

Audit and Inspection Plan

---

Date

---

Last saved: 30/03/2006 12:20:00

# **Audit and Inspection Plan**

**Harrogate Borough Council**

**Audit 2006/2007**

<b>Document Control</b>	
Author	Julie Talbot
Filename	HBC Plan 2006-07

### **Status of our reports to the Trust/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.

### **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](http://www.audit-commission.gov.uk)

# Contents

<b>Introduction</b>	<b>4</b>
Our responsibilities	4
<b>The fee</b>	<b>5</b>
<b>CPA and inspections</b>	<b>6</b>
<b>Summary of key audit risks</b>	<b>7</b>
Value for money conclusion	7
Use of resources judgement	7
Performance information	9
Best value performance plan	9
Financial statements	9
Whole of government accounts	10
<b>Claims and returns certification</b>	<b>11</b>
<b>Other information</b>	<b>12</b>
Outputs from the audit and inspection plan	12
The team	12
<b>Appendix 1 - Audit and inspection fee</b>	<b>13</b>
Specific audit risk factors	13
Assumptions	14
Specific actions Harrogate District Council could take to reduce its audit fees	15
Process for agreeing any changes in audit fees	15
<b>Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources</b>	<b>16</b>
<b>Appendix 3 – Planned outputs</b>	<b>18</b>
<b>Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity</b>	<b>19</b>

## 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 and reflects:
  - 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;
  - 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 conclusion regarding your arrangements for ensuring value for money in use of resources. We will give the first such conclusion by September 2006 as part of the 2005/06 audit.

## The fee

- 5 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 6 Inspection fees are based on the actual number of days included in the plan for each programmed activity.
- 7 The total fee estimate for the audit work planned for 2006/07 is £105,500 and the total fee estimate for inspection work planned for 2006/07 is £4,500. This compares with a total audit and inspection fee of £102,000 in 2005/06.
- 8 In addition we estimate that we will charge approximately £24,000 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 you could take to reduce 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 The CPA framework for District Councils from 2006 is currently subject to consultation. It is expected that the proposed methodology will be published by later this year and that the opportunity for re-categorisation may be available for some councils during 2006/07.
- 13 If the new methodology identifies the need or opportunity for a revised corporate assessment we will discuss an amendment to this plan and agree an additional fee for completion of the work.
- 14 Our inspection activity will focus on the following:

**Table 1 Relationship manager and inspection activity**

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 review	To provide focus for continuous improvement. Likely to be included in CPA scorecard.

## Summary of key audit risks

- 15 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;
  - undertake audit work in relation to specified performance indicators to support the service assessment element of CPA; and
  - provide a report on your best value performance plan (BVPP).
- 16 In assessing risk we have taken into account our findings from previous audits including our recent work on Use of Resources and Direction of Travel; new and emerging risks (identified from our discussions with members and officers, review of agendas etc) and other risks coming to our attention.
- 17 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 on your arrangements.

## Value for money conclusion

- 18 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 criteria for auditors to apply in reaching our value for money conclusion. These criteria are listed in Appendix 2. In meeting this responsibility, we will review evidence relevant to your corporate performance management and financial management arrangements. We will give the first such conclusion by the end of September 2006 as part our audit of the 2005/06 accounts. This may influence our risk assessment for the 2006/07 audit and we will keep you informed of any changes to this plan that may become necessary.

## Use of resources judgement

- 19 Over and above 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 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.

- 20 These judgements may also be used by the Commission as the basis for its overall use of resources judgement.
- 21 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
The Royal Hall	No specific work planned. Ongoing review as part of continuous audit risk assessment and impact on your capacity to meet this and other priorities.
Single Status	No specific work planned. Progress in implementing and impact on financial standing.
Access to services, e-government and CRM. Impact of new technologies and increased public access.	Use as tracer for testing risk management arrangements to feed into Use of Resources and VFM conclusion. Your business @ risk - on-line IT risk assessment. Assists in raising awareness regarding business risks associated with new technologies and highlights governance improvement areas.
Can Harrogate BC demonstrate that it is achieving value for money, notably through procurement.	Use results from Use of Resources to review progress in implementing new strategy and impact of new North Yorkshire procurement group. Yet to be fully scoped but likely to include governance arrangement too.
The North Yorkshire Strategic Partnership (NYSP) has been reorganised and a LAA (local area agreement) is being developed which may become the conduit for significant sums of public money. The extent to which vfm and performance issues are being addressed is uncertain and the governance and financial arrangements	Carry out a cross cutting review to assess the corporate governance arrangements for the NYSP.

Audit risk	Response
are not yet finalised.	

## Performance information

- 22 In 2006/07, auditors are required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA, subject to the basis of the agreed methodology. This work will be risk based and will link at least in part to our review of your overall arrangements to secure data quality (as required for our value for money conclusion). Our fee estimate includes an element for this work on the basis that our initial assessment is at low /medium risk in relation to performance indicators.
- 23 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.

## Best value performance plan

- 24 We are required to 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

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

**Table 3 Summary of Opinion risks**

Opinion risks	Response
---------------	----------

<p>New financial systems in 2006/07 - general ledger, creditors and debtors. No specific risk identified at this stage, will review during and after reviewing Internal Audit's work on these in 2006/07.</p>	<p>Re-assess after Internal Audit has completed 2006/07 audit of new financial systems.</p>
<p>We have not identified any specific risks relating to the opinion. This will be updated as necessary following our audit of the 2005/06 accounts and follow-up of the 2004/05 Review of Internal Audit.</p>	<p>Follow-up of Review of Internal Audit Findings.</p>

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

- 31 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 the NAO and other stakeholders. The fee for this work is not included in this plan and we will discuss this when further details are available.

## Claims and returns certification

- 32 We will continue to certify your 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.
  - 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.
- 33 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 £24,000.

DRAFT

## Other information

### Outputs from the audit and inspection plan

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

### The team

**Table 4**

<b>Name</b>	<b>Title</b>
Mark Kirkham	District Auditor & Relationship Manager
Julie Talbot	Audit Manager
Allan Humphries	Area Performance Lead
Steve Waddington	Audit Team Leader

- 35 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.
- 36 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.

## Appendix 1 - Audit and inspection fee

**Table 5 Audit and Inspection fee 2006/07**

Fee estimate	Plan 2006/07	Plan 2005/06
<b>Audit</b>		
Accounts	71,500	53,300
Use of resources	34,000	44,800
<b>Total audit fee</b>	<b>105,500</b>	<b>98,100</b>
<b>Inspection</b>		*
Relationship Management and Direction of Travel	4,500	*
Service inspection		*
Corporate inspection		*
<b>Total inspection fee</b>	<b>4,500</b>	<b>3,900</b>
<b>Total audit and inspection fee</b>	<b>110,000</b>	<b>102,000</b>
<b>Certification of claims and returns</b>	<b>24,000</b>	<b>24,000</b>
<b>Voluntary improvement work</b>	<b>NIL</b>	<b>NIL</b>

\* 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 7 per cent 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 (discussed in paragraph 32); and
  - any specific work required for CPA in 2006/07.

### Specific audit risk factors

- 4 In setting the audit fee we have taken account of the following specific risk factors:
  - The Royal Hall

- Single Status
- New financial systems in 2006/07 with more planned in 2007/08
- 'Planning Standards' Authority for the forth year
- Local Area Agreements
- E-Government, Access to Services and CRM
- Procurement
- Measuring the impact pf outcomes from improvement actions
- Potential impact of City Regions and Local Government Reorganisation
- Risk of breaching VAT exemption limits associated with Mercury Abatement work at the crematorium to comply with new regulations. May cost the Council £250,000.
- Financial pressures - balancing local needs and priorities with meeting national priorities eg recycling targets and
- Findings from 2005/06 Use of Resources Audit.

## Assumptions

- 5 In setting the audit fee we have assumed:
  - you will inform us of significant developments impacting on our audit;
  - Internal Audit meets the appropriate professional standards;
  - Internal Audit undertakes 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);
  - officers will provide good quality working papers and records to support the financial statements by 30 June 2007.
  - officers will provide requested information within agreed timescales;
  - officers will provide prompt responses to draft reports; and
  - your Performance Indicators will be adequately prepared and reviewed.
- 6 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.
- 7 Where these requirements are not met or our assumptions change, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 8 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 requirement, professional auditing standards or legislation which results in additional work.

## **Specific actions Harrogate Borough Council could take to reduce its audit fees**

- 9 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. For Harrogate Borough Council these include Internal Audit fully documenting and identifying all controls in 'material' financial systems, notably those new for 2006/07 (there are plans in place to do this).

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

- 10 If we need to amend the audit [or inspection] fees during the course of this plan we will firstly discuss this with the Chief Executive. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

DRAFT

## **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**

- 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 & taxpayers, and for engaging with the wider community**

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

### **Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality**

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

### **Arrangements for ensuring compliance with established policies, procedures, laws and regulations**

- 5 The body has put in place arrangements to maintain a sound system of internal control.

### **Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working**

- 6 The body has put in place arrangements to manage its significant business risks.

### **Arrangements for ensuring compliance with the general duty of best value**

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

### **Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body**

- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

### **Arrangements for ensuring that the audited body's affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud & 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	Relationship Manager
Interim audit memorandum	1 January 2007	31 May 2007	Audit Manager
BVPP opinion and PI audit memorandum	1 July 2006	31 October 2006	Audit Manager
Report on financial statements to those charged with governance (ISA 260)	August 2007	September 2007	Audit Manager
Opinion on financial statements	TBA	September 2007	District Auditor
VFM conclusion	TBA	September 2007	Performance Lead
Final accounts memorandum	1 July 2007	October 2007	Audit Manager
Local performance work	TBA	TBA	Performance Lead
Inspections	TBA	TBA	Performance Lead
Annual audit and inspection letter (including direction of travel assessment)	October 2007	December 2007	Relationship Manager

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

## Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISA UKIs 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.
- 2 The standards define ‘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 s 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;

## 20 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.