

# Audit and Inspection Plan

## Oldham Metropolitan Borough Council

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## Introduction

This plan sets out the audit work that we propose to undertake in 2005/06. The plan has been drawn up from our risk-based approach to audit planning and reflects:

- the impact of the new Code of Audit Practice which comes into effect in April 2005;
- your local risks and improvement priorities;
- current national risks relevant to your local circumstances; and
- the impact of International Standards on Auditing (UK and Ireland) (ISAs).

Your relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

## Our responsibilities

In carrying out our audit and inspection duties we have to comply with the statutory requirements governing them, and in particular:

- the Audit Commission Act 1998 and the Code of Audit Practice (the Code) with regard to audit; and
- the Local Government Act 1999 with regard to best value inspection and audit.

The Code has been revised with effect from 1 April 2005. The key changes include:

- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
- a clearer focus on overall financial and performance management arrangements.

Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- ensuring compliance with the general duty of best value, where applicable;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the audited body's affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual Statement on Internal Control (SIC).

Further details for the new Code are set out in Appendix 1.

## The fee

The total fee estimate for the audit and inspection work planned for 2005/06 is £351,500 (2004/05: £377,000). The fee is based on the Audit Commission's fee guidance contained within its operational plan and reflects the Council's comprehensive performance assessment (CPA) overall score of 'weak'.

Further details are provided in Appendix 2 including the assumptions made when determining the fee.

Changes to the plan and the fee may be necessary if our risk assessment changes during the course of the audit. We will formally advise you of any changes if this is the case.

## Summary of key audit and inspection risks

This section summarises our assessment and the planned response to the key audit risks which may have an impact on our objectives to provide:

- an opinion on your financial statements;
- a conclusion on your use of resources;
- a scored judgment on the use of resources to feed into the CPA process; and
- a report on the Council's best value performance plan (BVPP).

Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including Internal Audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.

The expected outputs from this work are outlined in Appendix 3.

## CPA and inspections

The Council was classified as a weak council in December 2004 following a Comprehensive Performance Assessment Inspection. However, applying the principles of strategic regulation and recognising the strengths and weaknesses in Oldham's performance, we are not proposing to carry out any inspection activity other than a review of progress on your improvement priorities as reported in the CPA scorecard.

### SUMMARY OF INSPECTION ACTIVITY

Inspection activity	Reason/impact
Direction of travel statement.	To be included in CPA scorecard and to provide focus for continuous improvement.

## Use of resources

The new Code of Audit Practice requires us to issue a conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources. In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements.

Using our cumulative knowledge and experience, including the results of previous work and other regulators' work, we have identified the following areas of audit risk to be addressed.

SUMMARY OF USE OF RESOURCES AUDIT RISKS	
Audit risk	Response
<p>The Council continues to focus on implementing its integrated performance management arrangements. These arrangements are still being embedded across the Authority. There is a risk that the Council's performance management framework will not consistently support the delivery of its corporate priorities.</p>	<p>We will review the Council's performance management arrangements. In particular, we will:</p> <ul style="list-style-type: none"> <li>• review arrangements at the corporate centre</li> <li>• establish the extent to which the arrangements have been implemented in service departments</li> <li>• establish the links with the LSP's performance management framework</li> <li>• review the VFM framework, including a comparison with best practice</li> </ul>
<p>The Council has an ambitious and challenging improvement agenda. It is important that it is able to manage its financial resources in a way which supports its improvement priorities in the medium and longer term. There is a risk that scarce resources are not effectively targeted on Council priorities.</p>	<p>We will review the Council's financial management arrangements. This work will include:</p> <ul style="list-style-type: none"> <li>• reviewing the Council's budget setting and budget monitoring processes</li> <li>• evaluating the Council's medium term financial plan (MTFP)</li> <li>• establishing the extent of the linkages between corporate, departmental and service priorities and plans, and the Council's MTFP</li> <li>• evaluating the Council's progress in developing effective financial management arrangements for both officers and members</li> <li>• evaluating the Council's financial reporting arrangements</li> <li>• evaluating how the Council demonstrates VFM and providing shared learning and facilitation opportunities to identify and use best practice in this area.</li> </ul>
<p>The Council has recognised improvement priorities in building the capacity of its workforce. However, there remains a risk that it does not have sufficient capacity within its own workforce, particularly in relation to its middle managers, to deliver on its ambitious plans for the future.</p>	<p>We will review the Council's plans and arrangements for developing its workforce. Our work will:</p> <ul style="list-style-type: none"> <li>• review progress in delivering the People Strategy</li> <li>• evaluate the robustness of the Council's plans to deliver its strategy</li> <li>• establish the extent to which the Council maximises the opportunities for working in partnership to deliver its People Strategy</li> <li>• consider the extent to which the capacity of middle managers is being addressed</li> <li>• use sickness absence as a tracer to test the effectiveness of the arrangements.</li> </ul>

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<p>The Council has put arrangements in place to improve the commissioning and monitoring of children’s placements but there remains a risk that the Council is not maximising the potential benefits. Current costs of delivering placements are high and there is the potential to provide better quality and more efficient services across Greater Manchester.</p>	<p>We will work with a number of councils and potentially other bodies to help deliver improved outcomes and better use of resources for children’s placements through:</p> <ul style="list-style-type: none"> <li>• assessing whether the current arrangements represent value for money</li> <li>• providing shared learning and facilitation opportunities to enable Oldham to use best practice in this area</li> <li>• identifying the key barriers and possible solutions to achieving better outcomes and better use of resources</li> <li>• addressing issues of improved financial standing and performance management.</li> </ul>
<p>Tackling health inequalities is an important priority across Greater Manchester and its successful delivery relies on strong partnership working. There is a risk that current arrangements are not effective and efficient in delivering improvements. There is scope to drill down and assess how Oldham works with others to deliver outcomes and shift resources to areas of greatest need</p>	<p>Working across health and local government providers we will challenge current approaches to healthier communities and the impact that partnerships are making. This work will include:</p> <ul style="list-style-type: none"> <li>• providing shared learning and facilitation opportunities to identify and use best practice in this area</li> <li>• identifying the key barriers to achieving better outcomes, appropriate and managed budgets and better use of resources</li> <li>• identifying relationships between needs and commissioning strategies.</li> </ul>
<p>There is a risk that the Council will not achieve the ICT targets set out by the e-government agenda or be able to deliver change effectively through the ICT strategy.</p>	<p>We will review the IT strategy and the developments proposed by the Council for delivering change.</p>
<p>Best Value Performance Plan and Performance Indicators.</p>	<p>We will undertake the audit of the Plan and Performance Indicators in line with statutory guidance.</p>

## Financial statements

We will carry out our audit of the 2005/06 financial statements and have regard to the newly introduced ISAs.

We are also required to review whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the statement is misleading or inconsistent with our knowledge of the Authority.

On the basis of our preliminary work to date we have identified the following audit risks.

SUMMARY OF OPINION RISKS	
Opinion risks	Response
<p>Earlier closedown and increased used of estimates in response to the Whole of Government Accounts timetable.</p>	<p>We will assess the robustness of the closedown process and use of accounting estimates.</p>

<p>Changes required by the 2004 and 2005 Statements of Recommended Practice (SORP), and other changes including group accounts, FRS17 pensions, BVACOP, capital and charities.</p>	<p>We will examine the statements against the requirements of the 2004 SORP and other requirements.</p>
<p>Preparation of the Statement of Internal Control (SIC)</p>	<p>We will examine the robustness of the arrangements for preparing the SIC and the evidenced assurances available to support the disclosures.</p>
<p>Financial management, including single status</p>	<p>We will assess the adequacy of the arrangements put in place to address and manage the significant risks and incorporate this into our overall work on financial management.</p>
<p>IT arrangements</p>	<p>We will continue to monitor ongoing ICT developments, e.g. new computer software for the main fin systems, and consider the impact on our opinion audit.</p>
<p>Housing Markets Renewal is a major funding stream and is a new opportunity for the Council, in partnership with Rochdale MBC, to tackle the problem of a decline in housing demand. Because it is meant to be an innovative project, there is a risk that:</p> <ul style="list-style-type: none"> <li>• proper governance arrangements may not be applied</li> <li>• funds will be applied inappropriately.</li> </ul>	<p>To complement the work of the Audit Commission's Housing Markets Team, we will review the governance arrangements in place for the partnership in general and for the Council in particular. Our work will focus on:</p> <ul style="list-style-type: none"> <li>• accounting and financial issues, (including possible cross-cutting financial issues)</li> <li>• ensuring that the accountable body's systems are robust and fit-for-purpose in terms of supporting the pathfinder</li> <li>• considering the links into the corporate risk register (what is the reputational or financial risk to the Council posed by the pathfinder and its relationship with it?)</li> <li>• the accountable body's services to the pathfinder e.g. procurement and employment practices, decision-making processes.</li> </ul>
<p>The Council is entering into PFI schemes for Sheltered Housing and Schools</p>	<p>We will review the legal and accounting arrangements as the schemes progress.</p>
<p>The Audit Commission has identified other significant business risks arising from the national local government agenda. These include:</p> <ul style="list-style-type: none"> <li>• Children's Trusts and pooled budgets</li> <li>• Implications of the Bichard Inquiry</li> <li>• The consolidated EC procurement directive</li> <li>• Money laundering</li> <li>• Implementation of the requirements of the Freedom of Information Act, the Civil Contingencies Act and the Race Relations Act 1976 (Statutory Duties) Order 2001.</li> </ul>	<p>We will assess the arrangements in place in each of the areas identified.</p>

However, KPMG have yet to undertake the audit of the 2004/05 financial statements and our 2005/06 financial statements audit planning will continue as the year progresses. This will take account of:

- the 2004/05 opinion audit
- the 2005 SORP
- our documentation and initial testing of material systems, and
- our assessment of the 2005/06 closedown arrangements.

When we have finalised our risk assessment in respect of your financial statements, we will update our plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

## Grant claim certification

We will certify the Council's grant claims.

- Claims for £50,000 or below will not be subject to certification.
- Claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit.
- Claims over £100,000 have an audit 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 audit approach for these claims.

## Voluntary improvement work

There is no additional work agreed for the 2005/06 plan at this stage.

## The team

Name	Title
Clive Portman	Relationship Manager and Appointed Auditor
Eddie Drozdziak	Audit Manager
Sam Eason	Area Performance Lead
Simon Livesey	Audit Team Leader
Karen Claber	Principal auditor

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

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 4.

## Future audit plans

As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. A key area identified is cross-cutting work on Integrated Social Transport Needs. We will be scoping this work in 2005/06 and the outcomes are likely to be reported as part of our 2006/07 audit. The work will focus on:

- identifying inconsistencies in the provision of social needs transport across localities
- reviewing how Oldham contributes to the delivery of special and social needs transport
- highlighting the scope for cross-sector efficiency savings, and
- raising awareness of the key risks in the delivery of this work to help ensure a strong and sustained commitment from all stakeholders

We will discuss these in more detail as the audit year progresses.

## 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 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.*

*ISA 260 ('Communication of audit matters to those charged with governance') requires us to report relevant matters relating the audit to those charged with governance. For the Council, we have previously agreed that this responsibility will be discharged by reporting relevant matters to Finance and Resources Overview and Scrutiny Commission.*

## The new Code of Audit Practice

### The Audit Commission's objectives in revising the Code

The Commission's objectives in revising the Code are to achieve the following key outcomes:

- a more streamlined audit targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, with a focus on audited bodies' corporate performance and financial management arrangements; and
- better and clearer reporting of the results of audits.

The new Code has been developed on the basis of the Commission's model of public audit, which defines auditors' responsibilities in relation to:

- the financial statements of audited bodies; and
- audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources.

### The main changes being made through the introduction of the new Code

The main changes being introduced through the new Code are:

- auditors' three responsibilities under the old Code, in relation to the financial aspects of corporate governance, the accounts and performance management, will be replaced by two responsibilities in relation to the accounts and use of resources, thereby mirroring their statutory responsibilities under the Audit Commission Act 1998. Auditors' work in relation to the financial aspects of corporate governance will in future largely be covered by their work on the accounts – reflecting recent developments in auditing standards – with audit work in relation to financial standing carried out as part of the work in relation to the use of resources;
- a clear focus, in auditors' work on audited bodies' arrangements for the use of resources, on overall financial and performance management arrangements. This work supports a new requirement for an explicit annual conclusion by the auditor in relation to audited bodies' arrangements for securing value for money in the use of their resources;
- a more explicit focus on improvement (through the risk assessment process) and on the need for auditors to have regard to the risks arising from audited bodies' involvement in partnerships and joint working arrangements and, where appropriate, to 'follow the public pound' into and across such partnerships;
- an emphasis on clearer, more timely reporting based on explicit conclusions and recommendations; and
- a new style narrative audit report to meet statutory and professional requirements.

## Audit and inspection fee

Audit area	Plan 2004/05	Plan 2005/06
Accounts	*	166,500
Use of resources	*	169,500
<b>Total audit fee</b>	<b>305,000</b>	<b>336,000</b>
Inspection	72,000	15,500
<b>Total audit and inspection fee</b>	<b>377,000</b>	<b>351,500</b>
Grant claim certification		
Voluntary improvement work	Nil	Nil

\* Comparative information is not available for 2004/05 due to the change in the Code of Audit Practice which has reduced the three areas under the old Code to two areas.

The total audit and inspection fee compared to the indicative fee banding equates to 1% below the mid-point.

The fee (plus VAT) will be charged in 12 equal instalments from April 2005 to March 2006.

## Assumptions

In setting the fee we have assumed:

- you will inform us of significant developments impacting on our audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all material systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing (ISA);
- officers will provide good quality working papers and records to support the accounts;
- officers will provide requested information within agreed timescales; and
- officers will provide prompt responses to draft reports
- a reasonable level of challenge work.

Where these requirements are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.

Changes to the plan will be agreed with you. These may be required if:

- new risks emerge
- additional work is required of us by the Audit Commission or other regulators; and
- there is substantial challenge or investigative work.

## Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Start date	Draft due date	Key contact
Audit plan*	1 February 2005	31 March 2005	Audit Manager
Interim audit memorandum	January 2006	June 2006	Audit Manager
BVPP opinion and PI audit memorandum	June 2005	October 2005	Audit Manager
Report to those charged with governance (ISA 260)	August 2006	September 2006	Audit Manager
Final accounts memorandum	1 July 2006	October 2006	Audit Manager
Local performance work	TBA	TBA	Performance Lead
Inspections	TBA	TBA	Performance Lead
Use of resources judgement	June 2005	31 October 2005	Audit Manager Performance Lead
VFM opinion	June 2005	30 September 2006	Audit Manager Performance Lead
Annual audit and inspection letter (including direction of travel assessment)	October 2006	16 December 2006	Relationship Manager

\* To be revisited during the year to reflect outcome of 2004/05 final visit and 2005/06 interim visit.

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

Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISAs when auditing the financial statements. ISA 260 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. Ethical standard 1 also places requirements on auditors in relation to integrity, objectivity and independence.

The ISA 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 Board 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; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

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.