

# Audit Plan

**Nottinghamshire and City of Nottingham Fire and  
Rescue Authority**

**Audit 2007/2008**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Authority**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

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## Introduction

- 1 This plan has been developed by the Relationship Manager and Appointed Auditor. It sets out the audit and inspection work we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of the fire and rescue performance assessment framework. It reflects:
  - audit and inspection work specified by the Audit Commission for 2007/08;
  - current national risks relevant to your local circumstances; and
  - your local risks and improvement priorities.
- 2 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, 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.

## Responsibilities

- 3 We comply with the statutory requirements governing our audit and inspection work, in particular:
  - the Audit Commission Act 1998;
  - the Local Government Act 1999;
  - the Fire and Rescue Services Act 2004; and
  - the Code of Audit Practice (the Code).
- 4 The Code defines auditors' responsibilities in relation to:
  - the financial statements (including the statement on internal control (SIC)); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 5 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the fire and rescue authority (FRA). The Audit Commission has issued a copy of the Statement to every audited body.
- 6 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our work is undertaken in the context of these responsibilities.

## Fire and rescue performance assessment framework

- 7 The Audit Commission's fire and rescue performance assessment framework is underpinned by the principle of targeting our work where it will have the greatest effect.
- 8 Our inspection activity at Nottinghamshire FRA for 2007/08 will consist of the following.

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**Table 1**

<b>Inspection activity</b>	<b>Reason/impact</b>
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Authority 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 scored assessment, carried out by the RM, of improvement or deterioration in performance. The assessment will be outcome-focused and will draw together other assessments of the FRA. The DoT label will be reported in the performance assessment framework scorecard published in March 2008.
Service assessment	A scored assessment which has an emphasis on service delivery. It includes a performance information element, and an operational assessment of service delivery provided by the Department for Communities and Local Government (DCLG). The service assessment will be reported in the performance assessment framework scorecard published in March 2008.

<b>Inspection activity</b>	<b>Reason/impact</b>
Corporate assessment	<p>The Audit Commission will decide whether the FRA is eligible for a corporate assessment which could lead to a CPA re-categorisation. The focus of the approach to re-categorisation will be on FRAs that meet the following criteria:</p> <ul style="list-style-type: none"> <li>• FRAs that have deteriorated from their baseline CPA as identified by the Audit Commission; and</li> <li>• FRAs that can demonstrate significant and sustainable improvement, giving priority to those in the lower fire and rescue CPA categories. If an FRA believes it meets the criteria it would then be able to apply to the Commission for a new corporate assessment.</li> </ul>

## Work under the Code of Audit Practice

### Financial statements

- 9 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 10 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the FRA as at 31 March 2008 and its income and expenditure for the year.
- 11 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the FRA.

### Use of resources - Value for money conclusion

- 12 The Code requires us to issue a conclusion on whether the FRA has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 13 In meeting this responsibility, we will review evidence that is relevant to the FRA's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, for example DCLG, we will normally place reliance on their reported results to inform our work.
- 14 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

### Use of resources assessment

- 15 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08 based on an update of the 2006/07 assessment. The use of resources assessment evaluates how well the FRA manages and uses its financial resources. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the FRA's priorities and improve services.
- 16 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.

- 17 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes.

**Table 2**

Theme	
Financial reporting	<ul style="list-style-type: none"> <li>• Preparation of financial statements</li> <li>• External reporting</li> </ul>
Financial management	<ul style="list-style-type: none"> <li>• Medium-term financial strategy</li> <li>• Budget monitoring</li> <li>• Asset management</li> </ul>
Financial standing	<ul style="list-style-type: none"> <li>• Managing spending within available resources</li> </ul>
Internal control	<ul style="list-style-type: none"> <li>• Risk management</li> <li>• System of internal control</li> <li>• Probity and propriety</li> </ul>
Value for money	<ul style="list-style-type: none"> <li>• Achieving value for money</li> <li>• Managing and improving value for money</li> </ul>

- 18 We will report details of the scores and the judgements made to the FRA. The scores will be accompanied, where appropriate, by recommendations of what the FRA needs to do to improve its performance.
- 19 The auditor’s scores and judgements are reported to the Audit Commission to feed into the fire and rescue performance assessment framework. The use of resources assessment will be reported in the performance assessment framework scorecard published in March 2008.

## Best Value Performance Plan

- 20 We are required to carry out an audit of your best value performance plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.



## Assessing risks

- 21** The Audit Commission is committed to targeting its 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 co-ordinated with the work of other regulators, and that our work helps you to improve.
- 22** Our risk assessment process starts with the identification of the significant financial and operational risks applying at the FRA with reference to:
- our cumulative knowledge of the FRA;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with FRA officers;
  - liaison with internal audit; and
  - the results of other review agencies' work where relevant.
- 23** We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the financial statements in November 2007. At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
- new SORP capital accounting arrangements; and
  - group accounts - regional control centre.
- 24** For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the FRA to mitigate the risk, and plan our work accordingly.
- 25** Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

## Work specified by the Audit Commission

### Data quality

- 26 The Audit Commission is considering whether to specify work for 2007/08 on data quality at FRAs. This would be in addition to the high-level review of management arrangements for ensuring data quality that is already undertaken to inform the value for money conclusion. The Commission will consult with FRAs before confirming the approach for 2007/08.

### Whole of government accounts (WGA)

- 27 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

### National Fraud Initiative

- 28 The FRA participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the FRA's accounts (in accordance with section 3(9) of the Audit Commission Act 1998). The Commission's fee will be billed separately.

## **Voluntary improvement work**

- 29** We are not proposing to do any voluntary improvement work at the Authority during 2007/08.

## The audit fee

- 30 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 31 The total indicative fee for the audit work included in this audit plan for 2007/08 is £54,255 which compares with the planned fee of £52,874 for 2006/07. Both exclude DCLG funded Relationship Manager and Direction of Travel fees.
- 32 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; and the process for agreeing any changes to the fee. The audit fee includes all work identified in this plan unless specifically excluded.
- 33 As indicated in paragraphs 2 and 25, the audit planning process will continue as the year progresses and it is possible that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 31 above. Any changes to the fee will be agreed with you.

## Other information

### The audit team

- 34 The key members of the audit team for the 2007/08 audit are shown in the table below.

**Table 3**

Name	Contact details	Responsibilities
<p><b>Dave Brumhead</b> Relationship Manager and Appointed Auditor</p>	<p>d-brumhead@audit- commission.gov.uk 01246 504308</p>	<p>The primary point of contact with the FRA and the interface at the local level between the Commission and other key stakeholders.</p> <p>Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Finance and Resources Committee acting as audit committee and senior officers including as appropriate the Chief Fire Officer and Treasurer.</p>
<p><b>Mike Wood</b> Audit Manager</p>	<p>m-wood@audit- commission.gov.uk 0115 9773710</p>	<p>Manages and co-ordinates the different elements of the audit work. Key point of contact for the Treasurer and Head of Finance and Resources.</p>
<p><b>Pauline Mack</b> Regional Service Lead</p>	<p>p-mack@audit- commission.gov.uk 07974 751 315</p>	<p>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 elements of the direction of travel assessment.</p>

## Independence and objectivity

- 35 We are not aware of any relationships that may affect the independence and objectivity of the Appointed Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you. We comply with the ethical standards issued by the Auditing Practices Board (APB) and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

## Quality of service

- 36 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the Appointed Auditor in the first instance. Alternatively you may wish to contact the Head of Operations, Alison Rigg.
- 37 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.

## Planned outputs

- 38 Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

**Table 4**

Planned output	Indicative date
Opinion audit plan	November 2007
Fire and rescue performance assessment framework scorecard	March 2008
Interim audit memorandum	May/June 2008
Annual governance report	September 2008
Opinion on the financial statements and value for money conclusion	September 2008
WGA audit report	October 2008
Final accounts memorandum (to the Head of Finance and Resources)	October 2008
BVPP report	December 2008
Annual audit and inspection letter	March 2009

## Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
Leadership of the Service, with the departure (on secondment) of the Chief Fire Officer following some relationship issues with members	Temporary restructuring of the Management Team	Weakened leadership	Ongoing review of arrangements	CPA - Leadership
Weaknesses in Human Resources management	Appointment of interim Head of HR. HR Business Plan focuses on implementing the recommendations of the HR Review with key milestones	Inadequate HR support to the Service	We will monitor progress	KLOE 4.1 The authority manages its significant business risks.
High level of sickness absence	Active absence management is in place	Sickness absence affects capacity and value for money.	We will review and assess management arrangements	KLOE 5.2 The authority manages and improves value for money.
Regional Control Centre transition	Plans are in place	Managerial and operational disruption and potential accounting issues	We will monitor progress	KLOE 4.1 The authority manages its significant business risks.

<b>Significant risks identified</b>	<b>Mitigating action by audited body</b>	<b>Residual audit risk</b>	<b>Action in response to residual audit risk</b>	<b>Link to auditor’s responsibilities</b>
Need to fully embed the improved internal control arrangements including new policies and practices and the Finance and Resources Committee's (FRC) role as Audit Committee	Key policies and practices are now in place. A recent meeting of the FRC has begun the process.	Weak internal control	We will monitor and reassess	KLOE 4.2 The authority has arrangements in place to maintain a sound system of internal control.



## Appendix 2 – Audit fee

- 1 Table 5 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the planned fee for 2006/07.

**Table 5**

<b>Audit area</b>	<b>Planned fee 2007/08 £</b>	<b>Planned fee 2006/07 £</b>
Audit of Financial statements including WGA	33,171	32,205
Use of resources (including BVPP)	21,084	20,669
<b>Total audit fee</b>	<b>54,255</b>	<b>52,874</b>
Inspection		
Relationship Manager (paid for by the DCLG excluded from fee)	0	0
Direction of Travel (paid for by the DCLG excluded from fee)	0	0
<b>Total inspection fee</b>	<b>0</b>	<b>0</b>
<b>Total audit and inspection fee</b>	<b>54,255</b>	<b>52,874</b>

- 2 The Audit Commission scale fee based on planned spend is £51,542. The fee proposed for 2007/08 is 5 per cent more than the scale fee but is within the normal level of variation specified by the Commission. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards).
- 3 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.
- 4 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 FRA. This fee then becomes payable.

- 5 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

## Specific audit risk factors

- 6 In setting the audit fee we have taken into account the following specific risk factors:
  - leadership of the Service, with the departure (on secondment) of the Chief Fire Officer;
  - issues around weaknesses in Human Resources management; and
  - the need to carry out our planned triennial review of internal audit to ensure that they are meeting CIPFA standards;

## Assumptions

- 7 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 2006/07
  - 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 systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements;
  - requested information will be provided within agreed timescales; and
  - prompt responses will be provided to draft reports.
- 8 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.
- 9 Changes to the plan will be agreed with you. These may be required if:
  - new residual audit risks emerge;
  - additional work is required of us by the Audit Commission or other regulators; and
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## **Specific actions the Authority could take to reduce its audit fees**

- 10 The Audit Commission requires its auditors to inform a FRA of specific actions it could take to reduce its audit fees. Whilst there is only limited opportunity to reduce the audit fee further at relatively small audited bodies such as the FRA, we have identified the following actions the Authority could take:
  - ensuring adequate evidence is readily available to support Key Lines of Enquiry (KLoEs) for the Use of Resources assessments; and
  - embedding the internal control and other procedural improvements noted in 2005/06 as part of the Use of Resources assessments.

## **Process for agreeing any changes in audit fees**

- 11 If we need to make any significant changes to the audit fee during the course of this plan, we will firstly discuss this with the Head of Finance and Resources.

## Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
  - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 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 [audit] committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee;
- auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- the District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- the District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- the District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.