

Annual Audit and Inspection Plan

Derby City Council 2008/09

June 2008

Draft for discussion

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1 Introduction

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

1.1 Background

This plan sets out the audit and inspection work to be undertaken for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning under the Code of Audit Practice and the requirements of Comprehensive Area Assessment (CAA). It reflects:

- audit and inspection work specified by the Audit Commission for 2008/09;
- current national risks relevant to the Council's local circumstances; and
- our assessment of the Council's local risks and improvement priorities, based on meetings with senior officers, internal audit and review of key Council documents.

Your Relationship Manager will be taking responsibility for the delivery of the planned inspection work.

During 2008/09, the role of 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. This means it has the authority to prevent inspection activity taking place if it feels it is not in the interest of the inspected body.

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.

The document is also used to report to management in order to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) (ISAUK) 260.

1.2 Our responsibilities

We comply with the statutory requirements governing our audit and inspection work, in particular, the Audit Commission Act 1998, the Local Government Act 1999 and the Code of Audit Practice (the Code). Further details of our inspection work are provided in section two of this plan.

The Code defines auditors' responsibilities in relation to:

- audited body's arrangements for securing value for money in their use of resources (section three); and
- the financial statements, including the annual governance statement (section four).

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.

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.

1.3 Ethical standards

We have implemented policies and procedures to meet the requirements of the Auditing Practices Council's (APB) Ethical Standards effective for years commencing 15 December 2004. We have also adopted policies to comply with the IFAC Code of Independence.

We have considered our independence and objectivity in respect of the audit for 2008/09 and do not believe there are any matters which should be brought to the attention of the Council. Further details on our independence and robustness are set out at **Appendix C**.

1.4 Communication of adverse / unexpected findings

We will communicate any adverse or unexpected findings affecting the audit on a timely basis with the appropriate person within the Council. Such communication will be made either informally or via an audit progress memorandum.

The actual or potential resolution of significant audit and accounting issues will be discussed and agreed with the Council's management and for Member's consideration.

1.5 Confidentiality

This document has been produced under s49 of the 1998 Audit Commission Act. As such the information contained within it should not be disclosed other than for the purposes permitted by the Act.

In addition, the contents of this Annual Audit and Inspection Plan should not be relied upon by third parties.

2 CPA and inspection

2.1 Introduction and approach

From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.

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.

The Council's CPA category is, therefore, a key driver in the Commission's inspection planning process. For CPA 2007, the Council was categorised as four stars.

We have applied the principles set out in the CPA framework, 'CPA – The Harder Test', recognising the key strengths and areas for improvement in the Council's performance.

Strengths in the Council's performance include:

- Good performance across a range of areas with key services for children and adults assessed as good;
- Good partnership working being used to deliver its priorities such as the regeneration of the city centre and improving the quality of life in priority neighbourhoods;
- A track record of providing value for money; and
- Effective performance management and good capacity to promote further improvement.

Areas for improvement in the Council's performance include specific areas of underperformance in some service areas, such as benefits.

On the basis of the planning process we have identified where inspection activity will be focused for 2008/09 as follows.

Exhibit one: Focus of inspection activity to be carried out by the Audit Commission

Inspection activity	Nature of work
Relationship Management / 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 Relationship Manager (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.

3 Use of Resources audit

3.1 Introduction and approach

In accordance with the Code, we are required to complete a number of pieces of work as part of our Use of Resources audit. These are set out in the following paragraphs.

3.2 Use of resources assessment 2007/08

This audit plan covers the last year of the current regime for Use of Resources assessment as part of the CPA framework. The work required to arrive at the 2007/08 Use of Resources assessment is fully aligned to the requirements to arrive at that the auditor's 2007/08 Value for Money conclusion.

The Use of Resources themes and Key Lines of Enquiry (KLOEs) are outlined below. The appointed auditor will arrive at a score of 1 to 4, based on underlying KLOEs, for each of the following themes:

Exhibit two: 2007/08 use of resources criteria

Theme	Description
Financial reporting	<ul style="list-style-type: none"> ▪ preparation of financial statements ▪ external reporting
Financial management	<ul style="list-style-type: none"> ▪ medium-term financial strategy ▪ budget monitoring ▪ asset management
Financial standing	<ul style="list-style-type: none"> ▪ managing spending within available resources
Internal control	<ul style="list-style-type: none"> ▪ risk management ▪ system of internal control ▪ probity and propriety
Value for money	<ul style="list-style-type: none"> ▪ achieving value for money ▪ managing and improving value for money

The details of the scores and judgements will be reported to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve. The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of the CPA.

3.3 Use of resources assessment 2008/09

In 2009 a new use of resources assessment will form part of the Comprehensive Area Assessment (CAA) framework.

The Commission proposes that the approach to the new use of resource assessment will be focussed on three themes covering thirteen KLOEs which are set out at **Appendix B**. This represents a significant change for local government and, whilst our formal assessment will form part of our 2009/10 plan, we intend to engage the Council in early discussion around the new criteria as set out in our initial risk assessment at 3.6 below. This will be updated through our continuous planning process as the year progresses.

3.4 Value for money conclusion

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 Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will look to place reliance on their reported results to inform this work. We will also follow up audit work from previous years to assess progress in implementing agreed recommendations.

Our 2008/09 Value for Money conclusion to be given in September 2009 will be informed by our 2008 Use of Resources assessment, updated for early work on the 2009 Use of Resources under CAA.

3.5 Data quality 2007/08

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

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.

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 management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

From 2008/09 the Audit Commission has proposed that Data Quality will become an element of the Use of Resources framework outlined at 3.3 above.

3.6 Risk assessment and audit response

Exhibit three: Local risk based work to support the 2008/09 Value for Money Conclusion

Risk	Proposed audit response
<p>Review and delivery of capital programme The Council continues to manage a number of significant and complex capital projects within its 3 year £280million capital programme. There is a risk that the Council fails to deliver these projects to budget, or that there is a lack of capacity to manage these projects effectively.</p>	<p>We will review the Council's arrangements to monitor and deliver its significant capital projects, both on schedule and within budget. This will involve assessing whether the Council's project plans and timetables are realistic and deliverable and whether the procurement processes used to support the delivery of these projects are delivering good value for money for the Council.</p>
<p>Financial standing Financial health continues to be a key risk area for many councils. Nationally, social care pressures are particularly relevant. Locally, the latest medium term financial plans show financial pressures within Adult Social Services which contribute to unidentified saving requirements in 2010/11 approaching £3million. In addition, the Council has identified future revenue budget risks in relation to waste disposal costs and single status pay agreements.</p> <p>There is also a risk that the Council has not modelled the financial implications of key changes to services effectively.</p>	<p>We will continue to monitor the Council's financial position, including savings identified through the transformational change programme 'Transforming Derby' during the year, as part of our Use of Resources assessment.</p>
<p>Use of Resources Comprehensive Area Assessment (CAA) will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there.</p> <p>The 2009 Use of Resources assessment will be aligned to CAA and the updated Key Lines of Enquiry (KLOEs) represent an enhanced challenge to the Council in terms of performance and evidence. This assessment will be funded from the 2009/10 audit fee.</p>	<p>We will complete the last review of the Key Lines of Enquiry (KLOEs) supporting the 2008 Use of Resources assessment.</p> <p>In addition, we will:</p> <ul style="list-style-type: none"> ▪ discuss with the Council the emerging requirements under CAA; ▪ identify and discuss the key changes in the KLOEs once they are finalised; ▪ map the evidence and processes currently in place from the existing KLOEs to the new; and ▪ follow up our health inequalities work from 2007/08.

Risk	Proposed audit response
<p>Sustainability</p> <p>The revised approach to Use of Resources includes the theme 'managing other resources' and a new KLOE within this relates to the audited body's arrangements to manage its use of natural resources. This increased emphasis on the need to make better use of natural resources reflects expectations set out for public bodies in the national Sustainable Development Strategy.</p> <p>Waste management represents a particular challenge to sustainability and will be a key area for consideration under this KLOE. Emerging evidence suggests that there are significant risks in this area associated with the establishment of very long term contracts at a time of uncertain technologies, uncertain financial mechanisms and changing public attitudes to waste disposal.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▪ ascertain the arrangements in place to understand and manage energy and water use, including current and future waste disposal plans; ▪ familiarise ourselves with the Council's progress to develop and deliver a sustainability strategy; and ▪ discuss with the Council the implications of emerging evidence from ongoing waste management studies.
<p>Governance</p> <p>In previous years, auditors have considered corporate governance arrangements through their work on Use of Resources. However, the Audit Commission has also identified some sector-based issues, in particular the implementation of the CIPFA / SOLACE Framework for Governance Statements. To achieve 'good governance', the Council needs to be able to demonstrate that it is complying with the core and supporting governance principles contained in the Framework. There is a risk that these arrangements are not implemented effectively across the Council.</p>	<p>Councils are required to prepare an Annual Governance Statement from 2007-08. For 2008-09 we will assess the Council's preparations for developing a formal Code of Governance and how it reports compliance against this through the Annual Governance Statement.</p> <p>As part of our review of the Council's governance arrangements we will undertake a review of the effectiveness of the Council's Audit and Accounts Committee, against best practice requirements.</p>
<p>Internal Control</p> <p>The Councils Internal Audit Department continues to undertake fraud and special investigation work in a number of different areas. Specific control weaknesses have been identified from this work and, as highlighted in the 2006/07 Annual Audit and Inspection Letter, the number of fraud investigations during the year represents a shift in the antifraud culture of the Council.</p> <p>Given the number of ongoing issues, robust governance arrangements and adequate resourcing will be required in order to minimise the risk of failing to adequately manage existing and emerging areas of concern.</p>	<p>For 2008-09 we will evaluate the audit implications of internal control issues in both existing and emerging areas.</p> <p>We will also assess measures the Council has put in place to promote an anti-fraud culture across the Authority and within identified problem areas.</p>

Risk	Proposed audit response
<p>Building Schools for the Future (BSF) Derby is part of the national Wave 5 of the BSF Programme. Under the initiative, it is expected that the Council will receive around £200million for investment in schools, part of which may be deliver as a PFI. The next major stage of the project is to develop the Outline Business Case (OBC), which will, crucially, consider affordability and how value for money is achieved. Affordability and demonstrating value for money will need to be managed alongside the risks associated with project management and contracting.</p>	<p>We will examine the Council's current BSF proposal and monitor how this develops as detailed plans for each school, including costs, affordability risks and procurement route, are developed.</p> <p>It is anticipated that we will be required to provide a preliminary opinion on the PFI during summer 2008. This will be covered by separate engagement terms and is not include within this plan.</p>

In addition to our core recurring audit responsibilities this year, the Audit Commission has recently published 'Positively Charged' which reports the findings from a national project on fees and charges. The report highlights that powers introduced in 2003 to charge for discretionary services have remained largely unused by councils but, where they have been used, councils in similar circumstances make very different decisions about which services to provide and whether, and at what level, to charge for and subsidise services.

This is an important issue for all authorities as households in different council areas can pay different amounts for essentially the same services. Additionally, from 2009, the Audit Commission's new Use of Resources assessments will take account of how councils and other public bodies are using the various charges available to them.

The Council has asked that we undertake a review in this area, which we propose to include as part of our 2008/09 plan.

4 Financial statement audit

ISAUK 260 requires communication of:

- our concept of materiality and its application to the audit approach
- the way we propose to address the risk of material misstatements
- our assessment of and reliance on internal controls.

4.1 Introduction

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 (SORP).

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) and to:

- give an opinion as to 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 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year; and
- review whether the Annual Governance Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Governance Statement is misleading or inconsistent with his knowledge of the Council.

We will be working closely with the Finance Team to ensure that we meet audit deadlines and conduct the audit efficiently, with the minimum of disruption to the Council's staff. Our audit will be planned on an individual task basis at the start of the audit, and timetables agreed with all staff involved.

In summary our audit strategy comprises:

- updating our understanding of the council through discussions with management and a review of the management accounts;
- reviewing and advising on material disclosure issues in the financial statements;
- reviewing the design and implementation of the internal financial control systems to the extent that they have a bearing on the financial statements; and
- verifying all material balance sheet accounts and performing a substantive analytical review of income and expenditure streams.

4.2 Our audit approach and risk assessment

Our audit approach is based on an assessment of the audit risk relevant to the individual financial statement assertions. Areas of potentially high audit risk in terms of susceptibility to material misstatements are categorised as **critical**. Our work in other areas will, typically, be proportionately lower than for critical areas.

We have not 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, summarised in Exhibit four below, reflects largely national developments and issues, which may present a risk to the Council's timely and accurate preparation of its accounts. We will keep our risk assessment under review, and if necessary, amend this plan.

Exhibit four: 2008/09 Financial Statements audit – initial risk assessment

Area	Audit Response
<p>2008 SORP The 2008 SORP is currently under consultation and it is expected that there will be some presentational and disclosure adjustments that will impact on the 2008/09 accounts. There is a risk that the new requirements may not be met.</p>	<p>We will hold an accounts planning workshop with the Council, following completion of the 2007/08 audit to discuss implications of the 2008 SORP and other local risk factors, early in the 2008/09 audit process.</p>
<p>Introduction of International Financial Reporting Standards CIPFA has confirmed that local authorities will be required to follow International Financial Reporting Standards (IFRS) from 1 April 2010. 2009/10 financial data will require restatement to provide comparative data for the financial statements, with the 2008/09 balance sheet providing the opening position. Whilst this will not have a direct impact on our audit of the 2008/09 accounts, the Council needs have plans in place to ensure that it is adequately prepared for the forthcoming changes. There is also a risk that the Council does not identify the future impact of these requirements on its medium term financial plans.</p>	<p>We will work with the Council's finance team to ensure that accounting issues that might impact adversely on the council's finances are identified and potential solutions developed as early as possible, before the introduction of the new Standards.</p>
<p>Accounting for PFI schemes The Council continues to work on a PFI scheme in relation to affordable housing and is considering the PFI route for the planned waste disposal treatment plant, due to be built in 2010/11, in partnership with Derbyshire County Council. Additional, PFI may be used as part of the Building Schools for the Future programme. There is a risk that these are incorrectly accounted for, due to their complexity and nature, particularly in light of the impact of IFRS.</p>	<p>We will involve our technical specialists, to review and provide advice and opinions on any proposed PFI accounting treatments.</p>
<p>Internal Audit The Council's internal audit function is key to ensuring the Council operates a sound system of internal control.</p>	<p>We will follow up our work from 2007/08 on how the Council's internal audit function complies with best practice and CIPFA's core standards.</p>

In order to gain sufficient assurance to support our opinion on the financial statements, we will also 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;
- internal audit, to determine the extent of reliance we can place on it 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.

4.3 Reliance on internal audit

We will assess your internal audit function to identify where we can rely on the internal audit work and will liaise with internal audit throughout the audit.

ISAUK 315 requires the auditor to evaluate the design of an entity's controls, including relevant control activities, in relation to risks which could lead to material misstatement and determine whether they have been implemented. The auditor is required to make this assessment not only of the controls at the operational level, but also at the level of the control environment.

4.4 Internal controls

We are required to evaluate the design of an entity's internal controls over risks which could lead to material misstatement in the financial statements and determine whether they have been implemented. Our emphasis will be on identifying and obtaining an understanding of control activities that address the areas where we consider material misstatements are more likely to occur.

We plan to carry out this work prior to the year-end and will therefore undertake an interim audit visit in advance of when we normally carry out our final accounts audit fieldwork. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our audit, we identify any control weaknesses, we will report these to the Council.

In consequence, our work cannot be relied upon necessarily to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might develop.

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

ISA 320 Audit Materiality

4.5 Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer present fairly the Council's financial performance and position.

Materiality is set at the planning stage to ensure that an appropriate level of audit work is conducted. It is also considered at the reporting stage in order to assess the impact of an item on the financial statements. Any identified errors greater than 2% of materiality will be recorded on a schedule of potential misstatements, assessed individually and in aggregate, discussed with you and, if not adjusted, signed off by you as immaterial as part of your letter of representation to us.

An item of low value may be judged material by its nature, and an item of higher value may be judged not material, if it does not distort the fair presentation of the financial statements.

We will report on any material misstatements in our ISA 260 report to those charged with Governance, the Audit and Accounts Committee, following completion of the final accounts audit.

5 Grant claims

5.1 Introduction and approach

In addition to our Code responsibilities, we are required, acting as agents of the Audit Commission, to certify the Council's grant claims and returns, in accordance with the following arrangements:

- claims below £100,000 are not subject to certification;
- claims between £100,000 and £500,000 are subject to a reduced, 'light-touch' certification; and
- claims over £500,000 will be subject to a certification approach determined by our assessment of the control environment and management preparation of claims.

The Council receives a significant amount of grant funding every year. Robust arrangements for preparing claims and returns are important to mitigate a number of risks, including:

- increased cost to the Council, both in terms of incurring additional audit fees and also officer time in dealing with issues arising from claim audits;
- delayed payment of grant or financial penalty from grant paying departments, due to delays in claim certification;
- risk of unexpected grant clawback due to amendments and qualifications; and
- potential adverse impact on external assessment of the Council's governance and internal control arrangements.

To assist the Council in ensuring that arrangements for preparing its 2008/09 claims and returns are robust, we will:

- follow up on issues raised during our 2007/08 audits in relation to the Council's preparation of grants;
- liaise with the Council's grants co-ordinator and agree the audit timetable and estimated budget in advance of carrying out our audit; and
- prepare a grants report, summarising issues from the 2008/09 audit, to facilitate continuous improvement.

6 Audit and inspection team

6.1 Engagement team

Name	Role	Contact details
Stephen Barnett	Relationship Manager / CAAL The 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.	T: 01246 504352 E: s-barnett@audit-commission.gov.uk
Jon Roberts	Engagement Lead Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive, Corporate Director of Resources and the Audit and Accounts Committee.	T: 0121 697 6001 E: jon.roberts@gtuk.com
Kyla Bellingall	Audit manager Manages and co-ordinates the different elements of the audit work. Key point of contact for the Finance team	T: 0121 697 6082 E: kyla.bellingall@gtuk.com
Ian Barber	Performance specialist 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.	T: 0121 697 6000 E: ian.m.barber@gtuk.com
Andrea Wright	In-charge auditor Responsible for delivering the onsite fieldwork during the accounts, use of resources and grant claims audits.	T: 0121 697 6000 E: andrea.wright@gtuk.com

6.2 Independence

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

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

We are not aware of any relationships that may affect the independence and objectivity of the audit and inspection 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 Commission's requirements in respect of independence and objectivity, as summarised at [Appendix C](#).

6.3 Quality of Service

We are committed to achieving and maintaining the highest quality of service. If you have any comments on our service, please contact the Relationship Manager or Engagement Lead, in the first instance. Alternatively you may wish to contact the Audit Commission's Head of Operations (Central) on 0121 733 7173 or Grant Thornton's National Head of Government Audit, Richard Tremeer on 020 7383 5100.

7 Audit and inspection fees

7.1 The fee

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 coordinated with the work of other regulators, and that our work helps you to improve.

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;
- interviews with Council officers;
- liaison with internal audit; and
- the results of other review agencies' work where relevant.

The details of the structure of scale fees are 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. Audit risk is also a critical element as it directly impacts on the level of resource input required, usually at senior grades.

As detailed in sections three and four of this plan, the Council has a number of significant projects underway which increase the risk associated with the audit. Other upward pressures on fees exist such as the introduction of the new Use of Resources criteria for 2008/09, additional work required for group accounts under ISA (UK&I) 600 and work that will be needed to re-assess the ongoing treatment of PFI schemes in the financial statements.

Given the range of these factors, the total indicative fee for the audit element of this plan for 2008/09 is £292,500, which has been aligned with the midpoint for Derby City Council using the Audit Commission scale fee. As part of this fee we propose to fund 50% of the estimated £15,000 for undertaking a review of fees and charges at the Council, as set out in section three.

The total indicative fee for the audit and inspection work included in this plan for 2008/09 is £322,616 which compares to the planned fee of £388,674 for 2007/08.

A breakdown of the audit and inspection fee is provided in Exhibit five below.

Exhibit five: 2008/09 audit and inspection fees

Service	Plan 2008/09 £	Plan 2007/08 £
Audit		
Financial statements*	203,500	192,650
Use of Resources - 2007/08	80,000	70,150
Use of Resources - 2008/09	9,000	-
Recurring audit fees	292,500	262,800
Use of Resources - 50% Fees and charges review	7,500	-
Total audit fees	300,000	262,800
Inspection		
Corporate assessment	n/a	103,750
Relationship management	11,308	11,062
Direction of travel	11,308	11,062
Service inspection	n/a	n/a
Total inspection fee	22,616	125,874
Total audit and inspection fee	322,616	388,674

*includes Whole of Government Accounts fee

The planned fee above, excludes:

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

7.2 Assumptions

The proposed fee is on the basis 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;
- good quality working papers and records will be provided to support the financial statements to timescales agreed with ourselves;
- requested information will be provided within agreed timescales; and
- prompt responses will be provided to draft reports;

7.3 Process for agreeing changes in audit fees

Our ability to deliver the services outlined to the agreed timetable and fee will depend upon these schedules being available/tasks being completed by the due dates in the agreed form and content. If the above assumptions are not met then we may be required to undertake additional work resulting in increased fees. Changes to the plan may also be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

If there are any variances to the above plan, we will discuss them with the Director of Resources and agree any additional fees before costs are incurred, wherever possible.

7.4 Billing and payment schedule

Our billing and payment schedule, which reflects when we carry out the work, will be as follows:

Billing date	Period	Amount excluding VAT £
Grant Thornton:	Quarterly	
June 2008	25%	75,000
September 2008	25%	75,000
December 2008	25%	75,000
March 2009	25%	75,000
Total Grant Thornton	100%	300,000
Audit Commission:	Monthly	1,885

Any additional costs will be billed as soon as they are agreed with the Council and these fees will be due when the fee notes are issued.

7.5 Non-code work services

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 management in advance and will be reported to the Audit Committee.

A Summary of planned outputs

Audit and Inspection Outputs

Reports will be discussed and agreed with the appropriate officers before being issued to the audit and accounts committee

The table below summarises the audit and inspection reports we plan to issue in respect of the 2008/09 audit and inspection plan.

Exhibit six: summary of planned outputs

Planned output	Planned Fieldwork	Draft report	Final report to Audit And Accounts Committee
2008/09 Annual Audit and Inspection plan	February-April 2008	May 2008	June 2008
Use of Resources and Data Quality report 2008	May-November 2008	December 2008	December 2008
2008/09 Interim report to those charged with governance (which will cover accounts and Use of Resources)	April-May 2009	May 2009	June 2009
2008/09 Annual report to those charged with governance ('ISA 260' report which will cover accounts and Use of Resources)	July-August 2009	September 2009	September 2009
2008/09 Grant Claims Report	July-December 2009	December 2009	December 2009
Direction of Travel statement	December 2009	January 2010	February 2010
Annual Audit and Inspection Letter	Throughout	December 2009	March 2010

Status of our Reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies, issued by the Audit Commission. Reports are 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.

B Work under the Code of Audit Practice

Financial statements

The appointed auditor (Grant Thornton UK LLP) will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Council (APB).

Your appointed auditor is 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 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.

Your appointed auditor is also required to review whether the Annual Government Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Government Statement is misleading or inconsistent with our knowledge of the Council.

Value for money conclusion

The Code requires your appointed auditor 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. This is known as the value for money conclusion. The Code also requires the auditor to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at [his/her] conclusion.

In meeting this responsibility, your appointed auditor will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, for example Communities and Local Government, we will normally place reliance on their reported results to inform our work.

We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of Resources assessment

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.

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.

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 is based on our current proposals as outlined in our consultation document.

Use of resources assessment criteria

Exhibit six: the draft use of resources criteria

Theme	KLOEs
Managing money	Financial health Financial planning Understanding costs Financial monitoring and forecasting Financial reporting
Managing the business	Leadership Performance management Commissioning and procuring services Risk management and internal control Ethical behaviour and counter-fraud
Managing other resources	Natural resources Physical assets People and IT

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 auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CAA.

C 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. 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 Audit and Accounts Committee. 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 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;
- 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 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 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.



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