

A&I Plan

May 2008



Audit and Inspection Plan

Rossendale Borough Council

Audit 2008/09

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.
- 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, 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

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 for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2008/09;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 From 1 April 2008 the role of Relationship Manager has been replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities.
- 3 As we have not yet completed our audit for 2007/08, the audit planning process for 2008/09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 4 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999; and
 - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the annual governance statement); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies (from April 2008) sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and our audit work is undertaken in the context of these responsibilities.

Work under the Code of Practice

Financial statements

- 8 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 9 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.
- 10 We are also required to review whether the Annual Governance Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Governance Statement is misleading or inconsistent with our knowledge of the Council.
- 11 We have not undertaken a risk assessment for the audit of the financial statements for 2008/09 as specific risks may become more apparent after we have completed the 2007/08 audit. A separate opinion plan for the audit of the financial statements will be issued, if necessary.

Value for money conclusion

- 12 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires the auditor to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at our conclusion.
- 13 In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, we will normally place reliance on their reported results to inform our work.
- 14 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment – local risks

- 15 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly. Our initial risk assessment for use of resources work is provided in Appendix 2. We have not identified any significant risks at this stage which will require additional local work. However this assessment will be updated through our continuous planning process as the year progresses.
- 16 Our 2008/09 plan will also need to be updated to take account of any significant outcomes from our 2007/08 use of resources and inspection work which is planned to be substantially completed by the end of September 2008.
- 17 The audit planning process will continue as the year progresses and if any significant new local risks arise that require us to review additional arrangements then we will discuss any additional work and associated fee with you.

Use of Resources – assessment in 2008

- 18 This audit plan covers the last year of the current regime for the use of resources assessment as part of the CPA framework. The work required to arrive at the 2007/08 use of resources assessment is fully aligned to that required to arrive at the auditor's 2007/08 value for money conclusion. The use of resources themes and key lines of enquiries (KLOEs) are outlined below. We will arrive at a score of 1 to 4, based on the underlying KLOE, for each of the following themes.

Table 1

Theme	Description
Financial reporting	<ul style="list-style-type: none"> Preparation of financial statements External reporting
Financial management	<ul style="list-style-type: none"> Medium-term financial strategy Budget monitoring Asset management
Financial standing	<ul style="list-style-type: none"> Managing spending within available resources
Internal control	<ul style="list-style-type: none"> Risk management System of internal control Probity and propriety

Theme	Description
Value for money	<ul style="list-style-type: none">• Achieving value for money• Managing and improving value for money

- 19 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve.
- 20 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of the CPA.

Data quality 2007/08

- 21 This plan covers the 2007/08 data quality work. This is based on a three-stage approach covering:
- Stage 1 – management arrangements;
 - Stage 2 – analytical review; and
 - Stage 3 – risk-based data quality spot checks of a sample of 2007/08 performance indicators.
- 22 Work will be focused on the 2007/08 overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data including data from partners where relevant.
- 23 Our fee estimate reflects an assessment of risk in relation to the Council's data quality arrangements and performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

CPA and inspection

- 24 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programmed service inspections will be undertaken as part of the CPA framework.
- 25 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 26 The Council's CPA category is, therefore, a key driver in the Commission's inspection planning process. In the Corporate Assessment report issued in June 2007 the Council was categorised as 'GOOD'.
- 27 We have applied the principles set out in the CPA framework, '*CPA – District Council Framework From 2006*', recognising the key strengths and areas for improvement in the Council's performance.
- 28 On the basis of the planning process, we have identified where inspection activity will be focused for 2008/09 as follows.

Table 2 Summary of inspection activity

Inspection activity	Reason/impact
Comprehensive Area Assessment Lead role	To act as the Commission's primary point of contact 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 (DoT) assessment	An annual assessment, carried out by the CAAL, of how well the Council is securing continuous improvement. The DoT statement will be reported in the Annual Audit and Inspection Letter. The DoT assessment summary will be published on the Commission's website.

Fees

- 29 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 30 The total indicative fee for the audit and inspection work included in this audit and inspection plan for 2008/09 is for £113,000 which compares to the planned fee of £125,000 for 2007/08 which was reduced to £115,000 following Rossendale's CPA re-categorisation to 'GOOD'.
- 31 A summary of this is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions. A detailed breakdown of the audit and inspection fee is included in Appendix 1.

Table 3 Audit fee

Audit area	Planned fee 2008/09 (£)	Planned fee 2007/08 (revised (£))
Total audit fee	107,000	109,100
Total inspection fee	6,000	5,900
Total audit and inspection fee	113,000	115,000
Certification of claims and returns	<i>25,000 (estimate)</i>	<i>27,000 (planned)</i>

- 32 The decrease in audit fee for 2008/09 reflects the reduction in the work we need to undertake as a result of the Council's improved procedures and performance.

Specific actions the Council could take to reduce its audit fee

- 33 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 Rossendale Borough Council could take.
- Information to support the accounts and use of resources could be improved in some areas.
 - Improve the working papers supporting especially explanation of variances.
 - Provide any information requested within agreed timescales.
 - Implement audit recommendations promptly.

Whole of government accounts

- 34 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

Certification of grant claims and returns

- 35 We will continue to certify the Council's claims and returns on the following basis.
- Claims below £100,000 will not be subject to certification.
 - Claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification.
 - Claims over £500,000 will be subject to a certification 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 certification approach for these claims.

Advice and assistance

- 36 Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 we have powers to provide 'advice and assistance' (A&A) to another public body where this is requested.
- 37 If you wish the Commission to provide additional services under these powers, please contact either Clive Portman or Tony Hough, see Table 4 for contact details.

National Fraud Initiative

- 38 From 2008/09 work relating to the National Fraud Initiative will be carried out directly by the Commission under its new data matching powers under the Serious Crime Act 2007. The Commission will be consulting audited bodies on the work programme and fee scales for the National Fraud Initiative later this year.

The audit and inspection team

- 39 The key members of the audit and inspection team for the 2008/09 audit are shown in the table below.

Table 4 Audit and inspection team

Name	Contact details	Responsibilities
Clive Portman District Auditor	Email address: c-portman@audit-commission.gov.uk Telephone number 01204 877300	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with Chief Executive and Audit Committee.
Tom Keena Comprehensive Area Assessment Lead	Email address: t-keena@audit-commission.gov.uk Telephone number 01204 877300	The primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Tony Hough Audit Manager	Email address: t-hough@audit-commission.gov.uk Telephone number 01204 877300 or 07966 008012	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Head of Finance and Property and other Executive Directors.

Independence and objectivity

- 40 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 41 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

Working together

- 42 The audit and inspection team will maintain knowledge of your issues to inform audit and inspection through regular liaison with key officers. Our proposal for meetings is as follows.

Table 5 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive and Executive Directors	District Auditor (DA) Audit Manager (AM)	Quarterly	Includes agreement of: <ul style="list-style-type: none"> • Audit and Inspection Letter; • Audit and Inspection Plan; and • progress on Audit and other issues.
Chief Internal Auditor	AM and Team Leader	Quarterly	Update on audit progress and issues
Audit Committee	DA and AM as appropriate	Quarterly	Formal reporting of: <ul style="list-style-type: none"> • Audit and Inspection Plan; • Annual governance report; • Annual Audit and Inspection Letter; and • Progress reports and any other issues as appropriate.

Sustainability

- 43 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
- reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.

Planned outputs

- 44 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 6 Planned outputs

Planned output	Indicative date
Audit and Inspection Plan	May 2008
Data quality report	October 2008
Use of resources report	December 2008
Annual governance report	September 2009
Auditor's report giving an opinion on the financial statements	September 2009
Final accounts memorandum (if required)	November 2009
Opinion audit plan (if required)	Early 2009
Annual Audit and Inspection Letter	To be confirmed

Quality of service

- 45 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact either Clive Portman or Tony Hough in the first instance. Alternatively you may wish to contact Frank Kerkham Head of Operations, North West.
- 46 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website or on request.

Clive Portman
District Auditor

Tom Keena
Comprehensive Area Assessment Lead

Appendix 1 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.

Assumptions

- 3 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - good quality working papers and records will be provided to support the financial statements;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we undertake our opinion audit planning.

- 5 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
 - additional work is required by the Audit Commission or other regulators; or
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 Below is a detailed breakdown of the audit and inspection fee for 2008/09.

Table 1 Detailed audit and inspection fee

Audit area	Planned fee 2008/09	Planned fee 2007/08 (revised)
Audit		
Financial statements	48,500	47,500
Use of Resources 2007/08	42,600	45,700
Data Quality 2007/08	13,600	13,500
Whole of government accounts	2,300	2,300
Total audit fee	107,000	109,100
Inspection		
Relationship management	3,000	2,950
Direction of Travel	3,000	2,950
Service inspection	0	0
Corporate inspection	NA	invoiced separately
Total inspection fee	6,000	5,900
Total audit and inspection fee	113,000	115,000
Certification of claims and returns	25,000 (estimate)	27,000 (planned)

- 7 The Audit Commission scale fee for this Council is £93,330. The fee proposed for 2008/09 is 15 per cent above the guideline for District Councils calculated in accordance with the Audit Commission's formula which based partly based on the amount of gross expenditure. The fee is higher than the guideline because of the low gross expenditure in Rossendale which is partly due to the relative size of the authority and the fact it has disposed of its housing stock. The fee also reflects that Rossendale prepares group accounts in addition to its own accounts.
- 8 The fee (plus VAT) will be charged in 12 equal instalments from May 2008 to April 2009.

Appendix 2 – Initial risk assessment – Use of resources and VFM conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p>Value for money Risk of incorrect value for money conclusion. In accordance with the Code of Audit Practice, auditors are required to give a positive conclusion as to whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>	<p>Use of resources assurances in order to identify a plan of action for improving the Council's economy, efficiency and effectiveness.</p>	<p>Yes</p>	<p>We will complete the use of resources review to assess how well the Council manages and uses its financial resources.</p>	<p>All Use of resources KLOEs and VFM conclusion</p>
<p>Data quality Risk that the Data quality arrangements are not robust to ensure accurate and timely performance information to underpin the performance management framework.</p>	<p>The Council is aware of the weaknesses in relation to data quality and accuracy on some PIs reported.</p>	<p>Yes</p>	<p>We will carry out a data quality review to assess progress on arrangements, with targeted spot checks on specific PIs.</p>	<p>VFM Conclusion</p>

Appendix 3 – Independence and objectivity

- 1 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 2 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 6 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 7 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

8 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.