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Harrow Council

**Provisional Audit and Inspection
Plan – Year ending 31 March 2006**

March 2005

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1. KEY POINTS

We have pleasure in presenting our provisional audit and inspection plan for 2005/6.

The audit will be the first to be carried out under the Audit Commission's new Code of Audit Practice under which we now have responsibilities in relation to two areas: the Council's accounts and the Council's use of resources.

Under the new Code, in addition to the audit opinion on the annual accounts, we are required to issue a positive conclusion as to whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This will also lead to a qualitative assessment of these arrangements to the Audit Commission which will form part of its Comprehensive Performance Assessment (CPA). Our opinion will be given on the basis of specific criteria set by the Audit Commission and linking to key lines of enquiry again developed by the Audit Commission. The specific criteria and key lines of enquiry are currently being consulted on by the Commission so certain aspects of our plan cannot currently be finalised.

We said last year that the new arrangements for issuing audit plans in advance of the year to which they relate created practical problems in requiring us to specify the accounts and related work we do up to sixteen months before the work will be completed in some cases and before we have completed the equivalent work for the previous year. We identified a need to return to our 2004/5 plan to reassess the completeness and continuing relevance of risks identified at the audit plan stage. We have incorporated our comments arising from the update of our risk assessment at section 2.4. It is likely that there will be a need to similarly update this audit plan in Autumn 2005 once the 2004/5 accounts have been audited.

Section 2.4.3 of our audit plan sets out how we plan to approach each of our main areas of responsibility, the areas of risk or audit focus we have identified and our planned audit response. In accordance with the requirements of the Code, we have aimed to tailor the quantum and scope of our work to reflect the risks we perceive at Harrow.

Our provisional fee proposed for the 2005/6 audit is in the range from £297,000 to £302,000. This will be reviewed again with officers in late 2005 in the light of any changes which are necessary to the scope and focus of the plan taking into account the outcome of our 2004/5 audit and in the light of developments during the remainder of 2005. The inspection fee for 2005/06 is [to be confirmed].

Section 4.3 sets out the nature and timing of the audit and inspection products the Council can expect for this fee.

In addition, we are responsible for certifying (on behalf of the Audit Commission) grant claims made by the Council. Although there was a reduction in the number of claims requiring audit in the previous year in line with the arrangements to exempt smaller value grant claims from audit, there remains a good number of claims requiring preparation by the Council and audit by ourselves.

This audit and inspection plan takes account of the round table meeting with the Council members and officers on 3 February 2005. We confirm that the Commission has decided not to extend the pilot arrangements whereby we, and some other audit firms, performed some of the inspection work in the year. Going forward this work will be undertaken by Audit Commission staff. Details of this work can be found in section 4.5.

We note the establishment of an Audit Committee in 2004 and look forward to presenting our plans and audit findings to the new committee in 2005.

2. NEW CODE OF AUDIT PRACTICE

2.1. Auditors' objectives under the Code

The Audit Commission is currently finalising a new Code of Audit Practice which will take effect from 2005/6 audit year.

Auditors' objectives under the new Code are to review and report on, to the extent required by the Code and legislation:

- the audited body's financial statements and its Statement on Internal Control
- aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in the use of resources.

As a new development from the previous Code, auditors will be required to give a positive conclusion as to whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The scope of these arrangements is defined in paragraph 19 of the new Code. The conclusion will be limited by reference to 'criteria specified by the Audit Commission'. These criteria are being developed by the Commission to provide the scope of work for auditors and to establish a consistent approach.

Alongside this statutory responsibility, auditors of local government bodies will also be asked to give a qualitative assessment ('the UoR judgement') of the relative effectiveness of those arrangements (including a 'value for money' judgement) as part of CPA 2005. This work will be mandated by the Commission in accordance with paragraph 6 of the new Code.

2.2. Planning of use of resources work

In planning our audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, the Code requires us to consider and assess the relevant significant business risks and the arrangements the Council has put in place to manage those risks.

In assessing audit risk relating to the use of resources at local government bodies, we start from our knowledge of the business and of Harrow, comprising:

- our cumulative knowledge of the body and its governance arrangements
- the results of specific previous audit work
- the results of other review agencies' work, where they are relevant, and in particular the Audit Commission's CPA (the Code requires auditors to place reliance on such work where appropriate).

We then consider:

- National developments affecting all bodies of that type
- Local developments affecting the individual entity
- 'Supra-local' developments affecting the entity (eg sub-regional issues or local cross-cutting issues).

In light of these factors, we assess the potential risk of giving an unsafe conclusion on the body's arrangements or failing to deliver a robust UoR judgement. For example:

- Are the results of previous work still valid – does it need to be refreshed?

- Are the known internal/external developments likely to impact on previous conclusions about the body's arrangements?

In addressing these questions we have regard to:

- how significant the potential risk is in the context of our overall conclusion
- the nature and assessed strength of the controls put in place by the Council in relation to the particular risk
- whether work is planned by any other review agencies (eg, internal audit or an external agency) in relation to that risk.

Having identified specific residual risks by this process, we frame an appropriate response:

- performance of specific pieces of work in relation to identified risks to inform our conclusion and UoR judgement
- reliance on work done or planned by other review agencies
- deferral of any further audit work pending work planned by the audited body
- simply bring risk to the attention of management.

2.3. Other responsibilities

As the appointed auditor, we are also responsible for the audit of grant claims. We carry out this work as an agent of the Audit Commission.

We also have a responsibility to investigate formal objections and answer questions from local government electors relating to the accounts.

2.4. Overall risk areas

2.4.1. Introduction

In April 2004 we issued our plan for the audit year ended 31 March 2005. We commented in that document that new arrangements (specified by the Audit Commission) for the issue of audit plans, required us to specify the accounts and related financial governance work we do up to sixteen months before the work will be completed in some cases and before we have completed the equivalent work for the previous year. We highlighted the difficulty in identifying all key audit risks, and therefore to specify, with certainty, our work programme, at that early stage in the process. We therefore proposed to review our plans for the 2004/5 audit with officers in early 2005 and update them, as necessary.

The first part of this section re-examines the risks identified in our provisional 2004/5 audit plan and updates our audit response, indicating in each case whether the work will be undertaken as part of the 2004/5 or 2005/6 audit plan.

The second part of this section provides a current and more comprehensive assessment of risks relevant to our responsibilities and our audit response, again indicating whether the work will be undertaken under the 2004/5 or 2005/6 audit plan.

In section 4 we provide an analysis of the proposed audit fee for 2005/6. There will be a similar need in late 2005/early 2006 to re-assess risks relevant to certain aspects of our opinion work for the year ended 31 March 2006.

2.4.2. Update on risks identified in our 2004/5 Provisional Audit Plan

Risks identified in provisional 2004/5 audit plan	Update	Planned response for 2004/5 and 2005/6
<p>Medium Term Budget Strategy:</p> <ul style="list-style-type: none"> - Further improvements to financial management practices, in particular in the areas of capital programme management and Housing Revenue Account financial planning. - Delivery of savings targets included in the Council's Medium Term Budget Strategy (MTBS) - Containing further Council Tax increases - Education Funding. 	<p>Over the last two years, Harrow has stabilised its finances and has taken steps to manage them in an increasingly strategic manner.</p> <p>For the second year, the Council recorded an underspend. Current expectations for 2004/5 are for an overspend on services of £0.8 million (principally due to demand pressures in the People First Directorate), offset by an expected increase in investment income.</p> <p>This recent satisfactory track record on the General Fund side was marred by an overspend on housing repairs within the Housing Revenue Account which was not identified until the year end. The circumstances surrounding the overspend and its late identification and reporting have been the subject of a detailed investigation and in response the Council has examined training needs, reporting arrangements and management information requirements and the ability of current systems to deliver these.</p> <p>Last year we issued a report on the Initial Medium Term Budget Strategy and made a number of recommendations for improvement. The report and its recommendations were agreed by the then Interim Director of Finance, but we have never received a formal response and are aware that at least some of the recommendations have not been actioned.</p>	<p>Revenue finances are relatively stable. We will need to keep a watching brief in this area, but we do not see financial performance as a specific risk issue at Harrow at present.</p> <p>Internal audit have planned work on budgetary control and we will review the outcome of this.</p> <p>We will determine whether any further work is needed for 2005/6 after taking into account the outcome of our work during 2005.</p> <p>The Director of Business Strategy has confirmed that an action plan will now be drawn up in response to our report on the MTBS and we will review this when received.</p>
<p>Successful establishment of the ALMO</p>	<p>In November 2004 Cabinet decided not to pursue transfer of its housing stock to an ALMO.</p>	<p>Track outcome of current review of business case for meeting Decent Homes expenditure commitment through Prudential Borrowing, as below.</p>

Risks identified in provisional 2004/5 audit plan	Update	Planned response for 2004/5 and 2005/6
<p>E-government planning and implementation</p>	<p>Stage one of a First Contact inspection was carried out by the Audit Commission in 2002. No further inspection activity is planned in this area by the Audit Commission.</p>	<p>The Council continues to track planned actions as part of its improvement agenda. As a result, we do not plan any further work at present.</p>
<p>Implementation of CIPFA's Prudential Code.</p>	<p>The Council has started to explore the possibilities created by the new Code through its decision to pursue a Prudential Borrowing solution to funding work needed to meet the Decent Homes Standard. This has been necessary following the late refinement of the business case for pursuing the ALMO route which finally showed the ALMO solution did not offer best value.</p> <p>As well as providing local authorities with greater flexibility in funding its capital programme, the new Code also brings with it the requirement for tighter forecasting and monitoring processes. We recommended that the Council test the operation of its treasury management practices adopted as part of its policy statement to ensure processes are in place and sufficiently robust for this purpose.</p> <p>The Council complied with its requirements under the Code in terms of the setting of Prudential Indicators by 31 March 2004. Arrangements for the in year reporting to members against these Indicators need to be agreed and put in place.</p>	<p>We will track the development of arrangements around Prudential Borrowing, specifically:</p> <ul style="list-style-type: none"> • the outcome of the formal option appraisal for meeting expenditure on Decent Homes through Prudential Borrowing • the outcome of the recommended review of treasury management processes • the provision of training on the Prudential Code • formalisation of arrangements around setting and monitoring of Prudential Indicators. <p>We will determine whether any further work is needed for 2005/6 after taking into account the outcome of our work during 2005.</p>

Risks identified in provisional 2004/5 audit plan	Update	Planned response for 2004/5 and 2005/6
<p>Development of governance and risk management arrangements, including publication of a Statement on Internal Controls.</p>	<p>Progress continues to be made on developing risk management arrangements. Arrangements for risk identification and assessment have been agreed, are in place at the strategic/corporate level and are being rolled out at the directorate level. These arrangements at the corporate/strategic level include the mapping of risks to controls and for strategic risks have included monitoring of management action planned where controls are not in place or need to be developed further. However, although there is a risk register in place, the Council needs to complete the process of extending this down to the directorate level to cover key service risks. Member involvement in the process has been on an ad hoc basis although their involvement in a more systematic process of determining key risks and responses is now planned. Once risk registers are complete and fully mapped to mitigating controls, the Council needs to design and implement arrangements which will enable it to periodically confirm that those controls are in place and are operating effectively. This will feed into the statement on internal control.</p> <p>In view of the stage which risk management procedures had reached, we did not consider that the Council was in a position to obtain all of the necessary assurances to support a full statement and accordingly an interim statement was issued for 2003/4. Professional guidance to authorities recognised that most authorities would not be in a position to make full statements in 2003/4, but expected full compliance from 2004/5.</p>	<p>The development of risk management practices continues to show progress. However, there is further work to do. We will track progress in particular looking at:</p> <ul style="list-style-type: none"> • Extension of risk identification to directorate levels • Completing mapping of risk to mitigating controls • Arrangements for systematically reviewing the effectiveness of identified controls. <p>The CIPFA statement for proper practice for the SIC outlined transitional arrangements for 2003/4 which allowed authorities to produce an interim SIC in the first year. These arrangements are not available in 2004/5. Harrow produced an interim statement in 2003/4. Harrow will need to produce an interim statement again in 2004/5 as arrangements will not have been in place throughout the whole of the year.</p> <p>We will review whether the SIC has been presented in accordance with the relevant requirements and that it is not inconsistent with other information of which we are aware. In doing so, we will take into account our knowledge of Harrow gained through carrying out audit work in relation to its arrangements for securing economy, efficiency and effectiveness in the use of its resources.</p>

Risks identified in provisional 2004/5 audit plan	Update	Planned response for 2004/5 and 2005/6
<p>Advanced publication timetable for the accounts.</p>	<p>Whilst performance improved on last year, a significant minority of the information we requested from officers in April was not available at the start of our audit and some key pieces of information were outstanding until very late in the audit process. As a result, our audit was not completed until 20 December, later than the new statutory deadline for publication of 30 November. We understand there were resource issues in 2004 in the central finance team and recommend these are resolved as soon as possible to facilitate improvements in the accounts and audit process for next year when the audit close deadline will be 30 September 2006.</p> <p>Further advances in the reporting timetable over the next two years are likely to be very challenging for the Council, particularly as they will bring the accounts and audit process into the main holiday season.</p>	<p>Lessons learned from the 2003/4 exercise will be discussed with officers in early 2005 with a similar debrief, where necessary, in 2006.</p>
<p>Improving benefit arrangements for national standards in line with the recent BFI report.</p>	<p>The BFI assessment for CPA improved to a '4'.</p>	<p>We have not identified a continuing need for additional work in 2004/5 or 2005/6 audit plans.</p>
<p>Delivering consistently high service standards.</p>	<p>A separate project was planned for us to review the Council's new corporate performance management arrangements in 2004/5 which was postponed to allow systems put in place in late 2004 to be embedded through the organisation.</p> <p>The original risk was identified during CPA 2002 and is a key part of the Council's improvement agenda.</p>	<p>Performance management and corporate and service planning are likely to form part of the national programme of work specified by the Audit Commission to support the use of resources opinion statement. We will consider what additional work, if any, will be required once the details of the 'key lines of enquiry' have been finalised. At this stage, we plan to review the design of the performance management system and test its operation. We provisionally plan to carry out the work in September 2005 and will discuss a more detailed brief with officers over the summer. If a corporate assessment is carried out in 2005, it is unlikely that this additional work will be required.</p>

Risks identified in provisional 2004/5 audit plan	Update	Planned response for 2004/5 and 2005/6
Internal audit resourcing.	The Internal Audit Plan was complete during 2003/4. During 2004, Internal Audit agreed a three year strategic plan, following a number of years in which only one year, operational plans were agreed. An additional two members of staff will be appointed to resource this with some further resource likely to be freed-up through the transfer of responsibility for some anti-fraud work to the new corporate fraud team. The new plan is fully resourced.	Internal Audit have delivered their plan in full over the last two years and this is not considered a specific risk to carry forward.

2.4.3. Additional risks identified through 2005/6 audit planning

Risk	Planned audit response
<p>The Freedom of Information Act 2000 became law on 1 January 2005. The Act provides rights of access to information held by Harrow. The Act brings with it a regulatory burden of compliance and a risk of financial penalties and enforcement action if the authority does not comply.</p>	<p>We understand that Internal Audit propose to carry out work in this area as part of their 2004/5 audit plan and will consider the results of this before we determining whether further audit attention is required.</p>
<p>New requirements are set out in the 2004 Children Bill aimed to increase effective local working to safeguard and promote children's well being.</p> <p>Harrow anticipated aspects of the Bill in its recent restructuring, integrating services for children and separating out adult social services. The recent star rating exercise also recognised that children's services capacity for securing further improvement is better developed than for adult services.</p> <p>Aspects of partnering arrangements have proceeded slower, in particular the development of pooled budgets with the local PCT. This is likely to be due in part to the existence of interim leadership arrangements at the local PCT during much of 2004.</p>	<p>No work is planned at the moment as the Council consolidates the outcome of its recent restructuring and continues to build capacity in social services and to develop partnering arrangements.</p>

Risk	Planned audit response
<p>The Bichard inquiry raised a number of key issues, including arrangements to identify individuals whose patterns of offending behaviour cause concern, effective sharing of intelligence on those concerns, document retention arrangements and training in procedures for reporting concerns.</p>	<p>We will discuss with the Council what steps it has taken to review its arrangements in this area in the light of the findings of the Bichard inquiry before determining the need for detailed audit attention to this area.</p>
<p>The Race Relations Act 1976 (Statutory Duties) Order 2001 places a statutory duty on public authorities to promote race equality.</p>	<p>We will discuss, in overview, with the Council the results of its review of its level of compliance and its arrangements for monitoring performance before determining the need for any detailed audit work in this area.</p>
<p>Pensions are high on the political agenda and the Council's Pension Fund has a very significant funding deficit. By 1 April 2005, administering authorities will have to prepare Funding Strategy Statements which are expected to assist in minimising the impact of annual employer cost increases.</p>	<p>We will discuss the Council's funding strategy in overview to assess at that level the need to carry out more detailed audit work.</p>
<p>The principal matters discussed with the Audit Committee at the conclusion of our 2003/4 accounts audit related to areas of non compliance with professional guidance in relation to the preparation of accounts. Whilst these matters did not impact on amounts to be met from Council Tax, we noted that the Council is under an obligation through the Accounts and Audit Regulations to comply with this guidance in all material respects and recommended the Council review its arrangements, in particular in relation to the implementation of new accounting and disclosure requirements, to secure improvement in this area.</p>	<p>We will carry out a review of compliance focusing on new or changed areas of the SORP, in particular group accounting, changes in Consolidated Revenue Account and Housing Revenue Account formats and a change to the rate used to discount pension liabilities.</p> <p>We will also follow-up on areas of non compliance, in particular non compliance with the Best Value Accounting Code of Practice (BVACOP).</p>
<p>The Council agreed a new ICT strategy at the end of 2003. It is now looking at a partnership for delivery of the strategy. The Council needs to ensure it keeps the risks and value for money considerations of such an arrangement under close scrutiny to avoid entering into an onerous partnering arrangement.</p>	<p>We will track progress on this important development.</p>
<p>The ODPM has set a flat rate target for all councils to save 2.5% each year up to 2007/8. They will need to prepare an efficiency statement measuring their performance against this target.</p>	<p>As auditor, we will have regard to the efficiency statement in reaching our conclusions on use of resources, but currently there are no plans for us to audit the statement.</p>

3. AUDIT AND INSPECTION PLAN

3.1. Audit plan by Code area

The previous section sets out areas of focus, as determined by our risk assessment, together with our planned response. This section sets out our overall approach to each of the main areas of our audit and summarises for each area the relevant risks which are discussed in more detail in the previous section.

3.1.1. Audit of the financial statements

We carry out an accounts audit in accordance with relevant auditing standards issued by the Auditing Practices Board and other relevant professional guidance.

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and are fairly presented. The assessment of what is material is a matter of professional judgement and includes consideration of both the amount (quantity) and the nature (quality) of misstatements. The assessment of materiality during audit planning assists in the determination of an efficient and effective audit approach. The level of materiality also determines the extent of work performed. The assessment of materiality during audit planning may differ from that at the time of evaluating the results of audit procedures. This may be because of a change in circumstances or a change in our knowledge as a result of the audit.

In our interim audit visit, we obtain an understanding of the accounting and the internal financial control systems in order to assess their adequacy as a basis for the preparation of the financial

statements and to form an opinion whether proper accounting records have been maintained by the Council. Our understanding of the internal control systems forms the basis of our audit approach. Internal controls comprise your control environment and the control procedures.

The audit procedures we perform during our audit will be a mix of control and substantive testing. The nature and extent of our procedures varies according to identification of areas of greater than normal risk of material misstatement and our assessment of the Council's accounting system and, where we wish to place reliance on it, the internal control system and cover any aspect of the business operations that we consider appropriate. Where we identified a specific risk of a material misstatement which is more than normal we perform substantive testing directed at providing us with evidence that the risk has been addressed or perform tests of controls that focus on mitigating such risks.

We have identified the following key transaction cycles:

Housing and Council Tax benefits administration
Payroll
Other expenditure
Revenue – Council Tax
Revenue – Business Rates
Revenue – Housing Rents
Revenue – Other
Fixed assets*
Treasury (i.e. cash, investments and loans)*

(*not included in our controls assurance strategy – see below)

For those transaction cycles included within our controls assurance strategy, we then design and carry out tests of controls to give us assurance for the purposes of our opinion on the financial statements. We adopt a rotational plan to testing controls, looking at each business cycle at least once every five years and earlier if there has been a material system change. We seek to place reliance on the work of Internal Audit to reduce the amount of work we carry out in documenting and testing transaction cycles.

Internal Audit's plan is to carry out testing of key controls in the main transaction cycles over a three year cycle period. A cycle will be looked at earlier if a review is triggered by one of several circumstances. Internal Audit's approach in this area provides a good fit with our own approach.

As part of our detailed planning work, we will carry out an assessment of Internal Audit's role, scope, independence and effectiveness to support this planning decision, together with a review of the relevant working papers from their key controls work.

Our proposed fee assumes that planned audits for 2005/6 will be completed on a timely basis, that all key control objectives will be addressed within the transaction cycles and that testing will cover the whole of the financial year.

Almost all of the Council's financial transaction processing and management information is carried out using automated systems. Given the importance of IT to the Council's financial systems and operations, each year we assess the general controls within the computer environment with assistance from our computer audit specialists. We adopt a rotational approach to this work. The rotational plan will be developed after discussions with Internal Audit and the IT Manager.

We will report to, and discuss the results of our audit of the financial statements with, the Audit Committee. The relevant meeting date should be planned and advised to us as soon as possible.

The national timetable for approval and audit of the financial 2005/6 statements will be brought forward a further month to 30 September 2006.

In addition to our opinion on the Council's financial statements, we expect at this point to be required to issue a separate report on the Council's submission for Whole of Government Accounts. The form of this report has not yet been agreed, so we do not currently know the scope of our work in this area.

3.1.2. Use of resources

Overview of audit responsibilities

Our responsibilities in respect of the Council's use of resources are threefold:

- To be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources
- To be satisfied that the Council has proper arrangements for collecting, recording and publishing Best Value Performance Indicators (BVPs)
- To audit the annual performance plan published by the Council.

The following sections deal with each of these responsibilities in turn.

The 3 'e's

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such arrangements form a key part of the system of internal control and is required to be reported on as part of the Council's published Statement on Internal Control. The new Code of Audit Practice specifies the following elements as key to these arrangements:

- The establishment and monitoring of the achievement of strategic and operational objectives
- The body's policy and decision-making processes
- Arrangements to ensure that services meet the needs of users and taxpayers and for engaging with the wider community
- The arrangements to ensure compliance with established policies, procedures, laws and regulations
- The identification, evaluation and management of operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working
- Arrangements to ensure compliance with the general duty of best value
- The arrangements for the management of financial and other resources, including systems of internal financial control and arrangements for the reporting of financial information
- The body's framework for performance management, including arrangements to ensure data quality

- The arrangements to ensure that the Council's affairs are managed in accordance with proper standards of financial conduct, and to prevent fraud and corruption.

We have a responsibility to be satisfied that the Council has put in proper arrangements to secure the 3'e's.

As set out in section 2, from 2005/6 we will be required to issue a positive conclusion as to whether the Council has put in place proper arrangements to secure the 3 'e's, together with a qualitative assessment (the 'Use of Resources judgement') of the relative effectiveness of those arrangements as part of CPA.

Our conclusion on the 3 'e's will be given in respect of certain criteria which will link directly to the Audit Commission's key lines of enquiry to be applied in forming the Use of Resources judgement.

The Commission is currently consulting on both the specific criteria and the key lines of enquiry. We are therefore currently unable to specify the exact scope of our work and therefore the fees for that work until the consultation process has been concluded.

3.1.3. Best Value

Best Value Performance Indicators

We have not yet received the final scope for this piece of work (from the Audit Commission), but we anticipate, similar to previous years, that this will involve selecting a sample of Best Value Performance Indicators (BVPIs) on the basis of a risk analysis and carrying out limited review and testing procedures.

Audit of the annual performance plan

We again expect to have a role in reviewing the Council's annual performance plan, focusing on whether its contents accord with requirements.

3.2. Other audit responsibilities

3.2.1. Grants

Introduction

The Audit Commission is responsible for auditing grant claims. We act as their agents for this work, carrying out testing in accordance with grant instructions issued annually by the Audit Commission.

Our approach

We have established a joint monitoring system between ourselves and the grant claims co-ordinator which enables us both to track progress in auditing claims, providing early warning of any problem issues. We will also meet with key contacts to brief them on documentation requirements. There were delays in 2004 in providing us with some grant claim information and we ask Council officers to give priority to the timely preparation of grant claims and relevant supporting information.

Once we have completed our work we will issue our report to the relevant government department or agency, and supply a copy to the authority. Some claims are now submitted electronically and we have developed protocols to ensure we track claim submissions under these new procedures.

We will summarise any problems encountered in the year and any issues which led us to report on, or to amend. This will be fed back through meetings with key officers and/or formal report.

3.2.2. Objections and questions

Rights, powers and duties

We have a responsibility to investigate formal objections and answer questions from local government electors relating to the accounts. In carrying out such work we have the right to ask questions of, and demand documents from, anyone who we believe may hold information relevant to our investigation. Since the enactment of the Local Government Act 2000 there have been some changes to the law relating to such challenges; however we still have the following rights:

- to apply to the courts for a declaration that an item of account is unlawful
- to consider whether there has been a failure to account for any sum or a loss or deficiency caused by wilful misconduct
- to issue a public interest report, should we consider a matter to be of significance to warrant such action.

3.3. Audit Commission

3.3.1. CPA 2005

CPA has had and continues to have a significant impact on local government. CPA now needs to be refined and updated, in line with the Commission's principles of Strategic Regulation. The Commission is now making proposals for CPA 2005 to put these principles into practice. Details of the approach can be found at

www.audit-commission.gov.uk. Consultation ended on 18 February 2005. The Council is currently scheduled to have a corporate assessment inspection between April 2006 and March 2007.

3.3.2. Direction of travel statements – reporting on progress of improvement

Many stakeholders have identified the importance of attaching a clear “direction of travel” label to the overall CPA category to indicate the progress being made towards achieving improvement. This is particularly important for those councils that may have to wait until the end of the fccorporate assessment programme to have that judgement renewed.. In 2005, direction of travel statements will be prepared for all councils by the Audit Commission. The statements will draw on the same framework used for corporate assessments to provide a way of tracking progress within the core themes of ambition, prioritisation, capacity and performance management as well as in achievement of outcomes.

The proposal is to introduce a set of direction of travel labels to accompany the CPA category. The Audit Commission will continue to include direction of travel statements within annual audit and inspection letters and a summary of the findings will continue to be included in CPA scorecards. The statements will be a way to track and report on councils’ progress against their improvement priorities.

The statements will continue to be prepared by the Commission’s Relationship Manager in consultation with others, including the appointed auditor and other regulators. The Relationship Manager will draw on evidence from a number of sources including:

- the relationship manager’s discussions with the Council
- performance information and other relevant data, including information from other bodies, where appropriate

- available audit and inspection reports and annual performance assessments
- relevant self-assessment information prepared by the Council – using existing information to ensure that authorities are not asked to duplicate material
- other relevant council documents

3.3.3. Inspections

The inspection process has to comply with the statutory requirements governing it, and in particular the Local Government Act 1999 with regard to Best Value inspection.

Through our improvement planning round table meeting with you and the other inspectorates 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.

Following the Council’s classification as a Fair council in the December 2004 CPA update, we have applied the principles of strategic regulation. As a consequence AC inspection activity will focus on the following:

Public Realm

This inspection will cover waste management. It will be completed in quarter 4.

Direction of Travel assessment

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

4. FEES AND TIMETABLE

4.1. Audit fees

4.1.1. Basis of audit fee

The 'Fee for the Audit' is a fixed fee agreed in advance between ourselves and the Council for an agreed range of audit outputs. It is based on delivering an agreed range of audit products, to an agreed timetable for a fixed price to meet the core audit objectives as set out in the Audit Commission's Code of Audit Practice.

Our fee proposal assumes in particular that:

- No additional audit risks are identified during 2004 which materially impact on our risk assessment.
- Draft financial statements and working papers we request for audit purposes are available at the agreed date and we have adequate access to key officers through the accounts and grants claims audit process.
- Internal financial controls are adequate for controls assurance purposes.
- Internal audit work has been carried out in accordance with the internal audit plan, addresses the key control objectives for the fundamental financial systems covered by those planned audits and that testing covers the whole of the financial year.
- Published performance indicators are supported by working papers and their supporting documentation as requested.

- Grant claims are supported by working papers and their supporting documentation as requested.

- The Statement on Internal Control is supported by working papers including policy and procedures documentation, the assurance, performance management and risk management framework descriptions and evidence of test of controls performed through the Council.

Our fee excludes inspection work which is covered within the inspection fees charged by the Audit Commission separately.

4.1.2. Proposed audit fee

Based on the above principles, we are proposing a total audit fee in the range of £297,000 to £302,000, excluding VAT.

An analysis of the proposed fee is given below.

	2005/6	2004/5
	£000	£000
Planning and baseline risk assessment (Products: <i>provisional audit plan; update to audit plan</i>)	21.6	21.0
Accounts (Products: <i>'SAS 610 report' on audit findings; opinion on financial statements; separate management letter, if applicable</i>)	173.0	168.0
Whole of Government Accounts return (Products: <i>Opinion on WGA return</i>)	5.0	0.0
Use of resources (Products: <i>Audit conclusion on 3 'e's; use of resources judgement for CPA; report on performance management arrangements; comments in Annual Audit and Inspection Letter</i>)	44.4-49.4	49.5
Best Value (Products: <i>report on BVPIs; report on BVPPP</i>)	53.0	51.5
	297.0-302.0	290.0

Note 1 The exact scope of our work on the 3 'e's and the use of resources judgement is not yet known. We have therefore indicated a provisional fee range for that work.

Note 2 The comparative numbers are derived from our provisional audit plan for 2004/5, reanalysing to make as comparable as possible

4.1.3. Invoicing arrangements

The fee in section 4.1.2 will be invoiced in accordance with the following schedule:

15 July 2005 - £35,000
15 August 2005 - £37,000
15 September - £11,000
15 October - £15,000
15 December - £25,000
Remainder in nine instalments of £18,000 starting 15 January 2006 and balancing amount on 15 October 2006.

Invoices are due for settlement within 14 days from presentation.

4.1.4. Other fees

Grant audit fees

Grant claim audit fees will be charged on the basis of time spent and at rates advised by the Audit Commission which reflect the experience of staff used.

Due to the differing number of claims required to be certified each year, changes to scheme rules and issues arising it is difficult to quote in advance for such work. In particular, central government departments often change the rules as to whether claims need

auditing and the procedures which they require to be carried out during the year.

We share our fees and time analysis for each grant with officers from our prior year work and agree initial grant audit fee estimates based on these.

Fees for challenge work

This work is by necessity both unplanned and, due to the often sensitive nature, carried out by senior members of the engagement team. Accordingly the Audit Commission has advised that it should be billed at the skill-related fee rates for challenge work:

Where we take legal advice we will also recharge the costs of such advice to you.

Other non core work

We recognise, with the Council going through its major improvement agenda, there may be areas other than those set out in this plan and above those requiring a response under our audit risk assessment where we can provide specialist assistance. We would be pleased to discuss any such areas, in the context of any such work remaining consistent with our external audit role. Fees for the work would be based on the Audit Commission's grade related fee scales for the relevant specialist involved.

4.2. Inspection fee

The inspection fee for 2005/06 will be £[To be confirmed]. You should note that the Inspection fee 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.

4.3. Timetable including audit and inspection products

Activity	Timing of fieldwork	Output	Due date
<i>Review BVPIs</i>	July 2005	Report to the Audit Commission on the Council's BVPI system and arrangements	To be advised
<i>Review BVPP</i>	August 2005	Audit report Letter to Chief Executive on any areas for improvement	31 December 2005
<i>Auditor scored judgements – value for money judgement</i>	To be advised.	Return to Audit Commission.	30 September 2006
<i>Direction of Travel Assessment</i>	October 2005 – December 2005	CPA scorecard summary and inspection letter which forms part of the joint audit and inspection letter	CPA scorecard summary – Dece 2005 Joint letter published – January 2006
<i>Public Realm inspection</i>	Quarter 3-4	Published scored report	By end of March/April
<i>Participate in roundtable meeting on improvement planning and contribute to development of the Relationship Manager's joint audit and inspection plan.</i>	January and February 2006	Confirmation of this audit plan (see section 1).	31 March 2006
<i>Update risk assessment.</i>			
<i>Review general computer controls</i>	May 2006	Separate report	30 June 2006
<i>Key lines of enquiry for use of resources work</i>	March to June 2006	Conclusion in audit report Qualitative assessment to Audit Commission Use of resources memorandum to Council	30 September 2006 To be advised 30 September 2006
<i>Review of Internal Audit and their work on key controls</i>	Review of overall arrangements – April 2006 Review of working papers for key controls work expected to be complete by 31 May 2006	Inclusion of points, by exception, in draft governance memorandum	31 July 2006

Activity	Timing of fieldwork	Output	Due date
<i>Final audit visit</i>	July 2006	SAS 610 report on audit findings Audit opinion on financial statements Audit opinion on summarised financial statements	SAS 610 report to the Audit Committee – date to be arranged Approval of accounts following audit – date to be arranged Opinion by 30 September 2004
<i>Issue annual audit and inspection letter</i>	November and December 2006	Submission to Audit Commission of information to be included in the Annual Audit and Inspection Letter.	Date to be advised by Audit Commission

5. SERVICE TEAMS

5.1. Audit service team

Our audit team will mainly be drawn from our London North office, based in St Albans. We have detailed below the senior members of the audit team who will lead the work. Nigel Johnson will be the partner responsible for our services to you.

<p>Nigel Johnson 01727 885178 njohnson@deloitte.co.uk</p>	<p><i>Appointed Auditor and Lead Audit Partner</i> Primary responsibility for the audit, client service, work on objections and questions from local electors. Experienced audit partner with extensive range of public sector audit experience in Local Government and Health sectors. Leads the firm's Audit Commission work and is Contact Partner for the Audit Commission. Also has wide range of private sector experience.</p>
<p>Roger Miles 01727 885127 rmiles@deloitte.co.uk</p>	<p><i>Second Partner</i> Experienced audit partner who works on other Audit Commission work. He will assist Nigel in planning and review of the audit and will be a sounding board when issues arising from the audit require such consultation before we arrive at a definitive judgement.</p>

<p>Angus Fish 01727 885038 afish@deloitte.co.uk</p>	<p><i>Lead Manager</i> Responsible for client service on day-to-day basis. Wide range of private and public sector audit experience.</p>
<p>Vincent Marke 01727 885205 vmarke@deloitte.co.uk [To be confirmed]</p>	<p><i>Manager</i> Assist with planning, supervision and control of the audit.</p>
<p>Niraj Shah</p>	<p><i>Manager</i> Responsibility for management of grants programme. <i>Senior Manager</i> Responsibility for delivery of computer audit work. Computer audit specialist in our London Office.</p>

5.2. Audit Commission

To help you receive a tailored, seamless service co-ordinated with the work of other inspectorates, the Audit Commission has appointed Jacqueline Barry-Pursell as your Relationship Manager from January 2003. This appointment is separate from the role of the statutory auditor although both roles may be performed by the same person in some instances.

Mobile: 07748933325, jbarry-pursell@audit-commission.gov.uk.

APPENDIX

by the Commission. Responsibilities for the adequacy and appropriateness of these methodologies and the data rests with the Audit Commission.

Statement of responsibility

The Audit Commission published a ‘Statement of responsibilities of auditors and of audited bodies’ alongside the Code. The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do. It confirms that the audit cannot be expected to:

- identify all weaknesses that may exist either in the audit body’s internal controls over financial systems or in the body’s financial plans, projections or budgets
- remove the possibility that fraud, irregularities or corrupt practices have occurred and remained undetected, nor is it the auditors function to prevent fraud and irregularities though we will be alert to the possibility and will act with no undue delay if grounds for suspicion come to our notice.

It remains your responsibility to identify and address operational and financial risks and develop proper arrangements to manage them, including adequate and effective systems of internal control.

Our audit plan has been prepared on the basis of the Code and the Statement of Responsibilities, copies of which have been provided to the Council by the Audit Commission.

The audit sometimes includes the performance of national studies developed by the Audit Commission, where the auditors are required to follow the methodologies and use the comparative data provided

Quality of service

If, at any time, you believe our service to you could be improved, or if you are dissatisfied with any aspect of our service you should raise the matter with the partner responsible for providing our audit service to you. If you would prefer to discuss the matter with someone other than that partner, or if you wish to make a complaint, please call or write to Mr Paul Schofield, the partner in charge of audit services in our St Albans office. If we are unable thus to satisfy your concerns, you have the right to take the matter up with the Audit Commission (details are given in the Audit Commission publication ‘What you can expect from your external auditors’, copies of which can be provided if required).

Independence

Our audit engagement with the Audit Commission for your Council requires us to confirm and maintain our firm’s independence from the Council and its members and officers. Our checks on appointment did not reveal any conflicts that either prevented us from acting for the Council, or require specific arrangements to ensure our ongoing audit independence. We ask that the Council, its members and officers alert the Appointed Auditor as to any new relationship with Deloitte & Touche LLP or any of its staff so that this can be considered in this context.