

HERTFORDSHIRE COUNTY COUNCIL

**AUDIT COMMITTEE
THURSDAY 20 JUNE 2002 AT 2.15 P.M.**

Agenda Item No.

3

SCRUTINY OF THE ROLE OF THE DISTRICT AUDITOR

Report of Finance Director

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1. Purpose of report

The Committee in December 2001 asked for a report on the scrutiny role played by the District Auditor. This is that report.

2. What governs the work of external auditors?

The statutory responsibilities and powers of external auditors are set out in the Audit Commission Act 1998 and Local Government Act 1999. In discharging these specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with the Audit Commission's *Code of Audit Practice*.

The Code defines the auditors' responsibilities in relation to each of the elements of the audit, which are:

- the financial aspects of corporate governance (the legality of financial transactions, financial standing, systems of internal financial control and standards of financial conduct) ;
- the accounts (opinion and regularity); and
- aspects of performance management (use of resources, performance information and best value performance plans).

The Code does not cover work carried out by auditors in relation to the authority's grant claims and returns.

3. Scope of the audit

In line with the Code, auditors have flexibility to tailor the nature and extent of audit work locally to the circumstances of the audited body and direct audit resources to where they are most needed on the basis of their professional assessment of the relevant financial and operational risks.

Auditors are required to obtain such information and explanations, as they consider necessary to provide themselves with sufficient evidence to meet their responsibilities under the Code. Auditors are not expected to review or perform detailed tests of all financial or other systems and processes or of all accounting procedures and transactions.

4. Outputs from the audit

The main outputs from the annual audit are:

- a certificate that the audit of accounts has been completed in accordance with statutory requirements;
- an opinion on the financial statements;
- a statutory report on the audit of the best value performance plan (BVPP); and
- an annual audit letter addressed to the audited body.

5. The audit fee

The audit fee is informed by the Audit Commission's fee banding by authority type and discussions between the auditor and the authority to reflect the size and complexity of, and the auditor's assessment of, the financial and operational risks in relation to the audit.

The 2001/02 audit fee for the Code of Practice work for Hertfordshire is £265,892, net of VAT. From a risk perspective, this level of fee places the authority at the bottom end of the Audit Commission's fee banding, which means the authority is regarded as low risk.

6. Relationship with District Audit

6.1 Members

The Council's principal relationship with District Audit at member level is through the Audit Committee. The Committee's remit includes:

- review of the annual District Audit Work Plan; and
- management's response to key issues and recommendations in District Audit's reports and Annual Audit Letter.

This remit excludes value for money issues, which are dealt with by the relevant Scrutiny Committee.

6.2 Finance Director

At the officer level, the key relationship is that between the Finance Director and the District Auditor. This covers matters such as:

- signing-off the accounts;
- objections to the accounts;
- the audit work programme;
- audit fee negotiations; and
- professional dialogue and other matters, and that this is achieved through regular and ad hoc meetings.

6.3 Chief Internal Auditor

The District Audit Manager and other members of the audit team have regular contact with Internal Audit staff as part of the Managed Audit regime. Under this regime, external auditors place a greater reliance on the work of internal audit to fulfil their duties and responsibilities in order to minimise the duplication of work between internal and external audit.

6.4 Services

The District Auditor and her staff communicate directly with service colleagues on service related audit work, in terms of planning the work and discussing the outcome of the audit work.

7. External scrutiny of external audit

7.1 Audit Commission

The Audit Commission checks to see that the quality of auditors' work meets or exceeds the standards specified in the Code, through a process known as the Quality Review Process (QRP). The QRP framework consists of:

- quality assurance, control and evaluation;
- service quality: includes feedback from audited bodies through written and telephone questionnaires;
- performance monitoring; and
- complaints.

7.2 District Audit London and Eastern Region

Each year the Finance Director with input from other officers completes a client satisfaction questionnaire.

8. Performance Issues

8.1 Delivery of audit outputs

The four main audit outputs are:

- a statutory report on the authority's best value performance plan, which includes the opinion and any recommendations;
- the audit opinion on the authority's final accounts;
- the annual audit letter, which identifies significant matters arising from the audit; and
- the overall audit plan.

The only requirements placed upon external auditors is that they deliver the opinion on the authority's final accounts as well as the audit certificate by 31st December, whilst, the annual audit letter must be issued in good time, and by 31 December at the latest.

These requirements were met by District Audit. The dates were:

	Finance Director
2001/02 Best value performance plan	Draft received on 17 th May 2001 for comment, and the final report was published on 30 th June 2001.
2000/01 Audit opinion and certificate on the authority's final accounts	20 th December 2001
2000/01 Annual audit letter	9 th November 2001
2001/02 Audit plan	Draft received on 14 th February 2002, and discussed with the District Auditor at a meeting on 27 th February 2002

8.2 Areas where District Audit is deemed to be most helpful

- advice and guidance on good financial practice is generally helpful.
- challenges to the accounts etc. are handled professionally and effectively.
- managed audit arrangements, reliance on the work of Internal Audit, works to the benefit of the authority.

8.3 Areas which need improvement

- recent staff shortages have led to delays or failures in responding to correspondence, and delivering planned work in a timely manner.
- there is a need to avoid unwanted consultancy work being imposed under the guise of the 'corporate governance' remit; such work needs to be focused on financial aspects and not become generalised.

8.4 Other comments

- there has been no corresponding change in the timing of the audit opinion despite our improvement in closing the accounts earlier.
- we have seen less evidence than previously of the results of individual pieces of audit work covering internal financial control, so cannot readily assess its quality.
- we need to agree with the District Auditor a number of measures to assess their performance in terms of timeliness, responsiveness and quality of audit output.

9. The Future

9.1 Actions agreed with the District Auditor to improve performance during the next 12 months:

- District Audit Protocol Statements:
 - (a) covering their relationship with the Council; and
 - (b) their working arrangements with Internal Audit;
- To give an opinion on the authority's final accounts two months earlier;
- To publish the Annual Audit Letter earlier;
- To agree earlier the audit work programme and audit fee - subject to receiving guidance from the Audit Commission in a timely fashion;

9.2 Further actions will be agreed, including performance issues not covered in 9.1.

Background Papers used by the Author in writing this report

1. *Code of Audit Practice* (Audit Commission)
2. *Who Audits the Auditors* (Audit Commission)
3. *What You Can Expect from Your External Auditors* (Audit Commission)
4. *Client Satisfaction Questionnaire 2000/01* (District Audit, London and Eastern Region February 2002)