

Audit and Inspection Plan

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# **Audit and Inspection Plan**

**Dudley Metropolitan 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; 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.

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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 During 2008/09, the role of Relationship Manager will be 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.

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## 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 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.

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## Fees

- 8 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.
- 9 The total indicative fee for the audit and inspection work included in this audit and inspection plan for 2008/09 is for £328,343, which compares to the planned fee of £303,623 for 2007/08.
- 10 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 2.

**Table 1      Audit fee**

<b>Audit area</b>	<b>Planned fee 2008/09</b>	<b>Planned fee 2007/08</b>	<b>Page</b>
<b>Total audit fee</b>	289,848	281,499	
<b>Total inspection fee</b>	38,495	22,124	
<b>Certification of claims and returns</b>	<b>TBC</b>	<b>120,000</b>	

- 11 The Audit Commission scale fee for the Council is £335,000. The fee proposed for 2008/09 is -11 per cent compared to the scale fee and is within the normal level of variation specified by the Commission.
- 12 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 to that identified for 2007/08; and
  - internal audit continues to undertake appropriate work on all systems; and
  - good quality working papers and records will be provided to support the financial statements.

Further details of the assumptions are outlined in Appendix 2.
- 13 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.

- 14 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.

### **Process for agreeing any changes in audit fees**

- 15 As set out in paragraph 4, we expect that the initial risk assessment may change as the year progress. Where this is the case, we will discuss this in the first instance with the Director of Finance. Supplements to the plan will be issued to record any revisions to the risk and the impact on the fee.

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## Auditor's report on the financial statements

- 16 We are required to issue an audit report giving our:
- opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2009; and
  - conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Financial statements

- 17 We have not undertaken a risk assessment for our audit of the financial statements as many of the specific risks which may become apparent after we have completed our 2007/08 audit. A separate opinion plan for the audit of the financial statements will be issued in March 2009.

### VFM conclusion

- 18 In reaching our conclusion, we will review evidence that is relevant to the Council's performance management and financial management arrangements.
- 19 The key risks highlighted from the planning are summarised in the table below with details of planned work to mitigate the risks. Full details of the risk assessment are outlined in Appendix 3.

**Table 2 Key risks identified**

Key risks identified	Planned work to address the risk
The Council is undertaking a pay and grading review to comply with the Single Status Agreement. The job evaluation element of the review is nearing completion. The Council are not yet in a position to produce a reliable estimate of the costs of implementing the Agreement but it is probable that these costs will be significant	We will assess the adequacy of the Council's arrangements for implementing the outcome of the pay and grading review
Addressing health inequalities in Dudley is a key objective for the Council and it forms part of the current Local Area Agreement	We will perform a cross cutting review which will consider how well the Council works in partnership with the PCT to address health inequalities

<p>The Council's Local Area Agreement is being redrafted in 2008.</p>	<p>We will monitor the Council's progress on meeting the performance targets in the agreement through review of key documents and interviews with key officers, including internal audit</p>
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## Use of resources

- 20 The Audit Commission has specified that auditors will complete a use of resources assessment for 2008/09. This will be a new assessment forming part of the CAA framework for 2009.
- 21 The approach to the use of resources assessment has been subject to consultation and will be finalised after April 2008. Further information about our use of resources work for 2008/09 will be provided once the approach has been confirmed. 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 risk, and plan our work accordingly.
- 22 Our initial risk assessment for use of resources work is shown in Appendix 3. This will be updated through the continuous planning process as the year progresses.

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## Mandated work

23 As part of the audit, the mandated work programme comprises:

- data quality;
- whole of government accounts; and
- National Fraud Initiative.

Appendix 1 highlights the work to be undertaken.

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## 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 programme 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. For CPA 2007, the Council was categorised as four stars.
- 27 I have applied the principles set out in the CPA framework, 'CPA - The Harder Test', recognising the key strengths and areas for improvement in the Council's performance.
- 28 Strengths in the Council's performance include delivering:
- adult social care services;
  - housing services;
  - benefits services.
- 29 Areas for improvement in the Council's performance include:
- working with partners to reduce delayed discharges;
  - reviewing its capacity to deliver planned regeneration projects
  - working with partners to increase bus use.
- 30 On the basis of the planning process, I have identified where inspection activity will be focused for 2008/09 as follows.

**Table 3 Summary of inspection activity**

Inspection activity	Reason/impact
Relationship Manager (CAAL) 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 RM, 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.
Regeneration inspection	An inspection of regeneration across Birmingham and the Black Country will be performed. Regeneration is a key corporate priority for each of the five councils and of their LSPs. There are many common issues facing Birmingham and the Black Country and there is already a great deal of joint working across the theme. The fresh impetus given to local authorities through the white paper and the developing City-Regions agenda presents a major opportunity for local authorities to enhance their community leadership and 'place-shaping' role.

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## Advice and assistance

- 31 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.
- 32 If you wish the Commission to provide additional services under these powers, please contact Dorothy Welsh.

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## The audit and inspection team

- 33 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
Gary Stevens Comprehensive Area Assessment Lead (CAAL)	g-stevens@audit- commission.gov.uk 0121 733 7173	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 Corcoran District Auditor	t-corcoran@audit- commission.gov.uk 01743 233539	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and audit committee.
Simon Turner Audit Manager	si-turner@audit- commission.gov.uk 01384 814049	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

### Quality of service

- 34 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 me in the first instance. Alternatively, you may wish to contact the West Midlands Head of Operations, Phil Jones.
- 35 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.



## Planned outputs

- 36 Reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

**Table 5 Planned outputs**

Planned output	Indicative date
Regeneration inspection report	December 2008
Opinion Audit and Inspection Plan	March 2009
Annual governance report	September 2009
Auditor's report giving an opinion on the financial statements and value for money conclusion	September 2009
Use of resources report	December 2009
Health inequalities report	TBC
Annual Audit and Inspection Letter	TBC

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## Appendix 1 – Work under the Code of Audit Practice

### Financial statements

- 1 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).
- 2 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.
- 3 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.

### Value for money conclusion

- 4 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.
- 5 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.
- 6 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

### Use of resources assessment

- 7 The approach to the use of resources assessment for 2008/09 has been subject to a consultation process which ended in February 2008. The Commission is considering the responses to the consultation and will finalise the assessment framework after April 2008. We will provide further information on the work needed for the assessment once the approach has been confirmed.

## Data quality

- 8 We are required to undertake audit work in relation to data quality which will be directly linked to the VFM conclusion and the use of resources assessment.
- 9 The approach to data quality is being considered as part of the use of resources framework and we will provide further information on the work needed once the framework has been finalised. As part of the approach, the Audit Commission will specify work on housing and council tax benefit performance indicators.

## Whole of government accounts

- 10 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.

## National Fraud Initiative

- 11 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.

## Certification of grant claims and returns

- 12 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; and
  - 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.

## Appendix 2 – 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 continues to meet the appropriate professional standards;
  - internal audit continues to undertake appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements;
  - requested information will be provided within agreed timescales; and
  - 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, I 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 issue the opinion audit plan.
- 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.
- 7 The fee (plus VAT) will be charged in 12 equal instalments from April 2008 to March 2009.

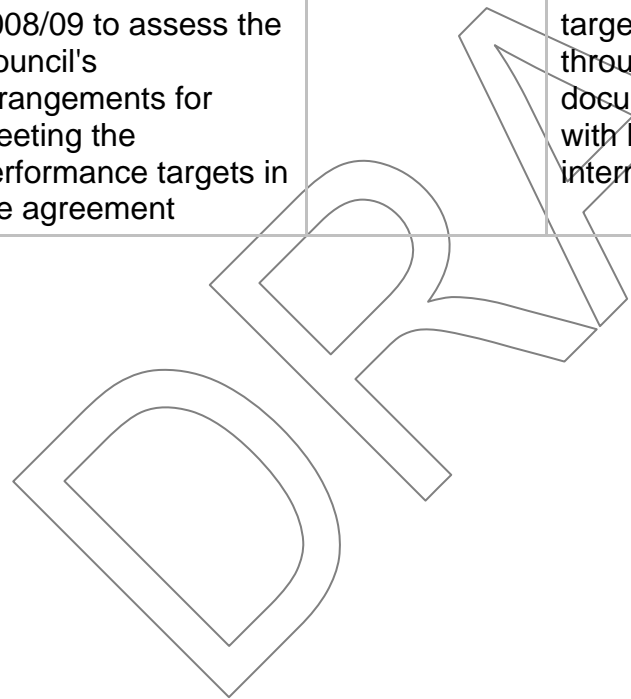
**Table 6 Detailed audit and inspection fee**

<b>Audit area</b>	<b>Planned fee 2008/09</b>	<b>Planned fee 2007/08</b>	<b>Page</b>
<b>Audit</b>			
Financial statements	196,795	191,083	9
Use of resources	90,740	87,005	9
Whole of government accounts	2,313	2,211	19
National Fraud Initiative	0	1,200	19
<b>Total audit fee</b>	<b>289,848</b>	<b>281,499</b>	
<b>Inspection</b>			
Relationship management	11,308	11,062	13
Direction of Travel	11,307	11,062	13
Regeneration inspection	15,880	0	14
<b>Total inspection fee</b>	<b>38,495</b>	<b>22,124</b>	
<b>Total audit and inspection fee</b>	<b>328,343</b>	<b>303,623</b>	
Certification of claims and returns	TBC	120,000	19

## Appendix 3 – 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>The Council is undertaking a pay and grading review to comply with the Single Status Agreement. The job evaluation element of the review is nearing completion. The Council are not yet in a position to produce a reliable estimate of the costs of implementing the Agreement but it is probable that these costs will be significant</p>	<p>The pay and grading review continues to be performed by officers and the output considered by senior management</p>	<p>Yes</p>	<p>We will assess the adequacy of the Council's arrangements for implementing the outcome of the pay and grading review</p>	<p>Use of resources criteria:                      Managing money                      Managing the business                      Managing other resources</p>
<p>Addressing health inequalities in</p>	<p>The Council continues to take action to</p>	<p>Yes</p>	<p>We will perform a cross cutting review which will</p>	<p>Use of resources criteria:</p>

<b>Significant risks identified</b>	<b>Mitigating action by audited body</b>	<b>Residual audit risk</b>	<b>Action in response to residual audit risk</b>	<b>Link to auditor’s responsibilities</b>
Dudley is a key objective for the Council and it forms part of the current Local Area Agreement	address health inequalities		consider how well the Council works in partnership with the PCT to address health inequalities	Managing the business
The Council's Local Area Agreement is being redrafted in 2008.	The Council's internal audit service plan to perform work in 2008/09 to assess the Council's arrangements for meeting the performance targets in the agreement	Yes	We will monitor the Council's progress on meeting the performance targets in the agreement through review of key documents and interviews with key officers, including internal audit	Use of resources criteria: Managing the business



## Appendix 4 – 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.

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# Appendix 5 – Working together

## Meetings

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

**Table 7 Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive	Comprehensive Area Assessment Lead (CAAL) District Auditor (DA)	As appropriate	General update
Director of Finance	DA Audit Manager (AM)	Quarterly	General update
Head of Financial Services	AM	As appropriate	Update on audit and opinion issues
Head of Audit Services	AM	Quarterly	Update on audit progress and issues
Audit Committee	DA and AM	As appropriate	Formal reporting of: <ul style="list-style-type: none"> <li>• Audit and Inspection Plan;</li> <li>• Annual Governance Report;</li> <li>• Annual Audit and Inspection Letter; and</li> <li>• other issues as appropriate.</li> </ul>

## Sustainability

- 3 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.

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