

Cumbria County Council Management Audit Unit

Proposed Internal Audit Plan 2005/06

1. Recommendation

- 1.1 **The Audit & Performance Committee is requested to receive this report and approve the internal audit plan for 2005 06.**

2. Proposed Internal Audit Plan

- 2.1 The strategic audit plan has been reviewed and revised following consultation with Police representatives and to take into account changes in Internal Audit requirements following the introduction of the statutory SIC (Statement of Internal Control). The plan also reflects work done by external inspectors, such as the Audit Commission and HMIC. Internal Audit has attended liaison meetings in the year with The Audit Commission, HMIC and Police Best Value Manager.

- 2.2 The main changes to the strategic plan are as follows

Change	Reason
Area visits	Annual coverage to be introduced from 2005/06 for 3 BCU's and Operational Support. 2 main reviews and 2 follow up reviews each year. Scope of reviews to include planning, performance management and risk management to reflect SIC requirements. New work will be carried out at area reviews to look at custody and use of force monitoring. Internal Audit will liaise with Professional Standards Unit on this. The Director of Finance & Resources has requested that financial management aspects are reported separately following change of line management for Area Finance Managers.
Payroll/Travel and subsistence	A full system review of payroll will be done every 2 years. In alternating years, a sample of transactions will be tested and a review made of travel/subsistence payments.
Creditors	Basic review on an annual basis rather than in-depth every 3 years. Less need for an in-depth review as system is a module of Oracle Financials, unlike payroll and debtors. Additional coverage also at Areas which will be visited annually – see above.
Corporate BV/BVPI's	Taken out of plan as significant coverage by HMIC/Audit Commission. Performance management will be covered annually to support SIC and at Areas (see below)
Corporate performance management	To cover on an annual basis from 05/06 onwards to support SIC statement – NB 05/06 review to support 04/05 SIC.

Internal Audit will liaise with HMIC on the timing and scope of visits to BCU's to avoid any duplication of coverage or inconvenience to area staff.

Specific reviews for the 2005/06 plan are as follows:

Work area	Reason
NSPIS HR implementation	Carried forward to 2005/06 as implementation of DMS (Duty Management System) delayed.
Process review of Communications Centre	Requested by Operational Support Department.
Review of data collection for LPSA 1 (People killed or seriously injured on roads)	Concerns raised at CCC on data timeliness. Potential impact on CCC reward grant. The Audit Commission is conducting a broader review of highways policing.
Monitoring of property services contract with Capita	HMIC suggested this as a potential area and some issues raised as part of Tendering audit review.
Input to changes to financial management arrangements	Internal Audit will liaise and advise the Director of Finance & Resources on control issues where major changes to financial system administration is proposed.

Consideration was given to looking at controls over legal compliance (to fit in with a key aspect in the SIC). It was noted that the Audit Commission is to review compliance with the Freedom of Information Act and that an ongoing review of Data Protection Act compliance is already undertaken in PSU.

- 2.3 The plan has been discussed with the Director of Finance, Director of Legal Services (from a risk perspective) and the Head of Professional Standards. The Treasurer and the Audit Commission have also been consulted.
- 2.4 Computer audit coverage will follow up the computer network security review and review controls/testing over new system for calculating Police overtime (Duty management module of NSPIS HR).
- 2.5 A summary of the estimated days for completing the 2005/06 internal audit plan is set out below:

Audit area	Estimated days
Main financial systems	70.5
Other systems	10
Computer audit	13
Devolved activity	36
Value-for-money reviews	10
Planning & management	15.5
Audit & Performance Committee support	5
Total	160

This includes provision for travel, planning and reporting to management and the Audit and Performance Committee, as required. Recommendations from previous audit reports are also followed up, usually at the next review, unless the original assignment was a one-off.

- 2.6 The daily rate has been held at £240 giving an annual cost for Internal Audit services of £38,400.

**Management Audit Unit
Cumbria County Council
May 2005**

Audit Plan

Cumbria Police Authority

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Reference:	CU003 Audit Plan
Date:	April 2005

Introduction

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

- the impact of the new Code of Audit Practice which comes into effect in April 2005;
- your local risks and improvement priorities;
- current national risks relevant to your local circumstances; and
- the impact of International Standards on Auditing (UK and Ireland) (ISAs).

Our responsibilities

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); and
- the Local Government Act 1999.

The Code has been revised with effect from 1 April 2005. The key changes include:

- the requirement to draw a 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.

Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of service 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 the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the audited body's affairs are managed in accordance with proper standards of conduct and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual Statement on Internal Control.

Further details for the new Code are set out in Appendix 1.

The fee

The total fee estimate for the audit work planned for 2005/06 is £65,975 (2004/05: £70,840). The fee is based on the Audit Commission's fee guidance contained within its operational plan and reflects both national risks identified by the Audit Commission and our local risk assessment.

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. We will formally 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.

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.

The expected outputs from this work are outlined in Appendix 2.

Use of resources

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.

The Audit Commission is currently developing relevant criteria for auditors to apply in reaching this conclusion. 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).

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

SUMMARY OF USE OF RESOURCES AUDIT RISKS	
Audit risk	Response
Tackling drug use and associated crime remains a priority for the Authority and its CDRP partners. During 2004, work was carried out to assess the effectiveness of partnership activity in reducing the impact of drugs within local communities. Ineffective co-ordination of activity across partner organisations can be a significant inhibitor to improvement.	Follow-up progress in responding to the issues raised by our safer communities work. The first phase of this year's work will be to review progress against recommendations that could be actioned by April 2005. The second phase of the work later in the year will review if those actions have fed through into improved services to drug users, their families and support networks, voluntary/community groups and communities as a whole.
There is a significant issue around road safety within Cumbria. It has a comparatively high level of killed and seriously injured (KSI) and this is also a key priority for Cumbria CC, the Fire & Rescue Service and Ambulance Service. Recent figures show reducing KSI overall, but an increasing number of fatalities.	We will review the Authority's links with Cumbria CC, the Fire & Rescue Service and the Ambulance Service where this is also a key priority. We will also establish whether there is a co-ordinated approach to road safety and whether there is a common understanding as to why serious accidents are happening and what needs to be done.
Possible significant financial impact on balances, priorities and council tax level resulting from the impact of storm and flood damage.	Review the impact on medium-term financial planning and how priorities will be affected and revised.
Failure to put in place appropriate arrangements to deal with Freedom of Information (FoI) requirements.	Review arrangements in place to ensure that the Authority can meet key requirements (eg responding to FoI requests within 20 days). Assess arrangements in place to raise staff awareness of this issue (eg training, key contacts, etc).
The Commission's National Fraud Initiative (NFI) 2004 will provide information that may lead to the detection of fraud.	We will assess how the Authority responds to the results generated by the NFI process and investigates the matches.

Financial statements

We will carry out our audit of the 2005/06 financial statements and have regard to the newly introduced International Standards on Auditing (ISAs).

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.

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

SUMMARY OF OPINION RISKS	
Opinion risks	Response
Failure by the Authority and constabulary to implement quality assurance arrangements to ensure the accuracy and reliability of Activity-Based Costing (ABC) submissions in 2004/05 and future years.	We will meet with the ABC project team to discuss progress since our last assessment and to assess how the introduction of new internal quality assurance arrangements has impacted on the accuracy of the information.
Limited understanding within the Authority of the impact of the introduction of the new international standards on auditing in terms of the work of Internal Audit and finance staff.	We will provide a workshop that provides the Authority with a clear understanding of the impact of the introduction of the new international auditing standards in terms of the work of Internal Audit and finance staff.
The Authority may fail to take account of the impact of the changes within the statement of recommended practice (SORP) 2004 when preparing the 2004/05 financial statements. The main changes include new requirements for group accounting/joint arrangements, and the new capital finance regime (Prudential Code).	We will provide a final accounts workshop, which will identify the significant issues that will need to be considered when producing the Authority's 2004/05 financial statements.

However, we have yet to undertake the audit of the 2004/05 financial statements and our 2005/06 financial statement audit planning will continue as the year progresses. This will take account of:

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

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.

Grant claim certification

We will continue to certify the Authority's grant claims.

- 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.
- 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.

Data quality audit

The Police Standards Unit is currently in discussion with the Audit Commission over the commissioning of the third and final phase of the review of data quality in all police forces in England and Wales to be undertaken during 2005/06. The objective of the review is to assess police forces' ongoing compliance with National Crime Recording Standards.

The details of this work have not yet been determined but we will update you further when this is agreed.

The work is funded separately by the Home Office.

Activity-based costing

The Police Standards Unit is also discussing with the Audit Commission the possibility of a further review of activity-based costing in 2005/06. The objective of this is to gain assurance that forces are implementing this effectively.

The details of this work have not yet been determined but we will keep you informed on any further work.

The work is funded separately by the Home Office.

The team

Name	Title
Mark Heap	District Auditor
Richard McGahon	Audit Manager
Keith Power	Area Performance Lead
John Cangle	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

As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. Key areas identified include:

- progress on crime data quality issues;
- effectiveness of partnership working in addressing issues relevant to children and younger people;
- co-ordinated work on a value for money area with her majesty's inspectorate of constabulary (HMIC).

We will discuss these in more detail as the audit year progresses.

Status of our reports to the Authority

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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 committee.

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 new 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 fee

Audit area	Plan 2004/05	Plan 2005/06
Accounts	*	£41,800
Use of resources	*	£24,175
Total audit fee	£70,840	£65,975
Grant claim certification	£3,000	£3,000
Voluntary improvement work	0	0

* 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 fee compared to the indicative fee banding equates to 30 per cent above mid-point.

The fee (plus VAT) will be charged in 12 equal instalments from July 2005 to June 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 International Standards on Auditing;
- 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 issued to the audit and performance committee.

Planned output	Start date	Draft due date	Key contact
Audit plan*	February 2005	April 2005	Audit Manager
Report assessing progress on implementation of agreed action plan from safer communities review (Phase I)	May 2005	June 2005	Performance Lead
Report assessing impact of changes (Phase II)	January 2006	March 2006	Performance Lead
Statutory report on the best value performance plan (BVPP)	September 2005	December 2005	Audit Manager
Interim audit memorandum	February 2006	April 2006	Audit Manager
Report to those charged with governance (ISA 260)	August 2006	September 2006	Audit Manager
Audit opinion	July 2006	September 2006	District Auditor
Final accounts memorandum	July 2006	September 2006	Audit Manager
Report on assessing the effectiveness of partnership arrangements to improve road safety	Sept 2005	October 2005	Performance Lead
Report on the quality of the recording of crime data	To be agreed	To be agreed	Performance Lead
Report on the implementation of Activity-Based Costing	To be agreed	To be agreed	Audit Manager
Annual audit letter	October 2006	November 2006	District Auditor

**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 committee. The auditor reserves the right, however, to communicate directly with the Authority 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 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 and the second in command (audit manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
- audit suppliers are required to obtain the Commission's written approval prior to changing any district auditor in respect of each audited body; and
- the Commission must be notified of any change of 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.