

Audit and Inspection Plan

May 2006



Audit and Inspection Plan

Eastbourne Borough Council

Audit 2006-2007

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake in 2006/07. It has been drawn up from our risk-based approach to audit planning 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 As your relationship manager, I will continue to ensure integration and co-ordination where appropriate 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 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 30 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 fee estimate for the audit work planned for 2006/07 is £92,276 and the fee estimate for inspection work is £4,813. This compares with a total audit and inspection fee of £86,654 in 2005/06.
- 8 In addition we estimate that we will charge approximately £46,000 for the certification of claims and returns. Further details are provided in paragraph 33 below and Appendix 1.
- 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 Eastbourne Borough Council could take to reduce its audit fees and the process for agreeing any additional fees.
- 10 Changes to the plan and the fee will 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 July 2006 and that the opportunity for re-categorisation will be available for some councils during 2006/07.
- 13 If the new methodology identifies the need or opportunity for a revised corporate assessment for the Council, we will discuss an amendment to this plan and agree an additional fee for completion of the work.
- 14 Following the Council's classification as 'good' in 2003 we have applied the principles of strategic regulation recognising the key strengths in Eastbourne's performance. Having regard to this our proposed inspection activity is set out in Table 1 below.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager role	To act as the Commission's primary point with the Council 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 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).
- 16 In assessing risk we have undertaken a wider consideration of all available data, information and assessments about the quality of life and services within a local area. This has required a stronger emphasis on people and place and on issues that cut across traditional service boundaries and providers.
- 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 to enable us to provide a conclusion 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 relevant criteria for auditors to apply in reaching a 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

- 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 them. 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.
- 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
<p>We recently completed our 2005/06 Use of Resources assessment for the Council. As part of this we highlighted a number of risks and key areas for improvement that were reported to the Council as part of the 2004/05 Annual Audit and Inspection Letter:</p> <ul style="list-style-type: none"> • further developing risk management arrangements at the corporate level to ensure the Council is able to identify and prioritise its key business risks; • developing scrutiny arrangements to ensure an improved focus on quality and access to services; • strengthening internal control arrangements, particularly to ensure that procedure notes and manuals cover all business critical systems; • implementing a corporate procurement strategy and bespoke procurement function; and 	<p>We will monitor the Council's progress in addressing the weaknesses identified as part of the 2005/06 Use of Resources assessment during the course of 2006/07.</p>

Audit risk	Response
<ul style="list-style-type: none"> improving VFM by targeting and reviewing high spending areas against benefits achieved and improving the performance of key frontline services for the public. 	

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 a 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 we assess Eastbourne Borough Council as low risk in relation to its 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 Council.

- 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>We issued a qualified opinion on the Council's 2004/05 financial statements. This was partly due to potential errors in historic and current revenue provision set aside to repay external debt and/or certain disclosures in the Council's balance sheet. This qualification will be repeated in future years unless the Council is able to resolve this issue.</p>	<p>We will continue to work with officers as part of the 2005/06 audit of financial statements to try to identify the underlying cause of the issue.</p> <p>We will revisit this risk after completing the audit of the 2005/06 financial statements.</p>
<p>The preparation of local government accounts is governed by the Local Government Statement of Recommended Practice (LGSORP). The level of SORP compliance and quality of technical accounting generally displayed by the Council's draft 2004/05 statements was relatively weak. The quality of internal reasonableness review of the financial statements in 2004/05 was relatively poor and arrangements to close down the Council's accounts were weak in some areas.</p>	<p>The Council plans to address these weaknesses by the introduction of revised arrangements for the production of the 2005/06 financial statements.</p> <p>We will revisit this risk after completing the audit of the 2005/06 financial statements.</p>

- 28 Our fee estimate for 2006/07 is based on the assumption that the current quality of the draft accounts and supporting working papers will be improved and that internal audit will complete their planned work on key information systems to the agreed quality and by the agreed date.
- 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 with the Director of Finance when further details are available.

Claims and returns certification

- 32** 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.
 - 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 £46,000.

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

Name	Title
Darren Wells	Relationship Manager and Appointed Auditor
Simon Mathers	Audit Manager
Simon Hughes	Area Performance Lead
Chris Bacon	Audit Team Leader

- 35 We are not aware of any relationships that may affect the independence and objectivity of the team that 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

Fee estimate	Plan 2006/07	Plan 2005/06
Audit	36,489	33,980
Accounts	38,409	24,388
Use of resources	17,378	24,372
Total audit fee	92,276	82,740
Inspection		*
Relationship management	4,813	3,914
Total inspection fee	4,813	3,914
Total audit and inspection fee	97,089	86,654
Certification of claims and returns	46,000	46,000

* 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 24 per cent below mid-point for other like councils.
- 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 31); and
 - any specific work required for CPA in 2006/07.

Assumptions

- 4 In setting the audit fee we have assumed:
 - the minimum possible amount of work on accounts to comply with the new requirements of International Standards on Auditing (UK & Ireland) - the quality of draft accounts produced and adequacy of supporting systems will in part determine our actual ability to achieve this;
 - draft accounts will be subject to a robust internal reasonableness review prior to submission for audit;
 - 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;
 - 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.
- 5 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 will 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 requirement, professional auditing standards or legislation which results in additional work.

Specific actions Eastbourne Borough 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 Eastbourne Borough Council should take:
- Improve processes for production of the financial statements leading to an improvement of the quality of the draft accounts submitted for audit. Specifically improvements in the level of compliance with the Local Government Statement of Recommended Practice and quality of technical accounting displayed by the draft statements are required. The Council also needs to improve the quality of its internal reasonableness review and closedown arrangements to ensure that the draft statements produced are free from material error prior to presentation for audit and committee approval.
 - Improve systems, processes and controls relating to the production of the annual Housing Benefit and Council Tax Benefit grant claim. A large proportion of our current total fee for grant claims relates to the audit of this return.

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 Director of Finance. We will then prepare a report outlining the reasons why the fee needs to change for discussion with senior officers and members as appropriate.

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.

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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	30 April 2006	Audit Manager
Interim Audit Memorandum	February 2007	May 2007	Audit Manager
BVPP Opinion and PI Audit Memorandum	September 2007	September 2007	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	Audit Manager
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 2004/05 final visit and 2006/06 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;

- 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.