

Audit and Inspection Plan

Date

Last saved: 21/04/2006 12:02:00

Audit and Inspection Plan

Walsall Metropolitan Borough Council

Audit 2006/2007

Document Control	
Author	Brian Warwick
Filename	Audit and Inspection Plan 200607

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 members or officers. They 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.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Introduction	4
Our responsibilities	4
The fee	5
CPA and inspections	6
Summary of key audit risks	7
Value for money conclusion	7
Use of resources judgement	8
Performance information	9
Best Value Performance Plan	9
Financial statements	9
Whole of government accounts	10
Certification of claims and returns	11
Other information	13
Outputs from the audit and inspection plan	13
The team	13
Future audit plans	15
Appendix 1 – Audit and inspection fee	16
Specific audit risk factors	16
Assumptions	17
Specific actions the Council could take to reduce its audit fees	18
Process for agreeing any changes in audit fees	18
Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources	19
Appendix 3 – Planned outputs	21
Appendix 4 - The Audit Commission’s requirements in respect of independence and objectivity	23

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 30th September 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 £264,732 and the total fee estimate for inspection work planned for 2006/07 is £21,538. This compares with a planned total audit and inspection fee of £363,500 2005/06, which was subsequently reduced to £327,000 as a result of termination of negotiations on the strategic partnership. The reduction in 2006/07 reflects your improved CPA status as a 'three star' council and the reduced work necessary in the light of this.
- 8 In addition we estimate that we will charge approximately £120,000 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 in the Council's performance. These include the fact that the 2005 CPA assessment shows the Council is now a three star authority which is improving well.
- 13 As a consequence our assessment we do not plan any specific inspection activity. Our work this year will be focussed on a continued monitoring of the Council's progress through the 2006 CPA assessment and a revised assessment of its direction of travel.

Table 1 Summary of inspection activity

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

DRAFT

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 process;
 - undertake audit work in relation to specified performance indicators to support the service assessment element of CPA; and
 - provide a report on the Council's best value performance plan (BVPP).
- 15 In assessing risk we have
- held discussions with executive directors
 - built on our cumulative knowledge of the Council
 - considered the actions which the Council is taking to address key risks
 - taken into account plans for new ways of service delivery such as the Local Area Agreement
 - considered the scope and plans of internal audit
 - taken a preliminary view of the arrangements the Council is developing in relation to performance management and data quality assurance.
- 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 of our audit of the 2005/06 accounts. This may influence our risk assessment for similar work to be carried out as part of the 2006/07 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
We do not have sufficient knowledge for our VFM conclusion that previous agreed external audit recommendations have been successfully implemented	We will follow up all audit recommendations during the course of the audit and report our conclusions on the effectiveness of action taken
Front line staff may not receive the full support they need from support services in individual directorates or from the corporate core.	Working with the appropriate executive director, we will ascertain the needs of service providers in terms of support service and assess the success of delivery.
The Local Area Agreement may not have sufficiently well developed governance arrangements to ensure effective delivery of services to meet targets.	Working with the LAA team and Internal Audit we will assess the effectiveness of performance management arrangements. We will also take into account work done by the Audit Commission on behalf of GOWM
We do not have sufficient knowledge for our VFM conclusion of the arrangements for engagement of service users and carers within social care.	We will review how the Directorate sets out to engage with carers and users and assess the of the processes used
We do not have sufficient knowledge for our VFM	We will examine the ways in which the Directorate collects, verifies and uses

Audit risk	Response
conclusion regarding performance management arrangements in adult social care, and have identified that these may not be sufficiently robust to ensure the effective delivery of services	performance management information

Performance information

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

- 23 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

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

Table 3 Summary of opinion risks

Opinion risks	Response
The financial statements may not present fairly the income and	We will carry out a review of the effectiveness of the Council's significant

10 Audit and Inspection Plan : Summary of key audit risks

Opinion risks	Response
expenditure of the Council or its financial position at 31 March 2007.	financial systems, test where appropriate the figures in the accounts, obtain explanations and evidence from officers. Wherever possible we will take into account the work of internal audit.
The governance arrangements of the LAA may not be sufficiently developed to provide the Council with assurance of financial control.	We will review the operation of governance arrangements to ensure the Council meets its responsibility as accountable body
Grant funded expenditure within the LAA may not be the subject to the same level of scrutiny as in the past as they may no longer be subject to specific external audit certification.	As above but with specific emphasis on the ways in which the Council meets grant conditions.

- 27 Our fee estimate for 2006/07 is based on the assumption that the planned standard of working papers for the 2005/06 opinion audit will be delivered in 2006/07 and that internal audit will complete their planned work on key information systems to the agreed quality and by the agreed date and that the accounts will be prepared and fully supported by working papers by 30 June 2007.
- 28 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.
- 29 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

- 30 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 Executive Director, Corporate Services when further details are available.

Certification of claims and returns

- 31** 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.
- 32** Charges for this work are based on skill-related fees scales set out in the Audit Commission's work programme and fee scales 2006/07. Based on this, and on the assumption that the level of grant work will remain unchanged, we estimate that the fees for grant certification work will be around £120,000.
- 33** This fee can be reduced in future years if
- The Council continues to press for improvements in the management of grant funded schemes and in the timely preparation and submission for audit of claims and supporting working papers
 - Internal audit work addresses specific certification requirements
- 34** In addition the LAA should result in the reduction of the number of claims requiring certification by external audit. It is difficult to put a precise value on this as the requirements of all grant giving bodies are not all fully identified in the LAA process.

DRAFT

Other information

Outputs from the audit and inspection plan

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

The team

Table 4

Name	Title
John Gregory	Appointed Auditor and Relationship Manager
Brian Warwick	Audit Manager
Gary Stevens	Area Performance Lead
Pik Ling Ho	Audit Team Leader
Roy Higginson	Auditor (Final stage ACCA)
Andrew Davies	Final stage CIPFA trainee auditor
Dominic Shorun	First year CIPFA trainee auditor

14 Audit and Inspection Plan : Other information

- 36** We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.
- 37** We comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

DRAFT

Future audit plans

- 38 As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes, including the scheduling of your corporate assessment and joint area review of children's services and young people which is planned for 2007/08. Key areas identified include:
- The continued development of the LAA
 - The Council's plans for continued improvement arising from the Transformation Plan.
- 39 We will discuss these in more detail as the audit year progresses.

DRAFT

Appendix 1 – Audit and inspection fee

Table 5

Fee estimate	Plan 2006/07	Plan 2005/06
Audit		
Accounts	163,995	182,000
Use of resources	100,737	132,000
Total audit fee	264,732	314,000
Inspection		
Relationship management	10,760	18,000
Service inspection	Nil	22,500
Direction of Travel	10,778	9,000
Total inspection fee	21,538	49,500
Total audit and inspection fee	286,270	363,500
Certification of grants and returns	120,000	130,000

** 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 10% below 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 .

Specific audit risk factors

- 4 In setting the audit fee we have taken account of the following specific risk factors:
 - The standard of working papers supporting the 2004/05 accounts
 - The late production of some claims for specific grant
 - The potential impact of the LAA

- The delay in service improvements planned to be delivered by the Strategic Partnership, negotiations for which were halted in January 2006.

Assumptions

- 5 In setting the audit fee we have assumed:
 - you will inform us of significant developments impacting on our audit;
 - Internal Audit continues to meet the appropriate professional standards;
 - Internal Audit undertakes appropriate work on all material information systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing (ISA);
 - Internal Audit provides an appropriate assurance statement for the LAA in time for our opinion on the financial statements.
 - officers will provide good quality working papers and records to support the financial statements by 30 June 2007. We have been working with the Council to help improve these standards and will reassess the effectiveness of the changes after the audit of the 2005/06 financial statements.
 - officers will provide all requested information within agreed timescales;
 - officers will provide responses to draft reports within 4 weeks; 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 may 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 the 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:
- Continue to improve the standard of working papers supporting the financial statements and claims for specific grant
 - Have sufficient staff to ensure effective control over benefit payments and the preparation of the benefits subsidy claim
 - Continue to develop the robustness of internal data quality processes
 - Align more closely, where appropriate, the financial systems work of Internal Audit and External Audit
 - Reconsider the detailed testing carried out to address specific external audit evidence requirements.

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 Executive Director, Corporate Services. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

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.

20 Audit and Inspection Plan | 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 ensuring compliance with the general duty of best value

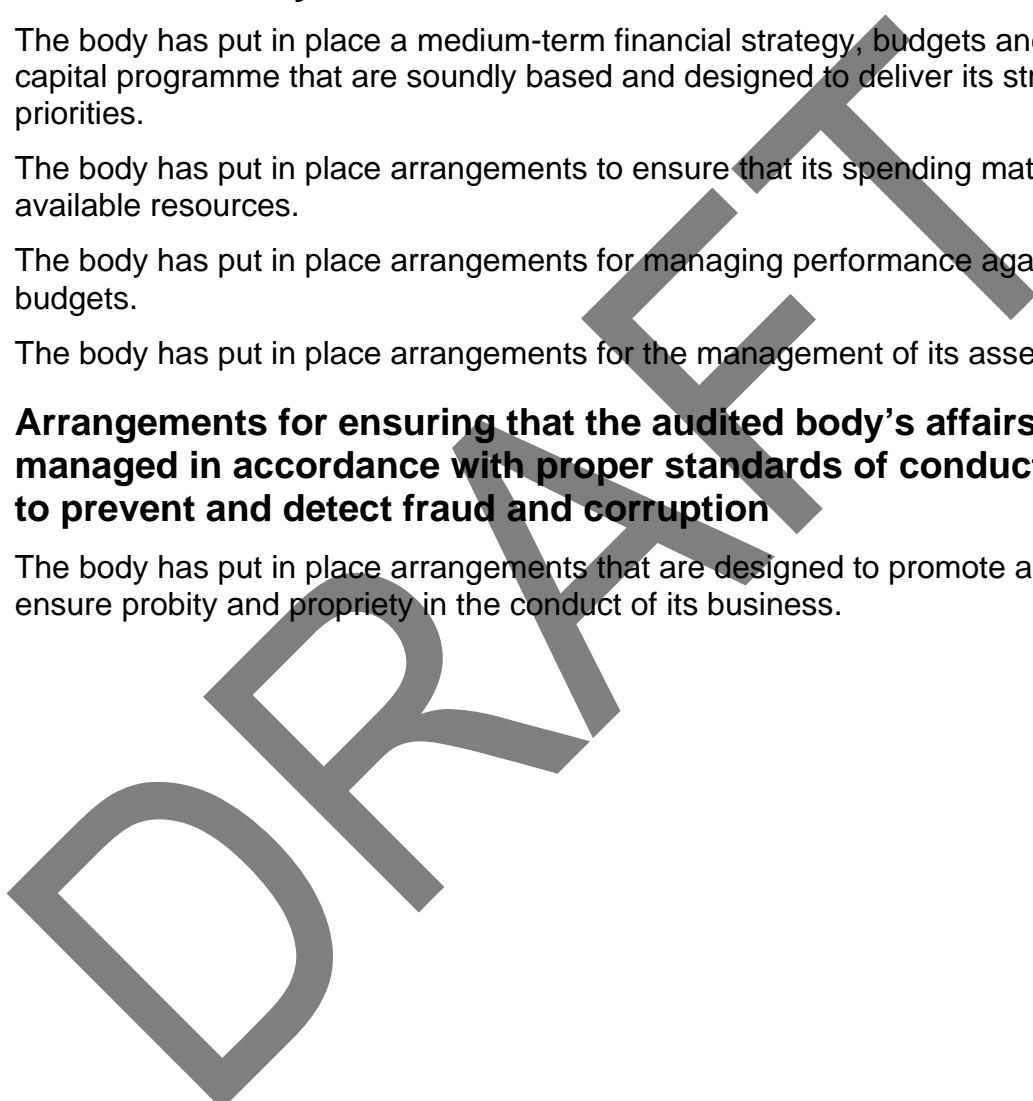
- 7 The body has put in place arrangements to manage and improve value for money.

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	January 2007	May 2007	Audit Manager
BVPP report	June 2007	September 2007	Audit Manager
Report on selected PIs (if applicable)	June 2007	September 2007	Audit Manager
Report on financial statements to those charged with governance	August 2007	September 2007	Audit Manager
Opinion on financial statements	June 2007	September 2007	District Auditor
Vfm conclusion	Ongoing	September 2007	Performance Lead
Final accounts memorandum	1 July 2007	October 2007	Audit Manager
Follow up of previous work	Ongoing	All by September 2007	
Transportation			Performance Lead
Corporate interdependence	TBA		
LAA governance	May 2007	September 2007	
User and carer engagement	TBA		
Performance management in social care	TBA		
Annual audit and inspection letter (including direction of travel)	October 2007	16 December 2007	Relationship Manager

22 Audit and Inspection Plan : Appendix 3 – Planned outputs

Planned output	Start date	Draft due date	Key contact
assessment)			

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

DRAFT

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;

24 Audit and Inspection Plan ! Appendix 4 - The Audit Commission's requirements in respect of independence and objectivity

- 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.