

Audit Plan

July 2006



Audit Plan

Broads Authority

Audit 2006-2007

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 sets out the audit work that we propose to undertake in 2006/07. The plan has been drawn up from our risk-based approach to audit planning and reflects:
 - our responsibilities under the Code of Audit Practice;
 - your local risks and improvement priorities; and
 - current national risks relevant to your local circumstances.
- 2 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Our responsibilities

- 3 In carrying out our audit duties we have to comply with the statutory requirements governing them, and in particular:
 - the Audit Commission Act 1998;
 - the Code of Audit Practice (the Code) with regard to audit; and
 - the Local Government Act 1999 with regard to best value inspection and audit.
- 4 The Code 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. Auditors are now required to draw a positive conclusion regarding the Authority's arrangements for ensuring value for money in its use of resources. We will give the first such conclusion by 30 September 2006 as part of the 2005/06 audit.

The fee

- 5 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee Scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 6 The total fee estimate for the Broads Authority for 2006/07 is £19,900 (2005/06: £16,600). This fee includes all work identified in this plan unless specifically excluded. Further details are provided in Appendix 1 which includes specific audit risk factors, the assumptions made when determining the audit fee, specific actions the Broads Authority could take to reduce its audit fees and the process for agreeing any additional fees.
- 7 We do not consider that we will make any additional charge for the certification of grant claims unless the Authority requires us to certify claims in addition to the Outturn Report. Further details on grant certification are provided in paragraph 28 and in Appendix 1.
- 8 Changes to the plan and the fee may be necessary if our risk assessment changes during the course of the audit. This is particularly relevant to the work related to:
 - the opinion on the 2006/07 accounts since we have yet to audit the accounts for 2005/06 and detailed financial reporting requirements for 2006/07 are not yet known; and
 - work on selected performance indicators, since we have yet to assess your overall arrangements for securing the quality of this data and then to undertake a formal risk assessment.
- 9 We will formally advise you if any changes to the fee become necessary.

Summary of key audit risks

- 10 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;
 - undertake audit work in relation to specified performance indicators; and
 - provide a report on the Authority's best value performance plan (BVPP).
- 11 In assessing risk we have taken account of the Authority's current financial position and issues arising from previous audit work.
- 12 Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including Internal Audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.
- 13 The expected outputs from this work are outlined in Appendix 2.

Value for money conclusion

- 14 We will focus our work so as to enable us to conclude whether you have put in place proper arrangements to secure economy, efficiency and effectiveness with regard to the use of resources.
- 15 The Audit Commission has developed relevant criteria for auditors to apply in reaching our value for money conclusion as required under the Code of Audit Practice. These criteria are listed in Appendix 3. Sources of assurance will include the auditor's cumulative knowledge and experience including the results of previous work and the work of other regulatory agencies (including Internal Audit).
- 16 We will give the first such conclusion by the end of September 2006 as part our audit of the 2005/06 accounts. This may influence our risk assessment for similar work to be carried out as part of the 2006/07 audit and we will keep you informed of any changes to this plan that may become necessary.

- 17 From our initial risk-based planning assessment we have identified the following areas of audit risk to be addressed.

Table 1 Summary of use of resources audit risks

| Audit risk | Response |
|---|---|
| The Authority has not been subject to any performance reviews by the Audit Commission in recent years. Consequently there are a number of areas we need to explore in order to arrive at a value for money conclusion for both 2005/06 and 2006/07. | We will conduct a short overview of the arrangements that the Authority has in place to enable us to reach a value for money conclusion for 2005/06 and 2006/07. Where possible we will draw from work that has been carried out by other bodies, such as the National Park Authorities Performance Assessment. |

Performance information

- 18 In 2006/07, our audit work in relation to specified performance indicators will be risk based and will link at least in part to our review of the Authority's overall arrangements to secure data quality (as required for our value for money conclusion). Our fee estimate includes an element for this work on the basis that we will assess Broads Authority as medium risk in relation to its performance indicators.
- 19 This risk assessment may change depending on our assessment of your overall arrangements. When we have finalised our risk assessment we will update our plan including any impact on the fee.

Best value performance plan

- 20 We are required to report on whether or not you have complied with legislation and strategy guidance in respect of the preparation and publication of your best value performance plan (BVPP).

Financial statements

- 21 We will carry out our audit of the 2006/07 financial statements and have regard to the International Standards on Auditing UK and Ireland (ISA UKIs).
- 22 We are also required to review whether the Statement on Internal Control 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.

- 23 On the basis of our preliminary work to date we have identified the following audit risks.

Table 2 Summary of opinion risks

| Opinion risks | Response |
|---|--|
| The Authority's 2004/05 draft financial statements did not fully comply with the SORP requirements. | During 2006 we will assess whether the Authority has responded adequately to the recommendations for the improved accounts presentation that we made following our 2004/05 audit. We will then reassess the risk for 2006/07. |
| Significant changes are proposed in the 2006 CIPFA Statement of Recommended Practice (SORP). | We will review compliance with the SORP requirements as part of our review of the financial statements. |

- 24 Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will be maintained and that Internal Audit will complete their planned work on key information systems to the agreed quality and by the agreed date and that the accounts will be prepared and fully supported by working papers by June 2007.
- 25 We have yet to undertake the audit of the 2005/06 financial statements and our 2006/07 financial statement audit planning will continue as the year progresses. This will take account of:
- the 2005/06 opinion audit;
 - the documentation and initial testing of material systems;
 - our assessment of the closedown arrangements; and
 - any changes in financial reporting requirements.
- 26 When we have finalised our risk assessment in respect of your financial statements, we will issue a separate plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

Whole of government accounts

- 27 The Government is introducing whole of government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required to be audited. The Audit Commission is currently discussing the scope of the likely audit work with stakeholders. The fee for this work is not included in this plan and we will discuss this with the Chief Executive when further details are available.

Certification of claims and returns

28 If required we will certify the Authority's grant claims as follows:

- claims for £50,000 or below will not be subject to certification;
- claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit; and
- claims over £100,000 have an audit approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.

Voluntary improvement work

- 29 There is no voluntary improvement work allowed for in this Audit Plan. We would be happy to discuss with the Authority any further work which would help it to progress its improvement agenda.

Other information

The team

Table 3

| Name | Title |
|----------------|---|
| Andy Perrin | District Auditor and Relationship Manager |
| Helen Devlin | Audit Manager |
| Marc Cawthorne | Audit Team Leader |

- 30** 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.
- 31** We comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

Future audit plans

- 32 As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. For planning purposes, there is ongoing consideration of risks as they arise or are identified and our audit plans will be revised accordingly.
- 33 We will discuss any developments with you in more detail as the audit year progresses.

Appendix 1 – Audit fee

Table 4

| Fee estimate | Plan 2006/07 | Plan 2005/06 |
|-------------------------------------|----------------|----------------|
| Audit | | |
| Accounts | £14,400 | £11,280 |
| Use of resources | £5,500 | £5,320 |
| Total audit fee | £19,900 | £16,600 |
| Certification of claims and returns | £Nil* | £Nil* |
| Voluntary improvement work | £Nil | £Nil |

* Additional amounts are estimated at £Nil for both years, although this is dependent on the Authority not having any claims, other than the Outturn Report, which require separate certification.

- 1 The fee (plus VAT) will be charged in one instalment as previously requested.
- 2 The fee above includes all work contained in this plan except any work required in relation to the whole of government accounts (discussed in paragraph 27).

Specific audit risk factors

- 3 In setting the audit fee we have taken account of the following specific risk factors:
 - the need for us to explore a number of performance areas in order to arrive at a value for money conclusion for 2006/07;
 - the need for further improvements to the financial statements to ensure better compliance with the SORP; and
 - likely changes arising from the 2006 SORP.

Assumptions

- 4 In setting the audit fee we have assumed:
 - you will inform us of significant developments impacting on our audit; and
 - Internal Audit meets the appropriate professional standards.
 - Internal Audit undertakes appropriate work on all material information 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 International Standards on Auditing (ISA);
 - officers will provide good quality working papers and records to support the financial statements by the agreed date;
 - officers will provide requested information within agreed timescales; and
 - officers will provide prompt responses to draft reports.
- 5 Where these requirements are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 6 Changes to the plan will be agreed with you. These may be required if:
 - new risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - there are any changes to financial reporting requirements, professional auditing standards or legislation which results in additional work.

Specific actions the Broads Authority could take to reduce its audit fees

- 7 The Audit Commission requires its auditors to inform an Authority of specific actions it could take to reduce its audit fees. We have not identified any specific actions that the Broads Authority could take to reduce the fees.

Process for agreeing any changes in audit fees

- 8 If we need to amend the audit fees during the course of this plan we will firstly discuss this with the Chief Executive. We will then prepare a report outlining the reasons why the fee needs to change for discussion and agreement with the Broads Authority members.

Appendix 2 – Planned outputs

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

Table 5

| Planned output | Start date | Draft due date | Key contact |
|---|-------------------|-----------------------|---|
| Audit Plan* | 1 March 2006 | 30 June 2006 | District Auditor and Relationship Manager |
| BVPP Opinion | 1 August 2006 | 30 September 2006 | Audit Manager |
| Report to on Financial Statements those Charged with Governance | 1 August 2007 | 30 September 2007 | District Auditor |
| Opinion on Financial Statements | 1 August 2007 | 30 September 2007 | District Auditor |
| Value for Money Conclusion | 1 August 2007 | 30 September 2007 | District Auditor |
| Final Accounts and Regularity Memorandum | 1 August 2007 | 30 November 2007 | Audit Manager |

* To be revisited during the year to reflect outcome of 2005/06 opinion audit and 2006/07 interim visit.

Appendix 3 - Criteria to inform the auditor's conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for establishing strategic and operational objectives and for determining policy and making decisions

- 1 The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

Arrangements for ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

Arrangements for ensuring compliance with established policies, procedures, laws and regulations

- 5 The body has put in place arrangements to maintain a sound system of internal control.

Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working

- 6 The body has put in place arrangements to manage its significant business risks.

Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body and for ensuring compliance with the general duty of best value (where applicable)

- 7 The body has put in place arrangements to manage and improve value for money.
- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

Arrangements for ensuring that the audited body's affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption

- 12 The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

Appendix 4 - The Audit Commission's requirements in respect of independence and objectivity

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISA UKIs 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.
- 2 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 full Broads Authority. The auditor reserves the right, however, to communicate directly with the Authority on matters which are considered to be of sufficient importance.
- 3 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.
- 4 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.

- 5 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.