audit 2005/2006

Audit and Inspection Plan

Salford City Council

INSIDE THIS PLAN

PAGES 2 – 8

- Introduction
- Our responsibilities
- The fee
- Summary of key audit and inspection risks
- Grant claim certification
- Voluntary improvement work
- The team
- Future audit plans

PAGES 9 – 13

Appendices

- Appendix 1 - The new Code of Audit Practice
- Appendix 2 - Audit and inspection fee
- Appendix 3 - Planned outputs
- Appendix 4 - The Audit Commission's requirements in respect of independence and objectivity

Reference:	Salford City Council
Date:	March 2005

Introduction

This plan sets out the audit work that we propose to undertake in 2005/06. The plan has been drawn up from our risk-based approach to audit planning and reflects:

- the impact of the new Code of Audit Practice which comes into effect in April 2005;
- your local risks and improvement priorities;
- current national risks relevant to your local circumstances; and
- the impact of International Standards on Auditing (UK and Ireland).

Your relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Our responsibilities

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.

The Code has been revised with effect from 1 April 2005. The key changes include:

- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
- a clearer focus on overall financial and performance management arrangements.

Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- ensuring compliance with the general duty of best value, where applicable;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the audited body's affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual Statement on Internal Control (SIC).

Further details of the new Code are set out in Appendix 1.

The fee

The total fee estimated for the audit and inspection work planned for 2005/06 is £390,000 (2004/05: £404,418). The fee is based on the Audit Commission's fee guidance contained within its operational plan and takes account of the Council's comprehensive performance assessment and its latest Improvement Plan priorities.

Further details are provided in Appendix 2 including the assumptions made when determining the fee.

Changes to the plan and the fee may be necessary if our risk assessment changes during the course of the audit. We will formally advise you of any changes if this is the case.

Summary of key audit and inspection risks

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; and
- provide a report on the Council's best value performance plan (BVPP).

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.

The expected outputs from this work are outlined in Appendix 3.

CPA and inspections

In line with the Audit Commission's proposals for the Comprehensive Performance Assessment 2005, a new corporate assessment is programmed for the Council in the first quarter of 2006. The programme has been drawn up in close liaison with Ofsted and CSCI to enable the corporate assessment and Joint Area Review to take place at the same time.

In view of the planned corporate assessment and, in line with the principles of strategic regulation, no further inspection work is planned other than the annual review of progress on the Council's improvement priorities (referred to as the 'direction of travel' statement) which will be reported in the CPA scorecard in December 2005.

SUMMARY OF INSPECTION ACTIVITY

Inspection activity	Reason / impact
Corporate assessment	The assessment will inform and update the Council's overall CPA category. The Council's last corporate assessment took place in 2002. The planned assessment will apply the Audit Commission's new methodology, for which Salford was a pilot site in 2004.
Direction of travel statement	To be included in the CPA scorecard for 2005 and to provide an assessment of continuous improvement.

Use of resources

The new 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. We are also required to provide a scored judgment on the use of resources which will feed into the CPA for 2005. The criteria for this judgement are currently being field tested and will be confirmed in due course.

In meeting these responsibilities, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements.

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.

SUMMARY OF USE OF RESOURCES AUDIT RISKS

Audit risk	Response
Performance management There is a risk that the Council's performance management arrangements are not consistently applied and embedded within its processes. Failure to apply the Council's performance management framework in a consistent way is a potential barrier to the delivery of the Council's improvement agenda.	We will work with the Council to establish the extent to which performance management is a driver for improvement within the services it delivers. In particular we will: • review the Council's plan for introducing a balanced scorecard approach • evaluate the Council's two planned "Golden Thread" pilots and assess their robustness for implementing the approach throughout the Council • evaluate the Council's arrangements for populating and utilising the new performance management system • review the Council's arrangements for introducing more outcome focussed performance indicators.
Children's placements There is a risk that the Council is not maximising benefits in the commissioning and monitoring of children's placements. Current costs of delivering placements are high and there is the potential to provide better quality and more efficient services across Greater Manchester.	We will work with a number of councils and potentially other bodies to help deliver improved outcomes and better use of resources for children's placements through: • assessing whether the current approaches represent value for money; • providing shared learning and facilitation opportunities to enable councils to use best practice in this area; • identifying the key barriers and possible solutions to achieving better outcomes and better use of resources; and • addressing issues of improved financial standing and performance management.

Health inequalities Tackling health inequalities is an important priority across Greater Manchester and its successful delivery relies on strong partnership working. There is a risk that current arrangements are not effective and efficient in delivering improvements. There is scope to drill down and assess how the Council works with others to deliver outcomes and shift resources to areas of greatest need.	Working across health and local government providers we will challenge current approaches to healthier communities and the impact that partnerships are making. This work will include: • providing shared learning and facilitation opportunities to identify and use best practice in this area; • identifying the key barriers to achieving better outcomes, appropriate and managed budgets and, better use of resources; and • identifying relationships between needs and commissioning strategies.
Salford Health Improvement for Tomorrow (SHIFT) SHIFT is a whole system service redesign programme which aims to re-model services to provide more accessible and effective services that better meet patient expectations. There is a risk that these aims will not be achieved if the relevant partners do not work effectively together.	Working with Salford PCT and Salford Royal Hospitals NHS Trust we will assess the scope, likely effectiveness and capacity of current and future intermediate care services planned for the residents of Salford. We will consider: • how the SHIFT project contributes to tackling health inequalities, • how the project will further the objective of increasing patient choice, and • how the potential financial implications of changes in service provision are being managed.

Additionally, we will undertake a review of the Council's Best Value Performance Plan (BVPP) to ensure it meets the statutory requirement in respect of its content and also review the Council's systems for collecting performance information relating to its Best Value Performance Indicators. We will issue an opinion on the BVPP before the end of December 2005.

Financial statements

We will carry out our audit of the 2005/06 financial statements and have regard to the newly introduced International Standards on Auditing (ISAs).

We are also required to review whether the Council's 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.

On the basis of our preliminary work to date we have identified the following audit risks.

SUMMARY OF OPINION RISKS

Opinion risks	Response
The Accounts and Audit Regulations 2003, in preparation for Whole of Government Accounts, require the Statement of Accounts to be completed by June 2006.	We will continue to work with officers to ensure that the quality of the accounts is not impaired in meeting the earlier closure timetable.
Changes required by the 2004 Statement of Recommended Practice (SORP) and other sources include changes to group accounts, FRS17 pensions, BVACOP, capital and charities.	We will examine the statements against the requirements of the 2004 SORP.
The Council is involved in a number of innovative arrangements that involve partnership working with other agencies and bodies. Such arrangements have inherent risks, for example: • proper governance arrangements may not be applied • funds could be applied inappropriately.	Particular areas that we plan to keep under review include: • urbanvision • housing market renewal • schools PFI schemes • Higher Broughton partnership.
The Audit Commission has identified other significant business risks arising from the national local government agenda. These include: • Children's Trusts and pooled budgets • Implications of the Bichard Inquiry • The consolidated EC procurement directive • Money laundering • Single status • Implementation of the requirements of the Freedom of Information Act, the Civil Contingencies Act and the Race Relations Act 1976 (Statutory Duties) Order 2001.	We will assess the arrangements in place in each of the areas identified.
IT arrangements	We will continue to monitor ongoing ICT developments and consider the impact on our opinion audit.

However, we have yet to undertake the audit of the 2004/05 financial statements and our 2005/06 financial statements audit planning will continue as the year progresses. This will take account of:

- the 2004/05 opinion audit;
- our documentation and initial testing of material systems; and
- our assessment of the 2005/06 closedown arrangements.

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. Some of the financial opinion work will also inform our use of resources judgement and value for money opinion.

Grant claim certification

We will continue to certify the Council's grant claims.

- 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.

Voluntary improvement work

Where a council requests additional work to help with its improvement agenda or in areas that fall outside the scope of our opinion audit, 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.

We are currently discussing the possibility of undertaking voluntary improvement work with regard to the potential support that could be provided around improving housing services. This will be further explored when the outcome of the Council's stock option appraisal is known.

The team

Name	Title
Clive Portman	Relationship Manager and Appointed Auditor
Nigel England	Audit Manager
Nikki Bamforth (up to April 2005)	Area Performance Lead
Richard Watkinson	Audit Team Leader

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.

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 4.

Future audit plans

As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. Key areas identified include:

We will be scoping the cross-cutting work on Integrated Social Transport Needs in 2005/06. The outcomes are likely to be reported as part of our 2006/07 audit. This work will focus on:

- identifying inconsistencies in the provision of social needs transport across localities;
- reviewing how the Council contributes to the delivery of special and social needs transport;
- highlighting the scope for cross-sector efficiency savings; and
- raising awareness of the key risks in the delivery of this work to help ensure a strong and sustained commitment from all stakeholders.

We will discuss these in more detail as the audit year progresses.

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 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.

ISA 260 ('Communication of audit matters to those charged with governance') requires us to report relevant matters relating to the audit to those charged with governance. For the Council, we have previously agreed that this responsibility will be discharged by reporting relevant matters to the Accounts Committee.

APPENDIX 1

The new Code of Audit Practice

The Audit Commission's objectives in revising the Code

The Commission's objectives in revising the Code are to achieve the following key outcomes:

- a more streamlined audit targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, with a focus on audited bodies' corporate performance and financial management arrangements; and
- better and clearer reporting of the results of audits.

The new Code has been developed on the basis of the Commission's model of public audit, which 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.

The main changes being made through the introduction of the new Code

The main changes being introduced through the new Code are:

- auditors' three responsibilities under the old Code, in relation to the financial aspects of corporate governance, the accounts and performance management, will be replaced by two responsibilities in relation to the accounts and use of resources, thereby mirroring their statutory responsibilities under the Audit Commission Act 1998. Auditors' work in relation to the financial aspects of corporate governance will in future largely be covered by their work on the accounts – reflecting recent developments in auditing standards – with audit work in relation to financial standing carried out as part of the work in relation to the use of resources;
- a clear focus, in auditors' work on audited bodies' arrangements for the use of resources, on overall financial and performance management arrangements. This work supports a new requirement for an explicit annual conclusion by the auditor in relation to audited bodies' arrangements for securing value for money in the use of their resources;
- a more explicit focus on improvement (through the risk assessment process) and on the need for auditors to have regard to the risks arising from audited bodies' involvement in partnerships and joint working arrangements and, where appropriate, to 'follow the public pound' into and across such partnerships;
- an emphasis on clearer, more timely reporting based on explicit conclusions and recommendations; and
- a new style narrative audit report to meet statutory and professional requirements.

APPENDIX 2

Audit and inspection fee

Audit area	Plan 2004/05	Plan 2005/06
Accounts	*	182,000
Use of resources	*	128,000
Total audit fee	**336,093**	**310,000**
Inspection	68,325	80,000
Total audit and inspection fee	**404,418**	**390,000**
Grant claim certification	101,000	102,000
Voluntary improvement work	12,000	Subject to discussion

** Comparative information is not available for 2004/05 due to the change in the Code of Audit Practice which has reduced the three areas under the old Code to two areas.*

The inspection fee for 2005/06 is higher than 2004/05 because it includes the corporate assessment.

The total audit and inspection fee compared to the indicative fee banding (set out in the Audit Commission's fee guidance) equates to 11 per cent below mid-point.

The fee (plus VAT) will be charged in 12 equal instalments from April 2005 to March 2006.

Assumptions

In setting the 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 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 accounts;
- officers will provide requested information within agreed timescales; and
- officers will provide prompt responses to draft reports.

Where these requirements are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.

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

- new risks emerge; and
- additional work is required of us by the Audit Commission or other regulators.

APPENDIX 3

Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being finalised. We will keep the Audit Sub-Committee advised of progress with the plan and discuss any significant issues as they arise.

Planned output	Start date	Draft due date	Key contact
Audit plan*	1 February 2005	31 March 2005	Nigel England
Interim audit memorandum	February 2006	June 2006	Nigel England
BVPP opinion and PI audit memorandum	July 2005	December 2005	Nigel England
Report to those charged with governance (ISA 260)	August 2006	September 2006	Nigel England
Final accounts memorandum	August 2006	October 2006	Nigel England
Use of resources judgement	June 2005	31 October 2005	Nigel England and Performance Lead
VFM opinion	June 2005	30 September 2006	Nigel England and Performance Lead
Use of resources work	To be agreed	To be agreed	Performance Lead
Corporate assessment	First quarter 2006	Second quarter 2006	Clive Portman
Annual audit and inspection letter (including direction of travel assessment)	October 2006	16 December 2006	Clive Portman

** To be revisited during the year to reflect outcome of 2004/05 final visit and 2005/06 interim visit.*

APPENDIX 4

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. ISA 260 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. Ethical standard 1 also places requirements on auditors in relation to integrity, objectivity and independence.

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 Accounts Committee. The auditor reserves the right, however, to communicate directly with the Board 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; 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 work carried out under section 35 of the Audit Commission Act 1998.

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 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 and the second in command (Audit 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 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 District Auditor 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.