

Audit & Inspection Plan

Hertfordshire County Council

INSIDE THIS PLAN

PAGES 2 - 3

- Introduction
- Our responsibilities
- The fee
- Work relating to your improvement agenda

PAGES 3 - 6

- Assessment
- Assurance
- Work outside the code
- The team
- Status of our reports to the Council

PAGES 7 - 8

Appendix 1

- The Audit Commission's requirements in respect of independence and objectivity

Reference:	0
Date:	May 2003

Introduction

This plan sets out the Audit and Inspection work that we propose to undertake at Hertfordshire County Council in 2003/04. The plan has been drawn up from our improvement planning meetings with you and our risk based approach to audit planning. The Improvement section of this plan reflects the status of the Council as an ‘Excellent’ Authority.

To help you receive a tailored, seamless service co-ordinated with the work of other inspectorates, the Audit Commission has appointed Brian Tytherleigh as your Relationship Manager from March 2003. This appointment is separate from the role of the statutory auditor who remains Karen McConnell.

Our responsibilities

The Audit and inspection process has to comply with the statutory requirements governing it, and in particular:

- the Audit Commission Act 1998 and the Code of Audit Practice (the Code), with regard to audit
- the Local Government Act 1999 with regard to Best Value inspection and audit.

Our approach is intended to ensure that the totality of the work required to fulfil the two sets of requirements is carried out in an integrated way.

We have also worked with you on the improvement planning process to ensure that the work of the Audit Commission and other inspectors is co-ordinated and targeted at your key areas for improvement.

For this plan we have divided our responsibilities into the following categories

- Improvement
- Assessment
- Assurance.

We have done this to help clarify the purpose of the different aspects of our responsibilities.

The Fee

The fee for the combined external audit and inspection for 2003/2004 is £246,566. When combined with the audit fee of £178,052 for last year the total fee for 2002/04 is within the scales published by the Audit Commission in “Local government, police and probation – Work programmes and audit/inspection fee scales 2002/2004.” The fee is further analysed in the table below with the 2001/2002 fee also included for comparative purposes.

	2001/02 £	2002/03 £	2003/04 £
Assurance			
Accounts	80,415	81,938	85,255
Financial Aspects of Corporate Governance	88,598	50,232	91,668
Performance and best value	96,879	45,882	53,783
Inspection	61,000	61,000	Na
Improvement and Assessment	Na	Na	15,860
Total fee	326,892	239,052	246,566

You should also note that the Improvement and Assessment fee included in the above reflects only the amount to be paid by the Council. This is 50% of the full fee as the remaining 50% is met by grant from the Office of the Deputy Prime Minister.

The Assurance element of the fee has been determined on the basis of the audit risks we have identified and the work we have agreed with you to gain assurance in respect of those risks.

In addition to the above fee, which incorporates the audit of the Pension Fund, there will be an estimated £70,000 fee for the audit of government grant claims dependent on the number of claims requiring certification.

We will continue to update our assessment of risks and this plan throughout the year. Brian Tytherleigh will also ensure there is a continuing dialogue with the other inspectorates.

Changes to the Plan may be required if:

- significant new risks emerge
- any additional duties are required of us by the Audit Commission
- changes are agreed with the other inspectorates.

No changes will be made without first discussing and agreeing them with you.

Work relating to your improvement agenda

Through our improvement planning round table meeting with you and the other inspectors we have reached a shared understanding of your top priorities for improvement. As the Council has attained the status of an 'Excellent' Authority following CPA we do not propose to undertake any direct activity linked to your improvement priorities, other than the work described around partnerships described in the 'Governance' section on page 4. We will however, as part of our qualitative assessment of your Best Value Performance Plan, liaise with you to monitor your progress in advancing the improvement priorities set out below and will comment on progress:

- widening and deepening the Herts Connect customer gateway
- improving performance management arrangements including target setting and making better use of performance information to monitor the delivery of promises and keep the public informed
- improving decision making including local partnerships and connections between Council decisions and those of the local strategic partnerships at countywide and district level
- developing the Council as a learning organisation, including learning from public feedback and the scrutiny process
- tackling recruitment and retention issues including ensuring the Council's property portfolio meets its needs.

We will also follow-up our work from previous years to check progress on the implementation of agreed recommendations.

OUTPUTS

Follow up summary

Due: November 2003

Assessment

Most of our assessment work has already been covered in the previous section showing how our work is linked to your improvement agenda. This section sets out additional assessment work which is either prescribed or necessary to meet our statutory obligations.

Comprehensive Performance Assessment

The Audit Commission is currently devising and consulting upon its methodology for re-scoring the Comprehensive Performance Assessment. It is unlikely that 'Excellent' authorities will be affected in the near future and as such there is no time allowed in the plan for this. We will however discuss with you any implications for the Authority as more details are announced by the Audit Commission.

Assurance

The accounts

We are required to give an opinion on your Annual Accounts. We will do this by reviewing your core processes, namely the:

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

We will then undertake detailed testing of the figures in the Statement of Accounts. We will undertake the following additional work to address the risks we have identified for 2003/04.

Risk	Action proposed
Preparation for the Whole of Government Accounts will require earlier production of your Statement of Accounts.	We will review your closing procedures to determine the progress still required.
Partnerships with local health bodies are occasionally difficult and this may impact on the ability of the Council to produce timely memorandum accounts for the pooled budget schemes for which it is host.	We will work with all parties involved in the pooled budgets arrangements to help ensure that accounts are prepared on a timely basis.

It should be noted that 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 in your financial statements. Material errors are those which might be misleading to a reader of the financial statements.

An unqualified opinion may not be given on financial statements which contain material misstatements. In the course of our work we may also identify non material misstatements which we will report to officers for amendment, unless they are clearly trifling.

Where these non trifling misstatements in the accounts have not been adjusted by officers we will report them to the Council, so there is an opportunity for them to be amended before we issue an opinion.

If the Council concludes that adjustments are not necessary we will require a written representation explaining the reasons for not adjusting.

We will also report in the Final Accounts Memorandum any misstatements that have been adjusted where we feel that bringing them to the attention of the Council will assist them in fulfilling their duties particularly in relation to internal financial control.

Before the financial statements are approved by the Council, we will communicate any findings that have arisen from our audit work to that date and which are relevant to the financial statements.

Governance

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

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

As well as reviewing the overall arrangements we will also address the following risks we have identified for 2003/04.

Risk	Action proposed
The Council is working in partnership with other councils in Hertfordshire to address national targets around Implementing Electronic Governance. Robust governance will be needed to ensure each of the parties involved are clear on the objectives and responsibilities of each partner.	We will tailor our Information Governance audit guide to address the risk identified.
In October 2002 the Council let a contract for highways works to a consortium of two private contractors. One of the contractors is now experiencing financial difficulties and the Council is assessing the risks that may arise and potential contingency arrangements should the situation deteriorate.	We will monitor developments and will seek assurances that adequate governance arrangements are put in place should it be necessary to adopt alternative arrangements for discharging the contract.

Risk	Action proposed
The Council is currently in the final stages of acquiring new financial systems. The supplier will need to establish effective working relationships with the Council's existing financial services supplier.	We will undertake work to ensure we have a clear understanding of the respective responsibilities of each supplier and the inter relationship between them to assess the impact on the Council's arrangements to ensure robust systems of internal financial control.
The Council places significant reliance on Internal Audit as a cornerstone of its internal financial control framework.	We will review the scope and quality of the work of Internal Audit against CIPFA standards and the changing needs of the Council.

We are also required to complete annual returns on Stewardship and Governance for the Audit Commission.

Best Value

We will undertake a review of your Best Value Performance Plan (BVPP) to ensure it meets the statutory requirement in respect of its content. We will issue an opinion on this plan before the end of December 2003. We will also review and comment on your:

- systems for collecting performance information and in particular BVPIs
- arrangements for performance management
- performance trends.

As part of this work we will also undertake a qualitative review of the BVPP with specific consideration as to how it reflects your progress in moving forward your improvement agenda.

Performance

As with our Improvement work, our approach to our Performance work other than Best Value will be one of liaison and maintaining a watching brief. Where we do identify performance risks during the course of our work we will report these to you and place reliance on your own arrangements to mitigate or address these.

The Audit Commission issues auditors with a National Risk Assessment Tool (NRAT) each year which prompts consideration of local arrangements to mitigate generic risks that are applicable to all councils. We will report to you any risks that we identify through our work on these areas which we consider warrant your further attention. Some of the areas considered as part of the 2004 NRAT are:

- education issues
- social services issues
- risk management
- scrutiny of health
- partnerships
- risk management.

OUTPUTS

Risks identified through the National Risk Assessment Tool

Due: May 2003

Core Process Review

Due: June 2003

Information Governance Review

Due: September 2003

Opinion on the Statement of Accounts and Pension Fund

Due: December 2003

Final Accounts Memorandum

Due: December 2003

BVPP Report and Opinion

Due: By December 2003

Financial Aspects of Corporate Governance

Due: June 2003

The above table shows the outputs due in 2003. We will update this for 2004 as the year progresses.

Work outside the Code

Currently we are not planning to undertake any work outside the Code. Should you consider there are areas where you would like us to do additional work we will provide you with a quotation which must be considered in accordance with your Financial Regulations.

Staff involved in any additional audit or inspection work you commission, will depend upon the skills required and could be provided from either audit or performance staff.

The team

Name	Title
Brian Tytherleigh	Relationship Manager
Karen McConnell	District Auditor
Andy Perrin	Audit Manager
Paul Hyatt	Principal Auditor
Nigel Byatt	IT Specialist
David Fleming	IT Specialist
Craig Watts	Performance Specialist

Under the requirements of the Statement of Auditing Standards (SAS) 610, we are not aware of any relationships that may bear on the independence and objectivity of the team which are required to be disclosed.

In relation to the audit of your financial statements we will comply with the Commission’s requirements in respect of independence and objectivity as set out at Appendix 2.

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

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to non-Executive Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

The Audit Commission's requirements in respect of Independence and Objectivity

The following currently relates to auditors. The Commission is currently considering how this will be extended to cover all staff.

Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with Statements of Auditing Standards (SAS) when auditing the financial statements. SAS 610.3 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.

The SAS defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In the case of XYZ Authority it has been agreed that the appropriate addressee of communications from the auditor to those charged with governance is the audit committee [or equivalent]. The auditor reserves the right, however, to communicate directly with the board/authority on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest;
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a de minimis amount (currently the higher of £25,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the de minimis amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director;

Audit staff are expected not to accept appointments as lay school inspectors;

Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;

Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;

Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;

Auditors are expected to comply with the Commission's policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);

Audit suppliers are required to obtain the Commission's written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body; and

The Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.