

# Audit and Inspection Plan

## East Sussex Fire Authority

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<b>Reference:</b>	East Sussex Fire Authority - Final
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## Introduction

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

- your local risks;
- matters arising following the Authority's comprehensive performance assessment (CPA) in early 2005 which was classified as 'X';
- current national risks relevant to your local circumstances; and
- the impact of International Standards on Auditing (ISAs).

## Our responsibilities

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

- the revised Code of Audit Practice which comes into effect in April 2005;
- the Audit Commission Act 1998; and
- the Local Government Act 1999.

The key changes to the Code include:

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

Corporate performance and financial management arrangements form a key part of the system of internal control and comprise the Authority's 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 its financial standing;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that its affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption.

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

Further details on 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 £37,600 (2004/05: £35,000). The increase over last year is largely due to the introduction of new auditing standards which are applied across both the public and private sector. The fee is based on the Audit Commission's fee guidance contained within its operational plan.

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 or if we are required to do more work arising from ongoing discussions between the Audit Commission and the government. For example, we may be required to undertake a progress assessment at the year end, of your improvement following the CPA inspection. We will formally discuss and advise you of any changes if this is the case.

## Summary of key audit 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;
- provide a conclusion on your use of resources; and
- provide a report on the Authority's best value performance plan (BVPP).

Where risks are identified that are not mitigated by 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

A CPA of the Authority was undertaken in early 2005 and this will be followed by the development of an improvement plan. During the audit year we will monitor the plan's implementation. We will meet regularly with the Authority to discuss progress, starting in June 2005.

## Use of resources

The Code 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 the Authority's corporate performance management and financial management arrangements.

We will undertake a review of your Best Value Performance Plan to ensure it meets statutory requirements in respect of its content. We will issue a formal opinion before 31 December 2006. We will also comment on your systems for collecting performance information.

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

[TO BE DISCUSSED – THE FEE DOES NOT ALLOW FOR COVERAGE OF ALL THESE AREAS. THE SPECIFIC AREAS AND THE DEPTH OF AUDIT WORK WILL BE DEPENDENT ON THE AUHORITY'S OWN PLANS FOR PROGRESSING THESE AREAS]

SUMMARY OF USE OF RESOURCES AUDIT RISKS	
Audit risk	Response
Risk management remains to be embedded fully in service and financial planning. Risk management is at the heart of corporate governance arrangements and without it business processes might not be effective.	High level review We will monitor the extent of the continued implementation of risk management processes relating to service and financial planning.
The Authority's comparative performance against national indicators and local targets can be improved.	High level review We will consider the Authority's performance achievements in 2005/06 and how it reacted to any problems experienced. We will report on them as part of the Annual Audit Letter.
Sickness absence has been a focus for management attention but the level of absences is still higher than it was several years ago.	High level review We will assess progress on reducing sickness absence rates.
The integrated personal development system (IPDS) is a key aspect of the national modernisation agenda but is not fully effective. Additionally it does not extend to all staff employed by the Authority. Achievement of the planned workforce objectives is hampered.	High level review We will review the Authority's progress in implementing IPDS across the whole organisation.

## 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 SIC 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 not identified any specific audit risks relating to the 2005/06 financial statements but we have yet to undertake the audit of the 2004/05 financial statements and our planning of the 2005/06 audit will continue as the year progresses. This will take account of:

- evidence from the 2004/05 audit;
- documentation and initial testing of material systems; and
- our assessment of the 2005/06 closedown arrangements.

When we have finalised our risk assessment, we will update our plan in advance of the audit, including any impact on the fee quoted above.

## Voluntary improvement work

No voluntary improvement work has been agreed at this time. We will discuss any opportunities for such work as they are identified.

## The team

Name	Title
Darren Wells	District Auditor and Relationship Manager
Grahame Brown	Audit Manager
Andrew Weaver	Local Performance Lead
Jeremy Jacobs	Audit Team Leader

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

We will identify possible areas for the inclusion in the next audit plan as the year progresses and will discuss them with you.

## 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 above.*

*Reports are:*

- *prepared for the sole use of the Authority;*
- *not to be disclosed to a third party or quoted or referred to without our consent; and*
- *written without assuming any responsibility by ourselves to any other person.*

*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 Authority, we have previously agreed that this responsibility will be discharged by reporting relevant matters to the Audit and Performance Review Panel.*

*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.*

## 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 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	*	20,000
Use of resources	*	17,600
<b>Total audit fee</b>	<b>35,000</b>	<b>37,600</b>
Voluntary improvement work	0	To be agreed

*\*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 13 per cent below mid-point. The fee range for the Authority based on its expenditure plans for 2005/06 is £30,300 to £56,300.

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 ISAs;
- 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.

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; and
- additional work is required of us by the Audit Commission or other regulators.

## Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being reported to the Audit and Performance Review Panel.

Planned output	Start date	Draft due date	Key contact
Audit plan*	April 2005	May 2005	Audit Manager
Interim audit memorandum	March 2006	April 2006	Audit Manager
BVPP opinion	June 2006	October 2006	Audit Manager
Final accounts opinion	July 2006	N/a (Opinion to be given by October 2005)	Audit Manager
Report to those charged with governance	July 2006	September 2006	Audit Manager
Final accounts memorandum	July 2006	October 2006	Audit Manager
Use of resources conclusion	April 2006	October 2006	Audit Manager
Local performance work	TBA	TBA	Local Performance Lead
Annual audit and inspection letter	October 2006	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 and Performance Review Panel. 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 Authority 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.