



Huntingdonshire District Council

External Audit Plan 2008-09

May 2008

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Appendix A Independence and objectivity

1 Introduction

Background

- 1.1 This plan sets out the audit work to be undertaken for the 2008-09 financial year for Huntingdonshire District Council (the Council). The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Area Assessment ('CAA'), which from 1 April 2008 replaces Comprehensive Performance Assessment ('CPA'). This plan reflects:
- Our Code of Audit Practice responsibilities;
 - Audit work specified by the Audit Commission for 2008-09;
 - Current national risks relevant to the Council's local circumstances; and
 - Our initial assessment of the Council's local risks and improvement priorities, based on meetings with senior officers, internal audit and review of key Council documents.
- 1.2 During 2008-09, the role of the Relationship Manager will be replaced by the post of a 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. Our work as auditors feeds into this process via the use of resources assessment and other risk based work as well as appropriate dialogue with the CAAL.
- 1.3 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.

Our responsibilities

- 1.4 We comply with the statutory requirements governing our audit work, in particular, the Audit Commission Act 1998, the Local Government Act 1999 and the Code of Audit Practice (the Code).
- 1.5 The Code defines auditors' responsibilities in relation to:

- Audited bodies' arrangements for securing value for money in their use of resources (section two); and
 - The financial statements, including the annual governance statement (section three).
- 1.6 We comply with the statutory requirements governing audit work, in particular:
- The Audit Commission Act 1998;
 - The Code of Audit Practice; and
 - Auditing standards
- 1.7 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.
- 1.8 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.

2 Use of Resources Audit

Introduction and Approach

- 2.1 The Code of Audit Practice ('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, having regard to a standard set of relevant criteria issued by the Audit Commission. This is known as the value for money conclusion. In meeting this responsibility we will review evidence that is relevant to the Councils' corporate performance management and financial management arrangements, and follow up work from previous years to assess progress in implementing agreed recommendations.
- 2.2 In accordance with the Code of Audit Practice, we are required to complete a number of pieces of work to support our Value for Money conclusion. These are set out in the following paragraphs.

Use of Resources Assessment

- 2.3 This will be the first year of a new use of resources assessment, which will form an element of the CAA framework. The Audit Commission has specified that auditors will complete a use of resources assessment for 2008-09.
- 2.4 There have been significant changes to the criteria for 2008-09. The assessment will emphasise the importance of improved value for money outcomes for local people. It is based on wider considerations other than cost and performance. It will also look at how commissioning and procurement are improving efficiency and how non-financial resources are used to support value for money.
- 2.5 The overall judgement will be based upon the evidence from three themes scored by the auditor and will give particular emphasis to the value for money outcomes being achieved. The assessment criteria below are based on current proposals:

Table One - Proposed Use of resources assessment criteria

Managing money	<ul style="list-style-type: none"> • Financial health • Financial planning • Understanding costs • Financial monitoring and forecasting • Financial reporting
Managing the business	<ul style="list-style-type: none"> • Leadership • Performance management • Commissioning and procuring services • Risk management and internal control • Ethical behaviour and counter-fraud
Managing other resources	<ul style="list-style-type: none"> • Natural resources • Physical assets • People and IT

- 2.6 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations for improvement. The scores will be reported to the Audit Commission and used as the basis for its overall use of resources judgement for the purposes of CAA.
- 2.7 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 these risks and plan our work accordingly.
- 2.8 Our initial risk assessment for use of resources work is shown in Table Two overleaf. This will be updated through our continuous planning process as the year progresses.

Risk Assessment and Audit Response

Table Two Local Risk Based Work to Support the 2008-09 Value for Money Conclusion

Risk	Proposed audit response
The Council is proposing to enter into a shared services arrangement for various functions including financial ledgers and payroll with four of its neighbouring authorities. As part of this, it is planned that the Council will change its financial ledgers in December 2008.	Liaise with, and monitor the progress of, the Council with proposals up to the point of implementation of the shared services. Any move to a shared service will result in additional computer audit work being required to ensure that there has been no loss or degradation of data at the point of transfer of Financial Ledgers.
Inadequate workforce planning and capacity can impact on delivery of ambitions and priorities, further continuous improvement and strategic planning.	Workforce planning will be covered by the "Managing other resources" theme in the Use of Resources assessment.
All types of public body will need to be preparing for and responding to the sustainability agenda.	The sustainability development agenda will be covered by the "Managing other resources" theme in the Use of Resources assessment.

Data Quality

2.9 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:

- Stage 1 – review of corporate arrangements;
- Stage 2 – analytical review; and
- Stage 3 – risk-based data quality spot-checks of a sample of performance indicators.

2.10 Work will be focused on the overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data, including data from partners where relevant.

2.11 Our fee estimate reflects an assessment of risk in relation to the Council's data quality arrangements and performance indicators. This risk assessment may change depending on our assessment of your overall corporate arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Other mandated work

2.12 The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998) and will be considered as part of our Use of Resources assessment.

3 Financial Statements Audit

Introduction and Approach

- 3.1 The Council's financial statements are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:
- Ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
 - Maintain proper accounting records; and
 - Prepare financial statements which present fairly the financial position of the Council and its expenditure and income in accordance with the Statement of Recommended of Practice.
- 3.2 The auditor is required to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). We are required to give an opinion as to:
- Whether they present fairly the financial position of the Council and its expenditure and income for the year in question;
 - Whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
 - Whether the Annual Governance Statement ('AGS') 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.
- 3.3 In order to gain sufficient assurance to support our opinion on the financial statements, we will carry out a review of:
- The Council's arrangements for the preparation of its financial statements, the AGS and the Whole of Government Accounts ('WGA') consolidation pack. The 2008-09 WGA consolidated pack will need to be produced in accordance with the International Financial Reporting Standards (IFRS).

- Internal audit, to determine the extent of reliance we can place on their work for the purposes of our audit;
 - The internal control framework for key financial systems;
 - The materiality of balances and transactions impacting on the financial statements; and
 - The key risks relevant to the preparation and audit of the financial statements.
- 3.4 The adoption of International Financial Reporting Standards ('IFRS') within the public sector has been deferred until 2009/10, but local government remains on target to implement IFRS in 2010/11.

Risk Assessment and Audit Response

- 3.5 We are required to issue an opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2009, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 ('SoRP'). We will carry out our audit of the accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board ('APB').
- 3.6 Our audit will be risk based. We have not yet carried out a detailed risk assessment for our audit of the 2008-09 accounts, as we have yet to undertake the audit of the 2007-08 accounts. Our high level risk assessment is summarised in Table Three below. We will keep our risk assessment under review, and prepare our audit strategy document in June 2009 to take account of our work in continually assessing risks to the audit of the financial statements.

Table Three: 2008-09 Financial Statements Audit □ Initial Risk Assessment

Area	Audit Response
Significant redevelopment of Pathfinder House and the Council depot is on-going with the projected total cost estimated at £23m. The project is planned to complete in 2008/9.	We will continue to monitor progress of the development through review of the Council's capital programme update reports and our quarterly liaison meetings with the Council.

Area	Audit Response
<p>Proposals have been made to review the management of five leisure centres which are currently managed under a dual use agreement. The Council currently acts as the accountable body for these Centres.</p> <p>Constitutional reform of the Centres is due to complete in 2008/9 and may result in the Centres being incorporated fully into the Council's accounts. Any incorporation/change to management arrangements will result in additional disclosures being required to be made in the accounts.</p>	<p>We will liaise with the Council throughout this process and provide advice on the necessary accounting treatment as required.</p>

4 Grant Claims and Returns

Introduction and Approach

- 4.1 In addition to our Code responsibilities, we are required by the Audit Commission to certify the Council's grant claims and returns, in accordance with the following arrangements:
- Claims and returns below £100,000 are not subject to certification;
 - Claims and returns between £100,000 and £500,000 are subject to a reduced, 'light -touch' certification; and
 - Claims and returns over £500,000 will be subject to a certification approach determined by the auditor's assessment of the control environment and management preparation of claims.
- 4.2 Robust arrangements for preparing, albeit a small number of claims and returns are important to mitigate a number of risks, including:
- Increased costs to the Council, both in terms of incurring additional fees and also officer time in dealing with issues arising from certification work;
 - Delayed payment of grant or financial penalty from grant paying departments, due to delays in claim certification;
 - Risk of unexpected grant repayment due to amendments and qualifications; and
 - Potential adverse impact on external assessment of the Council's governance and internal control arrangements.
- 4.3 To assist the Council in ensuring that arrangements for preparing 2008-09 claims and returns are robust, we will:
- Follow up on any issues raised during our 2007-08 certification work in relation to the Council's preparation of grants;
 - Agree the timetable and estimated budget in advance of carrying out our certification work; and
 - Prepare a grants report, summarising issues from the 2008-09 audit, to facilitate continuous improvement.

5 Audit Team and working together

The Team

5.1 The key members of the audit team for 2008-09 are shown in Table Four.

Table Four: Key team members

Name	Responsibilities
Paul Winrow Engagement Lead paul.winrow@gtuk.com 07787 152884	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 the Corporate Governance Panel.
Liz Sanford Audit Manager liz.sanford@gtuk.com	Manages and co-ordinates the different elements of the audit work, including certification grant claim and returns. Key point of contact for the Head of Financial Services and the accountancy team.
Thomas Foster Performance Manager thomas.foster@gtuk.com	Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment, and data quality work.
Bob Jacobs Information Technology Audit Manager bob.s.jacobs@gtuk.com	Responsible for the delivery of the Information Technology aspects of our audit.

5.2 The core audit team will be supported by other specialist and support staff, as necessary, during the course of the audit, including:

- Governance and Risk Assurance specialists; and
- Technical Accounting specialists.

Independence

- 5.3 We are not aware of any relationships that may affect the independence and objectivity of the audit team, which we are required by auditing and ethical standards to communicate to you. We comply with the ethical standards issued by the APB and with the Audit Commission's requirements in respect of independence and objectivity as summarised at Appendix A.

Audit Outputs

- 5.4 The table below summarises the audit reports we plan to issue in respect of the 2008-09 audit plan.

Table Five: Summary of Planned Outputs

Planned output	Indicative Date
2008-09 Audit plan	April 2008
2008-09 Audit Strategy Document to those charged with governance (which will cover accounts)	June 2009
2008-09 Annual report to those charged with governance ('ISA 260' report which will cover accounts and value for money conclusion)	September 2009
Data quality audit reporting	November 2009
Use of resources – 2008-09 reporting of scores and recommendations	November 2009
Annual audit letter	November 2009
2008-09 Grant Claims Report - if required	January 2010

- 5.5 Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies, issued by the Audit Commission. Reports are addressed to members or officers and 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.

Quality of service

- 5.6 We are committed to achieving and maintaining the highest quality of service. If you have any comments on our service, please contact Paul Winrow, in the first instance. Alternatively you may wish to contact Grant Thornton's National Head of Government Audit, Richard Tremeer.
- 5.7 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.

Meetings

5.8 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

5.9 The meetings will be organised by Grant Thornton and our proposal for this is as described in the table below.

Table Six: Proposed meetings

Council officers	Audit team	Timing	Purpose
Director of Commerce and Technology, Head of Financial Services	Engagement Lead (EL) and Audit Manager (AM).	Quarterly: To be arranged	General update plus audit plan, accounts and VFM progress.
Head of Internal Audit	EL and AM	At least every six months	Update on audit progress and issues.
Accountancy Manager	EL and AM	At least every six months	Update on financial statement audit issues.
Corporate Governance Panel	EL and AM, with Performance Lead and IT Audit Manager as appropriate	In accordance with Corporate Governance Panel timetable	Formal reporting of: Audit Plan Annual governance report Annual audit letter Other issues and reports as appropriate

6 Audit Fee

The fee

- 6.1 We are committed to targeting work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit 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.
- 6.2 Our 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;
 - Meetings with Council officers;
 - Liaison with internal audit; and
 - The results of other review agencies' work where relevant.
- 6.3 The structure of scale fees is 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.
- 6.4 The Audit Commission has undertaken a national consultation exercise on their proposed work programme and fees for 2008-09. This follows the consultation exercise on the proposed new approach to auditors' use of resources assessments and the introduction of Comprehensive Area Assessment.
- 6.5 Our planned fee for the 2008-09 Code audit work is £102,847 this compares with £97,080 for 2007-08. It should be noted that the total fee has been calculated on the basis that all five leisure centres will require full code audits, whereas only four were subject to this in 2007-08.
- 6.6 A breakdown of the audit and inspection fee is provided in Table Seven overleaf.

Table Seven: Audit Fee

Area	Plan 2008-09 £	Plan 2007-08 £
Financial statements	40,147	39,360
Use of Resources	34,830	34,400
Whole of Government Accounts	2,870	2,870
Audit of Leisure Centres	25,000	20,450
Total Audit Fee	102,846	97,080
Estimate for certification of grant claims and returns	TBC	20,000

6.7 The planned fee above, excludes:

- Certification of grant claims and returns - we will provide an estimate of the cost of certifying 2008-09 grant claims and returns once the 2007-08 certification process has been completed;
- The Audit Commission's fee for participation in the National Fraud Initiative, which continues to be billed separately; and
- Dealing with any local government elector questions and objections, which will be billed separately, as required.

Assumptions

6.8 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;
- The Council will inform us of significant developments impacting on our audit;
- Internal audit meets the appropriate professional standards;
- Internal audit undertakes 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;
- The Council continues to provide best practice quality working papers and records will be provided to support the financial statements by the start of our audit;
- Requested information will be provided within agreed timescales; and

- Prompt responses will be provided to draft reports.
- 6.9 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.
- 6.10 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. The planned fee for 2008/9 is -30% less than the scale fee.

Process for agreeing changes in audit fees

- 6.11 Any changes to the plan and proposed fee will be agreed with the Director of Commerce and Technology in advance, and reported to the Corporate Governance Panel. Changes may be required if the Council's residual audit risks alter, or is a different level of work is required, for example by the Audit Commission or as a result of changes in legislation, professional standards or financial reporting requirements.

Billing Arrangements

- 6.12 The audit and inspection fee will be billed as follows:

Table Eight: Billing schedule

Fee	Billing Profile
Audit fee £25,712	Quarterly: June 2008, September 2008, December 2008 and March 2009

Additional Services

- 6.13 Under section 35 of the Audit Commission Act 1998, we may undertake additional services work at the request of the audited body.

Non Code Work

- 6.14 We may agree to carry out additional work outside of the core audit, or non-audit work provided it does not present a conflict of interest and is in accordance with Audit Commission guidance. The scope and fees for any such work will be agreed with the Director of Commerce and Technology in advance and will be reported to the Corporate Governance Panel.

7 2008/09 Inspection Plan

CPA and Inspection

- 7.1 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.
- 7.2 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. In 20045, the Council was categorised as excellent.
- 7.3 The Commission has applied the principles set out in the CPA framework, CPA – district council framework from 2006, recognising the key strengths and areas for improvement in the Council's performance.
- 7.4 Strengths in the Council's performance include:
- The Council is making improvement in many priority areas.
 - Progress has been made on equalities with level two of the equalities standard achieved
 - The Council has clear plans and investment for improvement which focus resident priorities .
- 7.5 Areas for improvement in the Council's performance include:
- Overall improvement and comparative performance as measured by performance indicators is below average.
 -
- 7.6 On the basis of their planning process the Commission have identified where inspection activity will be focused for 2008/09 as follows.

Table Nine: Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager (RM) / Comprehensive Area Assessment Lead (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.

Appendix A 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. Professional standards require 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. Standards also place requirements on auditors in relation to integrity, objectivity and independence.

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 Corporate Governance Panel. The auditor reserves the right, however, to communicate directly with the Executive 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 non-Code work in the plan.

The Code also states that the Audit 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 Audit Commission work who wish to engage in political activity should obtain prior approval from the Engagement Lead;

- 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 Audit 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 Audit Commission should not accept engagements which involve commenting on the performance of other Audit Commission auditors on Audit Commission work without first consulting the Audit Commission;
- Auditors are expected to comply with the Audit Commission's policy for both the Engagement Lead and the second in command (Audit 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 Audit Commission's written approval prior to changing any Engagement Lead in respect of each audited body; and
- The Audit Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or Audit Manager 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.