.
- 2.2 Strengths in the Council's performance include:
- strong leadership and ambition with robust partnerships;
 - good progress being made in modernising older people's services and in making communities safer and stronger;
 - improvements made in street cleansing and refuse collection; and
 - user satisfaction with the Council and its services is high.
- 2.3 The 2005-06 Audit and Inspection Letter (March 2007) identified that, in order to continue to improve, the Council needs to:
- continue to work closely with partners to improve educational attainment and attendance, to achieve reductions in unemployment and to reduce health inequalities; and
 - continue to implement the Manchester Improvement Programme (MIP) to achieve efficiency savings and improved service effectiveness and, therefore, deliver improved value for money in its use of resources.
- 2.4 On the basis of our planning and risk assessment above, the Audit Commission's inspection activity will be focussed as follows:

Exhibit One: Focus of inspection activity to be carried out by the Audit Commission

Inspection activity	Nature of work
Relationship Management	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 Relationship Manager (RM), of how well the Council is securing continuous improvement. The DoT label will be reported in the CPA scorecard alongside the CPA category. The DoT assessment summary will be published on the Commission's website.
Corporate Assessment / Inspection activity	A corporate assessment of the Council, in line with the CPA Harder Test, was undertaken in 2006. Service inspections have been undertaken in recent years in relation to housing, environmental and cultural services. As a result there is no corporate assessment or inspection activity work planned for 2007/08

Timetable and Planned Outputs

- 2.5 The planned outputs from the Audit Commission's CPA and inspection work, and the proposed dates for the fieldwork, are summarised in Exhibit Two below:

Exhibit Two: CPA and Inspection – Timetable and Planned Outputs

Inspection output	Fieldwork	Draft report
Direction of Travel Report	September – December 2008	December 2008
Annual Audit and Inspection Letter	January – March 2009	March 2009

3 Use of Resources Audit

Introduction and Approach

- 3.1 In accordance with the Code, we are required to complete a number of pieces of work as part of our Use of Resources audit. These are set out in the following paragraphs.

Use of Resources Assessment

- 3.2 The Audit Commission has specified that auditors will complete a Use of Resources assessment for 2007-08. The work undertaken to support the assessment is aligned to the 2006-07 value for money conclusion, and will therefore be undertaken by the Audit Commission as the Council's outgoing auditor. The Audit Commission will issue a report summarising the scores in each of the five Use of Resources themes, accompanied, where appropriate, by recommendations for improvement. The Use of Resources assessment will be used by the Audit Commission as the basis for its overall Use of Resources score for the purposes of CPA.

Data Quality

- 3.3 The Audit Commission has specified that auditors will be required to undertake work in relation to data quality, using a three stage approach covering:
- Stage 1 - management arrangements;
 - Stage 2 - a completeness check; and
 - Stage 3 - risk-based data quality spot checks for a sample of performance indicators.
- 3.4 The work at Stage 1 will link into Audit Commission's 2006-07 value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will inform the Audit Commission's CPA assessment. Because of the link to the 2006-07 value for money conclusion, the data quality audit will be undertaken by the Audit Commission.

Best Value Performance Plan

- 3.5 We are required to carry out an audit of the Council's BVPP in order to report whether it has been prepared and published in accordance with legislation and statutory guidance. 2007-08 is the final year that we will be required to provide an opinion on the BVPP and the audit will be carried out by the Audit Commission.

Value for Money Conclusion

- 3.6 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.

3.7 This work will be carried out by RSM Robson Rhodes to inform the 2007-08 Value for Money conclusion to be given in September 2008. Our initial risk assessment, and planned focus for our work, is summarised in Exhibit Three.

Risk Assessment and Audit Response

Exhibit Three: Local Risk Based Work to Support the 2007-08 Value for Money Conclusion

Risk	Proposed audit response
<p>The Council has adequate governance arrangements in place but it recognises the importance of consistent, robust and embedded practices in delivering the service improvements required for the Council to achieve its ambitious agenda.</p> <p>There are a number of local and national factors that increase the risk to the Council of failing to ensure its governance and control arrangements keep pace with organisational development, including corporate and departmental reconfiguration.</p> <p>To minimise the risk of failing to adequately manage these, and other emerging risks, the Council's governance arrangements will have to be sufficiently robust to provide the required assurances, and from 2007-08, the Council will be required to publish an annual governance statement in accordance with new CIPFA guidance, 'Delivering Good Governance in Local Government'.</p>	<p>Review of corporate governance</p> <p>We will review the effectiveness of the Council's governance arrangements, using CIPFA and other good practice.</p> <p>In particular, we will:</p> <ul style="list-style-type: none"> • assess the Statement on Internal Control (SIC) framework and arrangements for converting this into the annual governance statement from 2007-08; • review the operation of the Audit Committee, including how it links with the Resources and Governance Overview and Scrutiny Committee, and work alongside officers and members in supporting its future development; • assess the embeddedness of risk management and how effectively the Council's arrangements can respond to changing requirements and emerging risks; and • carry out a full review of internal audit against revised CIPFA standards. <p>Our work will assess the Council's arrangements in a sample of departments and will take account of prior audit work and Service Improvement Programme (SIP) reviews where these have taken place.</p>
<p>The Council works in partnership with a large number of organisations to deliver its strategic objectives and has interests in a range of significant companies and joint ventures.</p> <p>The Council's complex relationships give rise to potential financial, governance and performance related risks.</p> <p>Arrangements for partnership working are becoming increasingly prominent in the CPA and will be a core component of Comprehensive Area Assessment, from 2009.</p> <p>The Council is still in the early stages of mapping the large number of partnerships it is involved in.</p>	<p>Review of partnership management arrangements</p> <p>We will carry out a review of the Council's arrangements for managing these external relationships.</p> <p>This will include a review of the Council's partnership mapping exercise to assess how the Council identifies and obtains the necessary assurances, for significant partnerships, around the arrangements for:</p> <ul style="list-style-type: none"> • accounting and financial management; • governance, risk management and internal control; and • performance management.

Risk	Proposed audit response
<p>The Council's Manchester Improvement Programme (MIP) has been in place for two years. Efficiency savings targets in the MIP are integral to the Council's medium term financial planning, and there remains a significant challenge to ensure that the MIP continues to deliver.</p> <p>The Council has recently introduced a revised business planning process, which aims to integrate performance, financial, risk and people management, in a consistent way, across the Council.</p> <p>The Council recognises that the success of this process is key in mitigating risks of failure to deliver service improvements and efficiency savings.</p> <p>The Council is keen to ensure that MIP principles of service improvement and increased value for money permeate throughout the Council so that, over time, routine business planning and performance management disciplines will remove the need for a dedicated corporate MIP programme.</p>	<p>MIP and business planning</p> <p>We will carry out a review that will include:</p> <ul style="list-style-type: none"> • follow up of prior audit recommendations in respect of the MIP and corporate performance management; • review of how the new business planning process has been designed and rolled out to departments; • assessment of how the business planning process is delivering integrated performance, financial, risk and people management, in a sample of departments; • review of the Council's progress in strengthening management capacity to deliver; and • assessment of how well the business planning process and MIP are integrated.
<p>The Council relies heavily on external funding to help fund, in particular, its ambitious regeneration programme.</p> <p>A number of local and national developments have increased the Council's risks in this area, including:</p> <ul style="list-style-type: none"> • an increasing overall financial challenge to the Council; • anticipated reductions in Neighbourhood Renewal Funding and European grant funding over the next couple of years; • potential ERDF clawback; and • likely identification and negotiation of replacement funding streams. <p>Strong management of grant funding is necessary to manage these risks.</p>	<p>External funding</p> <p>We will review the Council's arrangements for management of external funding, including:</p> <ul style="list-style-type: none"> • the Council's strategic management of external funding including identification of potential funding streams and selection of funding streams to fit with corporate priorities; • consideration of matched funding implications; • scheme management to ensure compliance with grant terms; and • development of exit strategies for when funding streams come to an end.
<p>A cross cutting review of arrangements for delivering improvement in health inequalities was carried out across Greater Manchester in 2005-06.</p> <p>The review highlighted a number of significant challenges and risks for partners in Greater Manchester.</p> <p>A number of recommendations were made relating to all partners, including the Council, and it was agreed that follow up work would be undertaken across Greater Manchester, in 2007-08.</p>	<p>Health inequalities</p> <p>We will carry out a follow up review of progress against the original recommendations, and will test the effectiveness of arrangements through tracer work around alcohol abuse and mental health.</p> <p>This work will be delivered across Greater Manchester by the Audit Commission.</p>

Risk	Proposed audit response
<p>The concept of community safety covers people, communities and organisations, including families, victims and at risk groups, as well as attempting to reduce particular types of crime, the inequalities gap and fear of crime.</p> <p>Community safety is a clear local and national priority, in particular, reducing crime, building respect in communities and tackling anti-social behaviour. Addressing these issues effectively relies on an effective approach to partnership working.</p> <p>There is a risk that ineffective joint working around the issue of community safety could result in poor value for money in the use of the Council's resources.</p>	<p>Community safety</p> <p>We will carry out a cross cutting review of arrangements for delivering community safety priorities across Greater Manchester.</p> <p>We intend that the work will use the same tracers as the health inequalities follow up review so that the two pieces of cross cutting work will be complementary. The scope of the review will be discussed and agreed with the Council and its partners during the year.</p> <p>This work will be delivered across Greater Manchester by the Audit Commission.</p>
<p>The Council is currently a 3 star authority, and 'improving adequately,' under the Audit Commission's Comprehensive Performance Assessment (CPA) framework.</p> <p>The Council is currently rated adequate in its use of resources assessment, with a score of 2 in four of five themes.</p> <p>The Council is aware of the risks to its use of resources rating and wants to prepare itself for significant changes arising from the move to Comprehensive Area Assessment (CAA), and associated changes to the use of resources assessment including increased focus on:</p> <ul style="list-style-type: none"> • commissioning, procurement and management of partnerships, in 2008; and • customer focus, prioritisation and demonstration and delivery of value for money, in 2009. 	<p>Use of resources</p> <p>We will work alongside the Council in preparing for the move to CAA, including early discussion and review of new areas of focus in the assessment and follow up of prior audit work in areas, such as asset management.</p>
<p>A number of opportunities to improve arrangements for use of resources have been identified in previous audit reports.</p>	<p>Follow-up</p> <p>We will follow up the Council's progress in implementing agreed recommendations arising from previous audit reviews, focusing on the arrangements the Council has in place to satisfy itself that appropriate action is taken.</p>

Timetable and Planned Outputs

3.8 The planned outputs from our Use of Resources audit, and the proposed dates for the fieldwork, are summarised in Exhibit Four below:

Exhibit Four: Use of Resources Audit - Timetable and Planned Outputs

Audit output	Fieldwork	Draft report
Data quality report (Audit Commission)	July – October 2007	October 2007
Use of resources – 2007 update report (Audit Commission)	June – November 2007	December 2007
BVPP opinion (Audit Commission)	June 2007	December 2007
2007-08 Interim report to those charged with governance (RSM)	October 2007 – April 2008	May 2008
2007-08 Annual report to those charged with governance (RSM)	May – September 2008	September 2008
Separate reports on specific risk areas identified above, as appropriate and agreed (RSM / Audit Commission)	TBC	TBC

4 Financial Statements Audit

Introduction and Approach

- 4.1 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 (SORP).
- 4.2 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 period in question;
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
 - whether the Statement on Internal Control (SIC) 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.
- 4.3 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 SIC and the Whole of Government Accounts 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.

Risk Assessment and Audit Response

- 4.4 We are required to issue an opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2008, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 (the SORP). We will carry out our audit of the accounts in accordance with International Standards on Auditing issued by the Auditing Practices Board.
- 4.5 Our audit will be risk based. We have not carried out a detailed risk assessment for our audit of the 2007-8 accounts, as the Council's outgoing auditors have yet to undertake the audit of the 2006-07 accounts. We understand that the Council has adequate arrangements in place for the preparation of accounts, reflected in its Use of Resources score of 2. Our high level risk assessment, summarised in Exhibit Five 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 if necessary, amend this plan.

Exhibit Five: 2007-08 Financial Statements Audit – Initial Risk Assessment

Area	Audit Response
Internal audit is a key part of the Council's assurance framework. To be effective, internal audit must be independent, properly resourced and comply with best practice in planning and undertaking its work.	We will undertake a full review of internal audit to assess compliance with CIPFA's core standards and other good practice. This work will have regard to the planned internal audit Service Improvement Programme (SIP) review.
<p>The 2006 SORP introduced a number of significant changes to the presentation of the Council's 2006-07 accounts. Further changes will be made in the 2007 SORP.</p> <p>Treasury has announced its intention that Whole of Government Accounts (WGA) will be published for the first time, and on the basis of International Financial Reporting Standards (IFRS), in 2008-09.</p> <p>It will be important that the Council adopts arrangements to comply with SORP changes, and the planned introduction of IFRS, at an early stage to avoid any risk of material misstatement or adverse impact on the Council's publication timetable.</p>	We will hold an accounts planning workshop with the Council following completion of the 2006-07 audit to discuss implications of the 2007 SORP and other local risk factors, early in the 2007-08 audit process.
<p>In common with all councils, financial pressures are anticipated to increase in the next few years.</p> <p>The robustness of the Council's medium term financial planning is key to managing these financial pressures.</p>	We will assess the adequacy of the Council's medium term financial management and budgetary control arrangements as part of our accounts planning work.
We expect there to be a number of specific accounting issues that may affect the Council's 2007-08 accounts, arising from local and national developments, and the Council's recent implementation of SAP.	<p>We will review the outcome of the 2006-07 financial statements audit in late 2007 to identify local issues, and the Council's proposed response to any recommendations made by the Audit Commission.</p> <p>We will work closely with the Council during 2008 to discuss and agree accounting treatments for any complex or sensitive issues.</p>

Timetable and Planned Outputs

- 4.6 The planned outputs from our financial statements audit, and the proposed dates for the fieldwork, are summarised in Exhibit Six below:

Exhibit Six: Financial Statements Audit -Timetable and Planned Outputs

Audit output	Fieldwork	Draft report
Interim Report to those charged with governance (including review of Internal Audit)	October 2007 – April 2008	May 2008
Final Report to those charged with governance (ISA 260)	May – September 2008	Early September 2008
Accounts Opinion	May – September 2008	Mid - September 2008

5 Grant Claims

Introduction and Approach

- 5.1 In addition to our Code responsibilities, we are required, acting as agents of the Audit Commission, to certify a the Council's grant claims and returns, in accordance with the following arrangements:
- claims below £100,000 are not subject to certification;
 - claims between £100,000 and £500,000 are subject to a reduced, 'light –touch' certification; and
 - claims 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.
- 5.2 The Council receives a significant amount of grant funding every year. Robust arrangements for preparing claims and returns are important to mitigate a number of risks, including:
- increased cost to the Council, both in terms of incurring additional audit fees and also officer time in dealing with issues arising from claim audits;
 - delayed payment of grant or financial penalty from grant paying departments, due to delays in claim certification;
 - risk of unexpected grant clawback due to amendments and qualifications; and
 - potential adverse impact on external assessment of the Council's governance and internal control arrangements.
- 5.3 To assist the Council in ensuring that arrangements for preparing 2007-08 claims and returns are robust, we will:
- participate in a planning workshop with the Council, to discuss and clarify expectations for 2007-08 and subsequent grants audits;
 - follow up on issues raised by the Audit Commission in relation to the Council's preparation of grants;
 - liaise with the Council's grants co-ordinator and agree the audit timetable and estimated budget in advance of carrying out our audit; and
 - prepare a grants report, summarising issues from the 2007-08 audit, to facilitate continuous improvement.

Timetable and Planned Outputs

- 5.4 The planned outputs from our grant claims audit, and the proposed dates for the fieldwork, are summarised in Exhibit Seven below:

Exhibit Seven: Grant Claims Audit - Timetable and Planned Outputs

Audit output	Fieldwork	Draft report
Planning workshop	May 2008	n/a
Audit certificates on individual claims	July – December 2008	n/a
Grant Claims Report	July – December 2008	December 2008

6 Audit and Inspection Team

The Team

- 6.1 The key members of the audit and inspection team for 2007-08 are shown in Exhibit Eight. Prior to commencing our detailed programme of work, we will provide our *Introduction to the audit team* document to officers that we will be working with to deliver the 2007-08 plan.

Exhibit Eight: Key team members

Name	Responsibilities
Clive Portman Relationship Manager c-portman@audit-commission.gov.uk 01204 877300	The Audit 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.
Sarah Howard Engagement Partner sarah.howard@rsmi.co.uk 07831 564148	Appointed Auditor, responsible for the overall delivery of the audit including the quality of outputs, signing the accounts opinion and vfm conclusion.
Paul Hughes Client Service Manager paul.hughes@rsmi.co.uk 07860 282763	Responsible for the management and delivery of the audit plan and co-ordination of specialist input to the audit. Primary point of contact for the Council.
Paul Spinks Senior Technical Manager paul.spinks@rsmi.co.uk 0113 225 4000 / 07798 831962	Responsible for provision of technical support to the audit, particularly around the accounts and any PFI work.
Wendy Burton Support Manager wendy.burton@rsmi.co.uk 07919 362208 (text only)	Responsible for delivery of the grant claims audit and specific elements of the audit plan.
Gavin Blackstone Support Manager gavin.blackstone@rsmi.co.uk 07800 645623	Responsible for delivery of the accounts audit and specific elements of the audit plan.
John McLoughlin Audit Senior john.mcloughlin@rsmi.co.uk 07916 327760	Responsible for managing the on site fieldwork during the accounts, use of resources and grant claims audits.

Independence

- 6.2 The core audit team will be supported by other specialist and support staff, as necessary, during the course of the audit, including:
- IT audit specialists;
 - Governance and Risk Assurance specialists; and
 - Technical Accounting specialists.
- 6.3 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 Commission's requirements in respect of independence and objectivity as summarised at Appendix B.
- 6.4 We are committed to achieving and maintaining the highest quality of service. If you have any comments on our service, please contact the Relationship Manager or Appointed Auditor, in the first instance. Alternatively you may wish to contact the Audit Commission's Head of Operations (North West), Frank Kerkham, or RSM Robson Rhodes' national Head of Government Audit, Richard Tremeer.

Section 7 Audit and Inspection Fee

The fee

- 7.1 The structure of scale fees is set out in the Audit Commission's work programme and fee scales 2007-08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 7.2 The planned fee for the 2007-08 Code audit work is £453,000, including the fee for the audit of the whole of government accounts return. The fee for inspection work will be £22,000.
- 7.3 The total planned fee of £475,000 compares with £515,000 for 2006-07 and £475,000 for 2005-06.
- 7.4 A breakdown of the audit and inspection fee is provided in Exhibit Nine below.

Exhibit Nine: Audit and Inspection Fee

Area	Plan 2007-08	Plan 2006-07	Plan 2005-06
Accounts (including whole of government accounts)	260,000	250,000	252,000
Use of resources	① 193,000	149,000	188,000
<i>Total audit fee</i>	<i>453,000</i>	<i>399,000</i>	<i>440,000</i>
Relationship Management / Direction of Travel	22,000	116,000	35,000
Total audit and inspection fee	475,000	515,000	475,000

① Includes £65,000 to be charged by the Audit Commission for 2007 Use of resources KLoE, data quality, BVPP and cross cutting audits.

- 7.5 The planned fee above, excludes:
- certification of grant claims and returns - we will provide an estimate of the cost of auditing 2007-08 grant claims and returns once the 2006-07 audit has been completed;
 - audit work on PFI accounting views, in addition to work we are already aware of (Collyhurst scheme);
 - the Audit Commission's fee for participation in the National Fraud Initiative, which continues to be billed separately; and
 - dealing with local government elector questions and objections, which will be billed separately, as required.

Assumptions

7.6 In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006-07;
- 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;
- good quality working papers and records will be provided to support the financial statements by 30 June 2008;
- requested information will be provided within agreed timescales; and
- prompt responses will be provided to draft reports.

Process for agreeing changes in audit fees

7.7 Any changes to the plan and proposed fee will be agreed with the City Treasurer 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

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

Fee	Billing Profile
RSM Audit Fee (£388,000)	Quarterly: June 2007, September 2007, December 2007 and March 2008
Audit Commission Audit Fee (£65,000)	Monthly: April 2007 – March 2008
RM / DoT fee (£22,000)	Monthly: April 2007 – March 2008

Non Code Work

7.9 We may 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 management in advance and will be reported to the Audit Committee.

7.10 RSM Robson Rhodes plans to merge with Grant Thornton on 2 July 2007. The merged firm may undertake additional audit or non-audit work, in the same way as all firms appointed to Audit Commission audits. We will assess all current non-audit work and future proposals for this work to ensure that it does not present a conflict of interest.

Appendix A Summary of Planned Outputs

Audit and Inspection Outputs

The table below summarises the audit and inspection reports we plan to issue in respect of the 2007-08 audit and inspection plan.

Exhibit Eleven: Summary of Planned Outputs

Planned output	Responsibility	Planned Fieldwork	Draft report	Final report to Audit Committee
2007-08 Audit and Inspection plan	RSM / AC	April – May 2007	June 2007	29 June 2007
Data quality report	AC	July – October 2007	October 2007	18 January 2008
Use of resources – 2007 update report	AC	June – November 2007	December 2007	18 January 2008
BVPP opinion	AC	June 2007	December 2007	18 January 2008
Direction of Travel statement	AC	September – December 2008	December 2008 (tbc)	March 2009 (tbc)
Annual Audit and Inspection Letter	AC	January to March 2009	March 2009 (tbc)	March 2009 (tbc)
2007-08 Interim report to those charged with governance (which will cover accounts and use of resources)	RSM	October 2007 – April 2008	May 2008	June 2008 (tbc)
2007-08 Annual report to those charged with governance ('ISA 260' report which will cover accounts and use of resources)	RSM	May – September 2008	September 2008	September 2008 (tbc)
2007-08 Grant Claims Report	RSM	July – December 2008	December 2008	January 2009 (tbc)

Status of our Reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies, issued by the Audit Commission. Reports are 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.

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

Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISAs when auditing the financial statements. 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 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;
- audit staff are expected not to accept appointments as lay school inspectors;
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;

- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;
- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;
- auditors are expected to comply with the Commission's policy for both the 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 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.