

**WARNING !**  
**THE DOCUMENT**  
**BELOW IS SCANNED**



**THEREFORE IT MAY**  
**NOT BE ENTIRELY**  
**ACCURATE.**

**IF YOU REQUIRE ANY FURTHER**  
**INFORMATION**  
**CONTACT: LINDA NOKES,**  
**CONSTITUTIONAL**  
**INFORMATION ASSISITANT.**  
**CABINET OFFICE**  
**EXT. 3550**

# Audit and Inspection Plan

## **Walsall Metropolitan Borough Council**

### INSIDE THIS PLAN

#### PAGE 2

- Introduction
- Strategic regulation
- Our responsibilities
- The fee

#### PAGE 3 - 5

- Improvement
- Assessment
- Assurance
- Grant claim certification work

#### PAGE 5 - 6

- The team
- Further details of our respective Code responsibilities
- Reporting

#### PAGE 7

- Planned outputs

#### APPENDIX 1

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

Reference:	Walsall audit inspection plan v3.doc
Date:	September 2004

## Introduction

This plan sets out the audit and inspection work we are undertaking in 2004/2005. We delayed producing the plan to give you the opportunity to develop your improvement plans following your corporate assessment, the results of which were published in May 2004. This plan has been drawn up following discussion of your improvement plans with you and with the Interim Board, and our risk based approach to audit planning. This plan reflects the Audit Commission's elements of the co-ordinated and proportionate audit and inspection programme.

## Strategic regulation

Strategic regulation is at the core of the Audit Commission's plans. It is a new more focused and more risk-based approach. Our approach to strategic regulation embodies four key principles:

- it is a force for continuous improvement
- it is focused on outcomes for service users
- it is proportionate to performance and risk
- it is delivered in partnership.

We intend to demonstrate the benefits of strategic regulation in your audit and inspection programme by ensuring that our work is properly focused on the stage you have reached with your improvement process and emphasises the outcomes for the people of Walsall. We will ensure in particular that the inspection work carried out is at a reduced level compared with the intensive programme we have carried out in the previous 12 months, and will encourage other inspectorates to respect this. We will also be implementing a new approach to the audit of grant claims to ensure that the work we carry out reflects the level of risk in each claim.

## Our responsibilities

In carrying out audit and inspection work we comply with the statutory requirements governing it, in particular:

- for our audit work
  - the Audit Commission Act 1998;
  - the Code of Audit Practice (the Code); and

- the Local Government Act 1999;
- for our inspection work
  - the Local Government Act 1999.

We have worked with you, both directly and through the Interim Board, on the improvement planning process to ensure that the work of the Audit Commission and other inspectors is co-ordinated and targeted at your key areas for improvement.

To clarify the purpose of our different responsibilities we have divided the plan into the following categories:

- improvement
- assessment
- assurance.

## The fee

The fee for our 2004/2005 programme of work is set out below.

Audit area	2004/05 Fee (£)	2002/04 Fee (£)
Improvement	49,000	)
Assessment	96,000	) 156,000
Assurance		
• Accounts	72,000	140,000
• Governance	95,000	186,000
• Use of resources	80,000	115,000
<b>TOTAL</b>	<b>392,000</b>	<b>597,000</b>

*Note: the fee is net of ODPM grant*

In setting the fee we have assumed:

- you will continue to inform us of significant developments and emerging risks
- Internal Audit meets the appropriate professional standards
- officers will provide good quality working papers
- officers will provide requested information within agreed timescales
- prompt responses to draft reports.

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

- significant new risks emerge
- additional duties are required of us by the Audit Commission



- changes are agreed with the other inspectorates.

This fee is 2% below the mid point of the scale fees set out by the Audit Commission.

In addition to the above fee there will be a fee of an estimated £128,000 for the grant claim certification work for 2004/2005. This estimate is based on the previous year fee of £139,000 and known changes in claims. The exact fee for this work will depend on the number and complexity of claims.

## Improvement

Through our improvement planning meetings with you and the other inspectorates, through the Interim Board, we have reached a shared understanding of your top priorities for improvement. This section sets out the Audit Commission's proposed activity linked to those improvement priorities. Our overall emphasis for this year is, however, to give you some space to implement your improvement plans and for us to monitor progress. There is therefore little work which is identified specifically as improvement work below.

Improvement priority	Action proposed
Community associations receive significant grants from the council. It is important to ensure that the grants are spent for the purposes intended	Review of the ways in which the council allocates grants to community associations and monitors the effectiveness of delivery
The council is in the process of seeking a partner to provide IT investment and support services. (Putting the Citizen First). This project will be a keystone in the councils plan to achieve excellence by 2008.	We will continue to review the processes involved in the PTCF project to help ensure that a robust contract is put in place.
During our 2003/04 final accounts audit we identified problems around the Nurcis system. Officers have put a plan for remedial action in place for 2004/05	We will review the effectiveness of the action taken to improve the quality of information held in the Nurcis system

Additionally, we will follow-up our work from previous years to check progress on the implementation of agreed recommendations.

### Voluntary improvement work

Where the council requests additional work to help with the improvement agenda we will be happy to discuss detailed proposals. The fee for this work, undertaken under section 35 of the Audit Commission Act 1998, would be agreed separately with the council. At present we have not agreed any work in this category.

#### Expected outputs

Commentary as necessary on Putting the Citizen First
Report on grants to community associations

## Assessment

**Inspections** – This year the main inspection is on environmental services, covering primarily highways, streetscene and waste. We have also allocated time to following up the Housing inspection carried out in January 2004.

**Qualitative assessment of continuous improvement** – we will carry out an overall high-level review of your progress against your improvement priorities in Autumn 2004. This will be reported through the Annual Letter and will also lead to the provision of summary text for publication on the Audit Commission's website. Where possible, it draw on information provided through your own performance monitoring arrangements and any self assessment you wish to provide.

The Audit Commission will publish an updated comprehensive performance assessment (CPA) for your council and all other single and upper tier councils in December 2004.

We will also undertake a follow up of actions arising from the council's improvement action plan arising from the CPA corporate assessment reported in May 2004

#### Expected outputs

Environment Inspection assessment report
CPA action plan follow up
Qualitative assessment report as part of Annual Letter



## Assurance

### Accounts

We are required to give an opinion on your accounts. We will do this by reviewing your core processes for producing the accounts:

- the main accounting system
- the budgetary control procedures
- the final accounts closedown procedures.

We will then undertake detailed testing of the figures in the accounts.

We will undertake the following specific work to address the risks we have identified for 2004/2005. These risks may be liable to change as the 2004/2005 financial year progresses, and we will update our risk assessment and work programme during the year.

Risk	Action proposed
The council is introducing ORACLE financials during the audit year. Any new systems poses risks to financial reporting, control and service delivery.	We will review the controls in place over the new system, taking into account the work of internal audit
The council is introducing a new payroll system (Trent) on a phased basis during the year. It is important to ensure that this system is adequately controlled and reconciled to the new ledger system.	Internal audit have already commenced work on this system. We will seek to place reliance on the work of the IA section in forming our opinion
The council is seeking to secure a new revenues and benefits system.	We will review the controls over the procurement of this system and the adequacy of planning for implementation.

Our work on your accounts does not seek either to obtain absolute assurance that the financial statements present fairly your financial position or assurance that they are accurate in every regard.

In this context we adopt a concept of materiality. In planning and conducting our audit of your accounts, we seek to ensure that there

are no material errors in your financial statements. Material errors are those which might be misleading to a reader of the financial statements.

An unqualified opinion may not be given on financial statements that contain material misstatements. In the course of our work, we may also identify non-material misstatements that we will report to officers for amendment, unless they are clearly inconsequential. If officers do not make the required amendments, we will report the amendments to the Audit Committee, using what is known as a SAS610 report, so that there is an opportunity for them to be amended prior to the approval and certification of the financial statements.

Expected outputs
SAS 610 report (if necessary)
Audit opinion
Review of ORACLE financials
Review of Trent payroll
Review of procurement of revenues and benefits system
Review of Nurcis

### Governance

We are required to determine whether you have adequate arrangements for:

- legality
- financial standing
- internal financial control
- standards of financial conduct and preventing and detecting fraud and corruption.

We will undertake the following specific work to address the risks we have identified for 2004/2005.

Risk	Audit work proposed
Risk management is not yet fully embedded in Education department. There needs to be clarity about the respective roles of the council and its partner SERCO	We will review the arrangements in place to manage the contract with SERCO



**Expected outputs**

SERCO contract management report
Report on governance arrangements

**Performance management****Overall arrangements**

We will review whether you have adequate arrangements to secure economy, efficiency and effectiveness in the use of your resources.

The work on your overall arrangements will be linked with our improvement and assessment work identified earlier in the plan. Additionally we will undertake the following specific work to address the risks we have identified for 2004/2005.

Risk	Audit work proposed
The council has developed a new performance management process to help drive it forward to achieve excellence by 2008. The central team was recruited during 2003 and the early part of 2004. It is important to the council's progress that this team has a major impact on service quality and service delivery.	We will build on work carried out in previous inspections to review the way in which performance management has been developed and implemented in Walsall.
The council is actively developing a range of partnerships to help deliver services and enhance the borough. There is a need to ensure that the council has established effective controls over expenditure in these areas.	We will review the arrangements the council has put in place to work with partners and to ensure effective governance over its financial contributions.

We will also follow -up our work from previous years to ensure you have implemented agreed recommendations.

**Best value**

We will undertake a review of your Best Value Performance Plan (BVPP) to ensure it meets the statutory requirement in respect of its content. We will issue an opinion on this plan before the

end of December 2004. We will also review and comment on your systems for collecting performance information and in particular BVPIs.

**Expected outputs**

Report on performance management implementation
Report on management of partnerships
Report on BVPP and BVPIs audit

**Grant claim certification work**

The Audit Commission has changed the certification audit regime to reduce the amount of work overall, and better link the work to assessments of risk. The benefits of this approach will begin to be achieved in our certification work later in 2004, and be fully achieved in 2005. The main changes are:

- claims for £50,000 or below would not be subject to certification
- claims between £50,001 and £100,000 would be subject to a reduced, light touch, certification audit
- claims over £100,000 would have an audit approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.

**The team**

Name	Title
John Gregory	Relationship Manager and District Auditor
Brian Warwick	Audit Manager
Gary Stevens	Performance Lead
Pik Ling Ho	Team Leader
Mike Smith	IT specialist

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 standards.

In relation to the audit of your financial statements, we will comply with the Commission's requirements in respect of independence and objectivity as set out at Appendix 1.

### **Further details of our respective Code responsibilities**

The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies gives further information on our respective responsibilities under the Code of Audit Practice.

### **Reporting**

We will provide reports, or other output as agreed, to the Audit Committee for each of the risk areas identified in the plan. Our key milestones are set out in the planned outputs section. This section is prepared in draft form and will be updated regularly as work programs are agreed, and will form the basis of audit progress reports to officers and the Audit Committee.

We are also required to report relevant matters relating to the audit to those charged with governance. The following section on planned outputs shows how we will address this requirement.

In addition, we will continue to present the findings of our work where necessary to the Interim Board, although the need for this has reduced now that you have moved into a period of 'light touch' supervision by ODPM.

### **Status of our reports to the council**

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



## Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the relevant Committee.

Planned output	Start date	Draft due date	Key AC contact
Audit and Inspection plan	July 2004	September 2004	Brian Warwick
Audit progress reports	Ongoing during the year	Each audit committee	Brian Warwick
Review of Community associations	November 2004	January 2005	Tba
Putting the Citizen First	Ongoing	July 2005	Brian Warwick
Environmental Inspection	September 2004	October 2004	John Cotterill/John Gregory
Housing Inspection follow up	Ongoing	Tba	Deborah Good
Qualitative assessment (reported as part of 2003/04 Annual Letter)	October 2004	November 2004	John Gregory
CPA follow up	June 2005	July 2005	Brian Warwick
ORACLE implementation	November 2004	January 2005	Mike Smith
Review of Nurcis	January 2005	March 2005	Pik ling Ho
Trent implementation	January 2005	March 2005	Kathryn Lewis
Revenues and benefits procurement	May 2005	June 2005	Mike Smith
SERCO contract management	November 2004	January 2005	Brian Warwick
Governance arrangements	February 2005	May 2005	Pik Ling Ho
Performance management	March 2005	June 2005	Tba
Partnership working	March 2005	July 2005	Tba
Best value performance plan	July 2005	September 2005	Kathryn Lewis
Annual accounts	July 2005	September 2005	Brian Warwick
Annual audit letter	July 2005	September 2005	John Gregory



## 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 Statements of Auditing Standards (SAS) when auditing the financial statements. SAS 610.3 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 SAS 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 xxx Committee. The auditor reserves the right, however, to communicate directly with [the Board/Cabinet etc] on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity
- exercise their professional judgement and act independently of both the Commission and the audited body
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a de minimis amount (currently the higher of £25,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the de minimis amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director
- audit staff are expected not to accept appointments as lay school inspectors
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence

- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission
- auditors are expected to comply with the Commission's policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements)
- audit suppliers are required to obtain the Commission's written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body
- 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.