

Audit Plan

Hertfordshire County Council

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Introduction

Our principal objective as your appointed auditor is to carry out an audit which meets the Audit Commission's Code of Audit Practice.

As explained in the Commission's fees letter, we are changing our audit year so that it runs from April to March, with effect from April 2003, so that you know your fee before setting the budget. In addition, it assists the introduction of joint audit and inspection planning, following on from the Comprehensive Performance Assessment (CPA) process. Our first joint audit and inspection plan will be implemented for 2003/04 with effect from April 2003.

A transitional arrangement will therefore apply to the audit year 2002/03, the period covered by this plan:

- there will be no BVPP audit as part of this plan (the next audit of a BVPP will form part of the 2003/04 Audit)
- our work on the accounts will be unchanged
- we will still carry out risk-based work to meet our other Code objectives but where possible, on an exceptional basis, we will rely on assurance gained during the 2001/02 audit year.

The audit fee has been calculated on this reduced level of work.

Our responsibilities

To ensure our audit is relevant to Hertfordshire County Council, one of the prime requirements of the Code is that we design a programme of work to address the significant operational and financial risks you face which impact on our responsibilities.

In addition, we have to review whether you have adequate arrangements for:

- ensuring the legality of transactions with a significant financial consequence
- ensuring your financial standing is soundly based
- satisfying yourselves that your systems of internal financial control are both adequate and effective
- ensuring proper standards of financial conduct and to prevent and detect fraud and corruption
- securing economy, efficiency and effectiveness in the use of your resources.

We must also give an opinion as to whether your Accounts present fairly the financial position of the Council.

The current CPA improvement planning process has been taken into consideration in preparing this plan and determining how we should discharge our responsibilities for 2002/03.

The fee

Your audit fee has been determined on the basis of the risks we have identified, using both national risks identified by the Audit Commission and our local risk assessment. The work we have agreed with you that we should undertake to address those risks is set out overleaf.

Changes to the Plan may be required if any significant new risks emerge although this is unlikely in this transitional period. No changes will be made without first discussing and agreeing them with you.

The fees for the 2002/03 Code of Practice audit (with last year's fee also shown), will be:

	2001/02 £	2002/03 £
Accounts	80,415	81,938
Performance	88,598	50,232
Financial Aspects of Corporate Governance	96,879	45,882
Total	265,892	178,052

The reduction of 33% reflects the reduced level of work required in this transitional year. It also reflects our need to do work in two specific areas:

- the Council will be required to prepare accounts for the pooled budget schemes for which it is the host authority. We are required to audit these accounts in accordance with Audit Commission instructions
- as auditors of the pension fund, for which the County is the administering body, we are required to undertake audit testing on behalf of principal admitted bodies to the scheme in respect of FRS 17.

In addition to the Code of Practice audit we are required to certify your Government grant claims and returns, for which we must charge the actual time taken at skill related fee rates. We estimate that the fee for this work in 2002/03 will be around £59,000 plus VAT. The work itself will take place primarily in the autumn and winter of 2003 and the cost will be charged mainly in that period.

Accounts

We are required to give an opinion on your 2002/03 Accounts.

We will do this by reviewing your core processes, namely:

- the main accounting system
- the budgetary control procedures
- the final accounts closedown procedures.

We will then undertake detailed testing of the figures in the Statements of Account. We will undertake the following additional work to address the risks we have identified for 2002/03.

Risk	Action proposed
The pooled budget schemes introduced with effect from April 2002 will impact upon the production of both the Council's accounts and those of the associated health bodies. The Council will need to ensure it complies with the appropriate accounting requirements.	We will work with officers in advance of the closedown of the financial statements to ensure that the Council's accounts are prepared in accordance with correct accounting arrangements.
The accounting conventions are due to change with effect from 2002/03 which impact upon the Council's 2002/03 accounts.	We will work with officers to ensure that the Council has made appropriate arrangements to consider the impact of the changes.
SAS 610 will come into operation for the 2002/03 financial year. This will require arrangements to be made by the Council for the accounts to be re-adopted should any material amendments be made during the audit, and will require auditors to report to members on any non-trifling errors which have not been adjusted in the accounts.	We will need to agree arrangements with you to ensure compliance with SAS 610 prior to giving our opinion.

Our accounts audit does not seek either to obtain absolute assurance that the financial statements present fairly your financial position or assurance that they are accurate in every regard.

In this context we adopt a concept of materiality. We seek, in planning and conducting our audit of the accounts, to identify material errors, that is errors which might be misleading to a reader of the accounts.

An unqualified opinion may not be given on financial statements which contain material misstatements. In the course of our work we may also identify other misstatements. Unless we consider these to be minor, we will report these to officers and invite them to consider whether to amend the statements.

Where we have reported misstatements to officers and they have chosen not to adjust the financial statements we will report them to the Audit Committee. If the Committee concludes that adjustments are not necessary we will require a written representation explaining the reasons for not adjusting.

Our audit fee includes the cost of work required to give an opinion upon the Pension Fund. We are also required to undertake work on the pension fund in respect of FRS17 to provide assurances to the auditors of primary admitted bodies. The Council may choose to apportion this cost to the relevant bodies.

The Council will also be required to prepare memorandum accounts for the pooled budget scheme for which it is the host authority. These accounts are required to be produced by the end of May 2003 and audited by the end of June 2003, to enable inclusion in the accounts of the relevant bodies. This audit will be undertaken using the Audit Commission grant certification process and will be charged on the same basis as our other grant claim work.

Performance

We will review whether you have adequate arrangements to secure economy, efficiency and effectiveness in the use of your resources.

We are required to undertake a risk-based assessment of the Council’s arrangements to identify any risks where appropriate arrangements are not in place and where action

is not being taken to address these weaknesses. In reaching our conclusions on performance work, we have had regard to the recent Audit Commission CPA process which assessed the Council as excellent as well as our own risk assessment. We have concluded that although we consider there are areas for the Council to address, there is action planned by the Council upon which we could place reliance. Our conclusions are summarised in the following table:

Risk	Action proposed
<p>The pooled budget schemes shared between the Council and the eight PCTs in the area are intended to improve the efficiency of commissioning and delivery of care to residents. The first year of operation has been affected by financial health problems within the local health economy. There is a risk that the new arrangements are not delivering improvements.</p>	<p>We understand that the Joint Commissioning Body is intending to commission an external review of the efficiency of its arrangements. We do not propose to include any audit work within our 2002/03 audit plan. We will discuss the actions taken as part of our 2003/04 audit planning.</p>
<p>Our 2001/02 audit identified that the Council had scope to improve its risk management process.</p>	<p>We understand that officers are reviewing risk management arrangements. we do not therefore propose to include any audit work within our 2002/03 audit plan but will discuss the actions taken as part of our 2003/04 planning.</p>

We will follow-up our work from previous years to ensure you have implemented agreed recommendations. Particular attention will be given to the follow up of the Schools Budget review because of the concerns which we expressed regarding the limited progress made on implementing the Schools Traded Services Best Value Review in our Annual Audit Letter for 2001/02. We would expect to discuss progress with implementing recommendations arising from our 2001/02 reports in respect of Health Act Flexibilities and ACS/CSF as part of our 2003/04 audit planning.

Governance

We are required to determine whether you have adequate arrangements for:

- legality
- financial standing
- internal financial control
- standards of financial conduct and preventing and detecting fraud and corruption.

Wherever possible, we will take partial assurance from our 2001/02 review which was completed earlier this year. We will also address the following risks we have identified:

Risk	Action proposed
SAS 480 introduces requirements on the Council to ensure that it has appropriate controls in place in respect of major contracted out services where third parties are responsible for the maintenance of records on behalf of the Council.	We will review the appropriateness of the Council's arrangements.
The 2002/03 SORP requires the Council to include a Statement of Internal Financial Control within its financial statements.	We will review the arrangements the Council has made to provide the appropriate assurance.

We are also required to complete a return on Stewardship and Governance for the Audit Commission.

Work outside the Code

Where issues arise that do not directly relate to our responsibilities under the Code, we are able to undertake work which will directly address a business need. We have not been made aware of any areas, at this stage, where we can provide assistance.

The audit team

The key members of the team are:

Name	Title
Karen McConnell	District Auditor
Andrew Perrin	Audit Manager
Mark Woodall	IT Specialist
Rita Patel	Performance Specialist
Paul Hyatt	Principal Auditor
Chris Sowter	Principal Auditor

You can contact any member of the team via:

Audit Commission
 1st and 2nd Floors
 Sheffield House
 Lytton Way, off Gates Way
 Stevenage
 Herts, SG1 3HG

Telephone Number: 01438 351 570

We confirm that our audit team is all independent of the Council and your officers.

There are also no potential conflicts of interest which we need to bring to your attention.

Further details of our respective Code responsibilities

The Audit Commission's publication 'Statement of Responsibilities of Auditors and Audited Bodies' gives further information on our respective responsibilities under the Code of Audit Practice.

Status of our reports to the Council

We will provide reports, or other output as agreed, to the Council for each of the risk areas identified above. Our key milestones are set out in Appendix A.

To comply with SAS 610 Communication of audit matters to those charged with governance, we would remind you that our reports are:

- prepared for the sole use of the Council
- not to be disclosed to a third party, or quoted or referred to, without our consent (please note that our Annual Audit Letter must be made available to the public)
- written without assuming any responsibility by ourselves to any other person, including members and officers, or to any third party.

SAS 610 also requires us to report governance (including accounting) issues to those charged with governance. We understand that the Council has agreed that this responsibility will be discharged by submitting our final governance and accounts reports to the Audit Committee.

Planned outputs

Planned output	Start date	Draft due date	Key contacts
Summary of progress with the implementation of previous studies	February	31 May	Andy Perrin
Interim / Governance memorandum	February	15 May	Andy Perrin
Final accounts memorandum	August	31 October	Andy Perrin
Annual audit letter	N/A	31 October	Andy Perrin

All dates relate to 2003