

report

Meeting	NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AUTHORITY	
Date	22 October 2004	agenda item number

REPORT OF THE TREASURER

EXTERNAL AUDIT PLAN 2004/5

1. PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to inform Members of the planned work to be undertaken by the External Auditors in respect of the 2004/5 financial accounts and the work that they are required to undertake in other areas of the Authority's activities.
- 1.2 Members may recall that the Audit Commission, as part of their general policy on Auditor rotation, have nominated their own auditors (formerly the District Audit Service) to carry out the external audit of the Fire Authority for 2004/5 and beyond. This is the first opportunity for the new Audit Manager to present a report to the Fire Authority.

2. EXTERNAL AUDIT PLAN

- 2.1 The external audit plan is given in full as Appendix A to this report and will be introduced by Mike Wood, the Audit Manager for the Audit Commission.
- 2.2 The plan sets out the range of work to be undertaken by the auditors, the standards that will be employed and key timescales and deliverables from their audit work.

3. FINANCIAL IMPLICATIONS

There are no direct financial implications of this report beyond the audit fees of £40,000. These fees are already included within the Authority's revenue budgets.

4. PERSONNEL IMPLICATIONS

There are no personnel implications arising from this report.

5. EQUAL OPPORTUNITIES IMPLICATIONS

There are no equal opportunities implications arising from this report.

6. RISK MANAGEMENT IMPLICATIONS

External Audit fulfil a valuable risk management control function in that they provide an independent view as to the validity and accuracy of the Authority's accounts. This not only provides a service to the Fire Authority, but also to the general public and other stakeholders.

7. RECOMMENDATIONS

That Members approve the External Auditors draft audit plan for 2004/5.

8. BACKGROUND PAPERS FOR INSPECTION

None.

Alan Sumbly
TREASURER TO THE FIRE AUTHORITY

Audit Plan

Nottinghamshire and City of Nottingham Fire Authority

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Date:	October 2004

Introduction

This plan sets out the audit work that we propose to undertake in 2004/2005, our first year as your new auditors. The plan has been drawn up from our risk based approach to audit planning, including discussion of audit risks with your senior managers.

Strategic regulation

Strategic regulation is at the core of the Audit Commission's plans. It is a new more focused and risk-based approach. Our approach to strategic regulation embodies four key principles. It should be:

- a force for continuous improvement
- focused on outcomes for service users
- proportionate to performance and risk
- delivered in partnership.

We intend to demonstrate the benefits of strategic regulation in your audit programme by:

- placing maximum reliance on the work of internal audit and other internal controls
- focussing on the implementation of previous audit recommendations to improve the control environment thus reducing the amount of detailed testing needed.
- encouraging the continued improvement of accounts working papers and internal review processes to reduce the amount of time we need to spend delivering the audit opinion
- concentrating our local performance work on those areas where we believe there are significant opportunities for improvement

Our responsibilities

In carrying out audit work we comply with the statutory requirements governing it, in particular:

- the Audit Commission Act 1998

- the Code of Audit Practice (the Code)
- the Local Government Act 1999

We have divided the plan into the following categories:

- Assurance
- Assessment
- Improvement

The fee

The fee for our 2004/2005 programme of work is set out below.

Audit area	2004/05 Fee (£)
Assurance	
• Accounts	15,000
• Governance	11,500
• Use of resources	13,500
Assessment *	
Improvement (code work) *	
TOTAL	40,000

* Note: the fee is net of ODPM grant (100%)

In setting the fee we have assumed:

- that you will inform us of all significant developments and emerging risks
- Internal Audit meet the appropriate professional standards
- officers will provide good quality working papers
- officers will provide requested information within agreed timescales
- prompt responses to draft reports.

Planning will be ongoing and changes to the Plan may be required, including increased audit fees, if the assumptions above are not met or if significant new risks emerge, including additional duties required of us by the Audit Commission.

We will take account of PriceWaterhouse Coopers (PWC)'s audit work to be completed and reported for 2003/04 and update our risk assessments as necessary. This will be particularly relevant in relation to accounts

issues such as the new ledger system, closedown processes, FRS 17 (Pensions) and the Statement of Internal Control (SIC).

We will agree with officers any consequent changes to the audit plan.

In order to smooth the changeover of auditors and maximise the benefits of continuity we have agreed with PWC that they will carry out the audit of Phase 2 of the 'Pay Verification' work. PWC will also carry out the audit of your Best Value Performance Plan and therefore no fee is included above for this work.

We have assumed at this stage that there are no grant claims requiring certification.

Assurance

Accounts

We are required to give an opinion on your accounts. We will do this by reviewing your core processes for producing the accounts:

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

Where possible we will seek to rely on relevant Internal Audit work. We will then undertake detailed testing of the figures in the accounts.

We will undertake the following specific work to address the risks we have identified for 2004/2005.

Risk	Audit work proposed
<p>Capital finance controls</p> <p>The new Prudential Code framework and associated statutory controls are operational for 2004/05. There is a potential risk of misstated accounts, illegality or poor use of resources.</p>	<p>We will undertake a risk assessment of the Authority's arrangements to comply with the Prudential Code and statutory rules.</p>

Earlier accounts

The Accounts and Audit Regulations require 2004/05 accounts to be completed by 31 July 2005 and for following years by 30 June in preparation for Whole Government Accounts

We review your performance on the 2003/04 accounts and work with you to secure any improvements necessary.

Expected outputs	Date due
Core Process Review Report	April 2005
SAS 610 final accounts report (if necessary)	July 2005
Audit opinion	July 2005

Governance

We are required to determine whether you have adequate arrangements covering financial aspects of corporate governance. In particular we will review your arrangements for:

- legality
- risk management
- financial standing
- internal financial control
- standards of financial conduct and arrangements for preventing and detecting fraud and corruption.

We will undertake the following specific work to address the risks we have identified for 2004/2005:

Risk	Audit work proposed
<p>Budgetary control</p> <p>The Authority faces a major challenge to meet the demands on resources arising from the many changes to the fire service and heightened accountability to council tax payers. The importance of sound financial control is crucial</p>	<p>We will monitor the Authority's financial performance and review budgetary control arrangements and the links with the planning and risk assessment framework.</p>

to this.	
<p>Regionalisation</p> <p>The East Midlands Regional Management Board (RMB) was established on 1 April 2004, to drive the government's agenda for regionalisation. These new arrangements will impact on the Authority's constitution and internal controls.</p>	<p>We will work with the auditors of the other RMB members to ensure that there are adequate arrangements for successfully managing the impact of the RMB on the Authority.</p>
<p>Risk Management</p> <p>There appears to be a good framework in place. The Risk and Planning Profile document identifies high priority risks but is not a comprehensive register of all risks.</p>	<p>We will need to review the underlying system processes that support the output. Our work will be informed by the outcome of the planned 2003/4 review (PWC).</p>
<p>Legality</p> <p>There are ongoing discussions around the continuation of freedom and flexibilities of action with the Home Office and the OPDM.</p>	<p>We will monitor developments and your responses to them as they arise.</p>

Expected outputs	Date Due
Financial Aspects of Corporate Governance Report	April 2005

Use of resources

Overall arrangements

We will review whether you have adequate arrangements to secure economy, efficiency and effectiveness in the use of your resources. This will include assessing your response to any local and national initiatives such as the Civil Contingencies Bill and E-government.

We will undertake the following specific work to address the risks we have identified for 2004/2005.

<p>Partnerships</p> <p>The Authority is keen to enhance the service through partnership working. The risks are in securing commitment, management of relationships and monitoring of outcomes.</p>	<p>We will review arrangements for securing, managing and monitoring partnerships.</p>
<p>IT strategy</p> <p>A sound IT strategy to properly manage the many changes to IT and information management requirements arising from modernisation and other initiatives are of great importance.</p>	<p>We will review IT arrangements and in particular strategy development and implementation</p>

Best value

As mentioned earlier we have agreed that PWC will undertake the review of your Best Value Performance Plan (BVPP) to ensure it meets the statutory requirement in respect of its content. They will also review and comment on your systems for collecting performance information and in particular BVPIs.

Expected outputs	Due Date
Partnerships report	June 2005
IT report	July 2005

Assessment

This consists of two elements in 2004/2005, both of which are fully funded by government grant:

Pay Verification Phase 2 – In accordance with the national fire-fighter's pay agreement the Government have asked auditors to verify

progress with Modernisation as defined by the 2003 White Paper 'Our Fire and Rescue Service'. As referred to earlier, we have agreed with PWC that having carried out the Phase 1 work they will also carry out Phase 2 of the work.

Comprehensive Performance Assessment (CPA) – this applies to combined fire authorities for the first time in 2004/2005.

The Audit Commission will undertake this detailed assessment for your Authority and all other fire authorities early in 2005. The local team will provide input to the CPA.

Expected outputs	Date Due
CPA Report	Still to be determined

Improvement

Following the CPA we will work with you to reach a shared understanding of your priorities for improvement. However, since the CPA is unlikely to be concluded before March 2005 this improvement planning will form part of next year's audit plan.

Voluntary improvement work

Where the Authority requests additional work to help with the improvement agenda we will be happy to discuss detailed proposals and provide fee quotations, providing there is no conflict of interests with our assessment role.

The team

Name	Title
David Brumhead	District Auditor
Mike Wood	Audit Manager
Gerry Lewis	Team Leader
Pauline Mack	Performance Lead
Tim Driver	IT specialist
Andrea Hammond	Principal Auditor
Anita Pipes	Principal Auditor

Sarah Draper	Auditor
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This core team will deliver the audit plan, supplemented by suitably qualified staff if necessary. 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 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 1.

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 Authority

We will provide reports, or other output as agreed, to the Authority for each of the risk areas identified in the plan. Our key milestones are set out in the 'Planned Outputs' section. This is prepared in draft form and will be updated regularly as work programs are agreed, and will form the basis of audit progress reports to officers.

Our reports are:

- prepared for the sole use of the Authority;
- written without assuming any responsibility by ourselves to any other person, including members and officers, or to any third party.

We are also required to report relevant matters relating to the audit to those charged with governance. The following section on Planned

Outputs shows how we will address this requirement.

Status of our reports to the Authority

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.

Planned Audit Commission outputs

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

Planned output	Start date	Draft due date	Key AC contact
Core Process Review Report	January 2005	March 2005	Gerry Lewis
Financial Aspects of Corporate Governance Report	January 2005	March 2005	Gerry Lewis
Partnerships report	February 2005	May 2005	Gerry Lewis
IT report	March 2005	June 2005	Tim Driver
Audit opinion	June 2005	July 2005	Mike Wood / Gerry Lewis
SAS 610 final accounts report (if necessary)	June 2005	July 2005	Mike Wood / Gerry Lewis
Annual Audit Letter	July 2005	August 2005	Mike Wood / David Brumhead
CPA Report	To be determined		Pauline Mack

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 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 auditor's independence and the objectivity of the District Auditor and audit staff.

The SAS 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 Combined Fire Authority.

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 their Regional Director;
- 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 and 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 Commission's written approval prior to changing any District Auditor in respect of each audited body; and
- The Commission must be notified of any change of Audit Manager within one month of making the change. Where a new District Auditor 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.