

Audit and Inspection Plan

Salford City Council

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Reference:	SA002-03-2003
Date:	May 2003

Introduction

This plan sets out the Audit and Inspection work that we propose to undertake at Salford City Council in 2003/2004. The plan has been drawn up from our improvement planning meetings with you and our risk based approach to audit planning. The Improvement section of this plan reflects the Audit Commission's elements of the Co-ordinated and Proportionate Audit and Inspection Programme which we shared with you at the improvement planning discussions.

To help you receive a tailored, seamless service co-ordinated with the work of other inspectorates, the Audit Commission has appointed me (Sue Sunderland) as your Relationship Manager from January 2003. This appointment is separate from my role of your statutory auditor.

Our responsibilities

The audit and inspection processes 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
- The Local Government Act 1999 with regard to Best Value inspection and audit.

Our approach is intended to ensure that the totality of the work required to fulfil the two sets of requirements is carried out in an integrated way.

We have also worked with you 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.

For this plan we have divided our responsibilities into the following categories

- Improvement
- Assessment
- Assurance.

We have done this to help clarify the purpose of the different aspects of our responsibilities.

The fee

The fee for the combined external audit and inspection for 2003/2004 is £465,671. When combined with the audit fee of £195,356 for last year the total fee for 2002/2004 is within the scales published by the Audit Commission in 'Local government, police and probation – Work programmes and audit/inspection fee scales 2002/2004.'

You should also note that the Inspection fee included in the above reflects only the amount to be paid by the Council. This is 75% of the full fee as the remaining 25% is met by grant from the Office of the Deputy Prime Minister.

The audit element of the fee has been determined on the basis of the audit risks we have identified and the work we have agreed with you to gain assurance in respect of those risks.

In addition to the above fee there will be a specific fee, estimated at £90,000 using current rates, for the audit of government grant claims and returns. The final fee will be dependent on the number and complexity of claims requiring certification.

We will continue to update our assessment of risks and this plan throughout the year. I will also ensure there is a continuing dialogue with the other inspectorates.

Changes to the Plan may be required if:

- significant new risks emerge
- any additional duties are required of us by the Audit Commission
- changes are agreed with the other inspectorates.

No changes will be made without first discussing them with you.

Work relating to your improvement agenda

Through our improvement planning round table meeting with you and the other inspectors 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. This work has been proposed after consultation with the other regulators to ensure our work programmes are co-ordinated and proportionate.

Improvement priority	Action proposed
Housing services: To deliver the improvements set out in the ALMO (New Prospect Housing Limited) service improvement plan (SIP) which was prepared following the 'zero' star inspection of housing services.	Inspection of housing services: Re- inspection of housing services after the 'zero' star rating. SIP progress monitoring A significant amount of our current work on monitoring SIP progress has been funded from the 2002/2003 audit fee. However as this work has been much more involved than we originally anticipated, we have included a further charge within the 2003/2004 fee. This will enable us to: <ul style="list-style-type: none"> continue to hold a watching brief on progress produce a report giving an overall assessment of progress as at the end of June 2003.
Performance management: To use performance indicators to drive real service improvements.	Use of performance indicators: Select a sample of performance indicators and ascertain whether the recently revised performance management procedures are having the intended impact on service delivery.

Improvement priority	Action proposed
Corporate direction: To use the community plan, BVPP and pledges to implement key priorities.	Policy into practice: Use the policy into practice methodology to facilitate the Council's efforts in this area. A couple of service areas will be selected as tracers to try to improve the cross-fertilisation of ideas. Potential areas include: <ul style="list-style-type: none"> street scene services a further area identified from our work on performance indicators.
Corporate development: To ensure that the Council has the necessary staffing capacity to manage and implement change.	Senior management capacity: Review the progress on implementing measures to build capacity at senior officer and member level. In particular we will focus upon the work of the recently established working group charged with taking these issues forward.
Community engagement: To improve the way the Council consults with the community and feeds back to consultees.	Inspection of community engagement: Inspection of the community engagement best value review using Neighbourhood Renewal to test its effectiveness.
2003/2004 best value reviews: To carry out effective reviews.	Early work on best value reviews: Carry out: <ul style="list-style-type: none"> initial work on the youth services review upstream work on culture, arts and heritage review. This will enable any issues to be highlighted at an early stage and, if relevant, to be fed into other on-going best value reviews.

We will follow-up our work from previous years to check progress on the implementation of agreed recommendations. In preparing our plan we have assumed that the recommendations from our recent LEA Progress Review will be followed up during the OFSTED inspection due to commence in September 2003.

OUTPUTS
Housing Services Inspection <i>Due: December 2003</i>
Housing SIP Progress Review <i>Due: April 2003 to July 2003</i>
Use of performance indicators <i>Due: July 2003</i>
Policy into practice <i>Due: To be agreed</i>
Senior management capacity <i>Due: To be agreed</i>
Community engagement inspection <i>Due: To be agreed</i>
Early work on best value reviews <i>Due: May 2003 – July 2003</i>

Assessment

Most of our assessment work has already been covered in the previous section showing how our work is linked to your improvement agenda. This section sets out additional assessment work which is either prescribed or necessary to meet our statutory obligations.

Comprehensive Performance Assessment

The Audit Commission has recently been consulting on its methodology for re-scoring the Comprehensive Performance Assessment and is now considering the outcomes of that consultation. Under the current proposals this process will involve both audit and inspection input including:

- re-scoring of the auditor judgements
- desktop review of housing services
- desktop review of environment services
- BVPP qualitative review.

Provision has been made within the plan to undertake this work although it may need to be refined as more details are announced by the Audit Commission.

Development and Building Control Inspection

We will carry out a full inspection, as a single exercise, of the 2002/2003 best value reviews of:

- development control
- development planning
- building control.

Assurance

The accounts

We are required to give an opinion on your Annual Accounts. We will do this by reviewing your core processes, namely:

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

We will then undertake detailed testing of the figures in the Statement of Accounts. We will undertake the following additional work to address the risks we have identified for 2003/2004.

Risk	Action proposed
<p>During 2001/2002 a number of issues were identified from the final accounts audit. These included:</p> <ul style="list-style-type: none"> • control account reconciliations were not carried out on a regular basis • imbalance between internal debtors and creditors • inadequate bad debt provisions for council tax and sundry debtors • capitalisation of 'grey' areas of expenditure. 	<p>The Authority is planning to address a number of these issues during 2002/2003. However we will continue to hold a watching brief on developments during 2003/2004.</p>

Risk	Action proposed
Preparation for the Whole of Government Accounts will require earlier production of your Statement of Accounts.	We will review your closing procedures to determine the progress still required.

Accounts materiality and reporting

In determining our opinion on your Accounts we adopt a concept of materiality. We seek, in planning and conducting our audit of the Accounts, to identify material errors in your financial statements.

Our initial calculation of overall materiality is £2.7m. However, we may determine that certain items of account should be subject to a lower materiality due to their potential or numerical sensitivity.

An unqualified opinion may not be given on financial statements which contain material misstatements.

Before issuing an audit opinion we will:

- agree any adjusting items with the Director of Corporate Services
- agree a list of non-trifling unadjusted items with the Director of Corporate Services
- seek written representation from the Council which explains the reasons for these items being unadjusted. We will seek to provide an example of the level of detail required in such a letter nearer the time
- communicate any other findings that have arisen from our audit work to that date, which are relevant to the financial statements.

We will agree a relevant meeting forum and date for when these issues can be discussed prior to issuing an opinion.

We will also report any misstatements that have been adjusted where we feel that bringing them to your attention will assist you in fulfilling your duties particularly in relation to internal financial control.

Governance

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

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

As well as reviewing the overall arrangements we will also address the following risks we have identified for 2003/2004.

Risk	Action proposed
The Council is continuing with its plans to bring balances back to an acceptable level. Revenue and capital resources remain tight.	We will continue to monitor the Council's overall financial position.
The Council is currently investigating alternative methods of service provision in a number of key areas. In particular these include: <ul style="list-style-type: none"> • a joint venture company for development services • a public/private partnership or trust for leisure services • a strategic partnership for support services • involvement in the Local Initiative Finance Trust (LIFT) • a potential PFI scheme for high schools. 	We will undertake a review of any arrangements that may be entered into for these, or other similar, purposes.
The Council is in the process of introducing formal risk management arrangements.	We will continue to monitor the progress being made in this area. We will also liaise with Internal Audit to determine how we could best assist in taking this issue forward.

Risk	Action Proposed
The Council has entered into a Local Public Service Agreement (LPSA) with the government. The Council will need sound monitoring arrangements and accurate records to support the payment of performance reward grant at the end of the agreement.	We will continue to build upon our previous work in this area. This has involved commenting upon the procedure adopted and sharing good practice with the Authority.
The Authority has entered into a pooled budget with health for the provision of mental health services.	We will review the arrangements using an Audit Commission good practice checklist.
The Authority may not adequately follow up the information from the Audit Commission's data matching National Fraud Initiative (NFI).	We will carry out a detailed review of the Council's arrangements for following up NFI data matches based upon an Audit Commission methodology. This is being applied nationally at all authorities during 2003/2004.

We are also required to complete annual returns on Stewardship and Governance for the Audit Commission.

Any work on responding to external challenge such as questions/objections from the public, or work on PFI and partnerships beyond general awareness, is outside of the above fee. It will be charged separately at grade related rates. You will be advised of the relevant scale if such circumstances arise.

Best Value

We will undertake a review of your Best Value Performance Plan to examine whether it meets the statutory requirement in respect of its content. We will issue an opinion on this plan by the end of December 2003. We will also review and comment on your

- systems for collecting performance information and in particular BVPIs
- performance trends

OUTPUTS

Core Process Review

Due: May 2004

Accounts Opinion

Due: October 2004

Final Accounts Memorandum

Due: November 2004

BVPP Opinion

Due: December 2003

Financial Aspects of Corporate Governance

Due: May 2004

Annual Audit Letter

Due: by the end of December 2004

Work outside the Code

The Code of Audit Practice gives us scope to undertake work at your request which is of benefit to you but does not relate specifically to our responsibilities under the Code, or which is beyond the work required following our risk assessment under the Code. We will provide you with quotations as appropriate for such work, which must be considered in accordance with your financial regulations.

The audit team

Sue Sunderland	District Auditor & Relationship Manager
Diane Rowland	Audit Manager
Paul Woodhouse	Performance Lead
Ann Watchorn	Principal Auditor
Natalie Slayman	Audit Trainee

Under the requirements of the Statement of Auditing Standards (SAS) 610, we are not aware of any relationships that may bear on the independence and objectivity of the team which are required to be disclosed.

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 2.

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

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.

Distribution of reports

Unless otherwise stated our main reports will be distributed as shown below:

	CE	DC S	Head of Service	Cabinet	Scrutiny	Public Reporting
Public Reports						
Annual Audit Letter						
draft	✓	✓				✓
final	✓	✓	✓	✓	✓	
Inspection of Housing Services	✓		✓ (Council & NPHL)	✓	✓	✓
Inspection of Community Engagement	✓		✓	✓	✓	✓
Inspection of Development and Building Control	✓		✓	✓	✓	✓
Other reports						
Housing SIP Progress Review						
draft	✓		✓ (Council & NPHL)			
final	✓	✓	✓	✓	✓	
Use of Performance Indicators						
draft			✓			
final	✓	✓	✓	✓	✓	
Policy into Practice						
draft	✓		✓			
final	✓	✓	✓	✓	✓	
Senior Management Capacity						
draft	✓					
final	✓	✓		✓	✓	
Early Work on Best Value Reviews						
draft			✓			
final	✓	✓	✓	✓	✓	

The Audit Commission's requirements in respect of Independence and Objectivity

The following currently relates to auditors. The Commission is currently considering how this will be extended to cover all staff.

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 the case of Salford City Council we are currently liaising with the Authority to determine who will take the role of 'those charges with governance' and consequently will be the addressee of communications from the auditor. The auditor reserves the right, however, to communicate directly with the Authority 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 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.