

Audit Plan

November 2006



Audit Plan

Cumbria Police 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.
- 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, 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 director/member or officer in their individual capacity; or
- any third party.

Copies of this report

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Contents

Introduction	4
Our responsibilities	4
The fee	5
Summary of key audit risks	6
Value for money conclusion	6
Data quality audit	7
Best Value Performance Plan	7
Financial statements	7
Whole of government accounts	8
Other information	9
The team	9
Future audit plans	10
Appendix 1 – Audit fee	11
Specific audit risk factors	11
Assumptions	12
Specific actions Cumbria Police Authority could take to reduce its audit fees	12
Process for agreeing any changes in audit fees	12
Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources	13
Appendix 3 – Planned outputs	15
Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity	16

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;
 - work specified by the Audit Commission for 2006/07;
 - your local risks and improvement priorities; and
 - current national risks relevant to your local circumstances.

Our responsibilities

- 2 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.
- 3 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 gave the first such conclusion on 29 September 2006 as part of the 2005/06 audit.

The fee

- 4 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.
- 5 The total fee estimate for Cumbria Police Authority for 2006/07 is £66,150 (2005/06: £69,320). 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 Cumbria Police Authority could take to reduce its audit fees and the process for agreeing any additional fees.
- 6 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 and we will formally advise you of any changes if this is the case.

Summary of key audit risks

- 7 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;
 - carry out audit work as specified by the Audit Commission; and
 - provide a report on the Authority's best value performance plan.
- 8 In our initial assessment of risk we considered the impact of the proposed merger with Lancashire Police Authority and had already met jointly with officers from both Cumbria and Lancashire prior to the merger being cancelled. 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.
- 9 The expected outputs from this work are outlined in Appendix 3.

Value for money conclusion

- 10 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 value for money conclusion).
- 11 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 2. 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).
- 12 It is expected that appointed auditors will be giving Use of Resources judgements at police authorities for 2006/07. There are likely to be a small number of changes to the criteria on which judgements are made and our work will build on last year's assessment. The arrangements should be finalised in early 2007.
- 13 Such work will be over and above that required to meet auditors' responsibilities under the Code of Audit Practice and has not been included in the fee in paragraph 5. Additional fees would need to be charged accordingly and we will discuss this with the Treasurer when more details are available.
- 14 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
<p>Over the last two years Cumbria Police has been addressing a range of IT issues. In doing so it is important that the Authority understands their staff's level of current understanding on IT related issues and use this to assess what further risks need to be addressed.</p>	<p>We will undertake a web based survey to raise general awareness about IT and to:</p> <ul style="list-style-type: none"> • assess level of awareness of internal policies and procedures; • benchmark against current best practice; and • highlight areas where action needs to be taken to improve governance and reduce risk.

Data quality audit

- 15 Following the work undertaken by the Commission's auditors on crime data during 2005/06, a fourth year of crime data reviews is planned. This will involve building on the work from previous years on crime data and activity-based costing, focusing more directly and clearly on the corporate arrangements in place in authorities and forces to secure the quality of key data used in the Policing Performance Assessment Framework (PPAF), and how this data is used by decision makers.
- 16 We expect this work to be funded separately by the Home Office and, therefore, it is not included in the fee contained in this plan.

Best Value Performance Plan

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

Financial statements

- 18 We will carry out our audit of the 2006/07 financial statements and comply with the International Standards on Auditing UK and Ireland (ISA UKIs).
- 19 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.
- 20 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 may fail to implement the new police pension arrangements from 1 April 2006.	We will review the implementation of the new police pension arrangements and its impact on the financial statements.
Under the new ISA requirements, audit assurance may not be obtained around the effective operation of material financial systems if the Management Audit Unit (MAU) does not continue to review and test the key controls in place in material systems in 2006/07.	We will continue to work with MAU to ensure appropriate work is carried out on all material systems that provide figures in the financial statements, so that we can continue to place reliance on their work.
Under the new ISAs, we are required to assess the performance of MAU on a three yearly cycle.	We will review the performance of MAU to ensure it continues to meet current professional standards.

- 21** Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will be maintained 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 the 30 June 2007.
- 22** Our 2006/07 financial statement audit planning will continue as the year progresses. This will take account of:
- our documentation and initial testing of material systems;
 - our assessment of the closedown arrangements; and
 - any changes in financial reporting requirements.
- 23** 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

- 24** 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 fee for this work is not included in this plan and we will discuss this with the Treasurer when further details are available.

Other information

The team

Table 3

Name	Title
Michael Thomas	District Auditor
Richard McGahon	Audit Manager
Keith Power	Area Performance Lead
John Cangle	Audit Team Leader

- 25** 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.
- 26** 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

- 27 As Cumbria Police Authority will no longer be merging from on 1 April 2007 we will work need to look at potential issues for future years' programmes. We will discuss these in more detail as the audit year progresses.

Appendix 1 – Audit fee

Table 4 Audit fee

Fee estimate	Plan 2006/07	Plan 2005/06
Audit		
Accounts	51,930	45,145
Use of resources	14,220	24,175
Total audit fee	66,150	69,320
Grant claim certification	*	*
Voluntary improvement work	0	0

**No longer required by the Home Office*

- 1 The total audit fee compared to the indicative fee banding equates to 3 per cent below mid-point.
- 2 The fee (plus VAT) will be charged in 12 equal instalments from July 2006 to June 2007.
- 3 The fee above includes all work contained in this plan except:
 - any work which auditors may be required to do to give a formal Use of Resources judgement over and above that required to meet our responsibilities under the Code of Audit Practice, as discussed in paragraph 13;
 - any work required in relation to the Whole of Government Accounts, as discussed in paragraph 24; and
 - data quality audit work as discussed in paragraph 15, which we expect to be funded by the Home Office.

Specific audit risk factors

- 4 In setting the audit fee, we have taken account of the following specific risk factors.
 - Ongoing issues resulting from the storm damage in January 2005 including the insurer's decision not to meet the full cost of the insurance claim and the future of the Rickergate site and how, in the longer term, future police services will be delivered in North Cumbria.
 - The initial proposal for the merger of Cumbria Police Authority and Lancashire Police Authority on 1 April 2007, and the subsequent withdrawal of Government support for the merger process in July 2006.

Assumptions

- 5 In setting the audit 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 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 UK and Ireland;
 - officers will provide good quality working papers and records to support the financial statements by 30 June 2007;
 - officers will provide requested information within agreed timescales; and
 - officers will provide prompt responses to draft reports.
- 6 Where these requirements are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 7 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 audit work.

Specific actions Cumbria Police Authority could take to reduce its audit fees

- 8 The Audit Commission requires its auditors to inform an Authority of specific actions it could take to reduce its audit fees. Given that we have significantly reduced our fee from 2005/06, on our initial understanding that the Authority was going to merge we believe that there is little scope to reduce the fee any further.

Process for agreeing any changes in audit fees

If we need to amend the audit fees during the course of this plan, we will firstly discuss this with the Treasurer. We will then prepare a report outlining the reasons why the fee needs to change for discussion and agreement with the Audit and Performance Committee.

Appendix 2 – 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

- 7 The body has put in place arrangements to manage and improve value for money.

14 Audit Plan | Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

- 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 3 – Planned outputs

- 1 Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 5

Planned output	Start date	Draft due date	Key contact
Audit plan*	March 2006	November 2006	Audit Manager
Statutory report on the best value performance plan (BVPP)	September 2006	December 2006	Audit Manager
Data quality report	January 2007	April 2007	Area Performance Lead
Interim audit memorandum	February 2007	May 2007	Audit Manager
Annual Governance Report	July 2007	September 2007	Audit Manager
Opinion on financial statements	July 2007	September 2007	Audit Manager
VfM conclusion	June 2007	September 2007	Audit Manager
Final accounts memorandum	August 2007	October 2007	Audit Manager
Annual Audit Letter	October 2007	November 2007	Audit Manager

**To be revisited during the year to reflect outcome of 2006/07 interim visit.*

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 (UKI) when auditing the financial statements. The 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 standards define ‘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.
- 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.
- 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.