

EXMOOR NATIONAL PARK AUTHORITY

RESOURCES COMMITTEE – 19 JULY 2005

EXTERNAL AUDIT ARRANGEMENTS

Report of the Chief Finance Officer

Purpose of Report:

To report to Members on the External Audit for 2004/05.

Legal and Financial Implications including Human Rights Act 1998:

Local Government Act 2003 and Accounts and Audit Regulations 2003.

RECOMMENDATION:

Members are recommended to NOTE the arrangements for the 2004/05 External Audit.

- 1 The Authority's external Auditors, RSM Robson Rhodes, has issued their Audit and Inspection Plan describing the basis of their work for the period to 31 March 2006. Their responsibilities as auditors are governed by the Audit Commission Act 1998, supported by the Code of Audit Practice which has been revised with effect from 1 April 2005. The key changes of the revisions of the Code are set out in Appendix 1 on page 7.
- 2 The plan sets out the audit and inspection work to be undertaken and has been drawn up using their risk-based approach to audit Planning. However, as is stated on page 4 of the Plan, once the audit of the 2004/05 financial statements has been completed the risk assessment will be updated in advance of the 2005/06 audit detailing their specific approach, including any impact on the work carried out and the fee quoted.
- 3 Appendix 2 on Page 8 sets out the Audit and Inspection Fee proposed and it will be noted that there is no increase in that for 2004/05 the fee being £13,500 and an estimated £550 for Grant claim certification.
- 4 The key members of the RSM Robson Rhodes remain unchanged (Jon Roberts and Suzanne Waller) so there is continuity which is particularly useful and helpful. Since the Plan was issued we have been informed that Kay Barratt has left RSM Robson Rhodes and so the person carrying out much of the detailed work will be new to the Authority as will their assistant.

Charles Burrows
Chief Finance Officer

Audit and Inspection Plan

Exmoor National Park Authority

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Reference:	Exmoor National Park Authority
Date:	May 2005

Introduction

This plan sets out the audit and inspection 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;
- the Authority's local risks and improvement priorities;
- current national risks relevant to local circumstances; and
- the impact of International Standards on Auditing - UK and Ireland (auditing standards).

Your relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Our responsibilities

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

- the Audit Commission Act 1998 and 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.

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

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

Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the Authority's arrangements across a broad range of areas, as shown in Exhibit 1.

EXHIBIT 1: PERFORMANCE MANAGEMENT AND FINANCIAL MANAGEMENT ARRANGEMENTS

Key areas
Establishing strategic and operational objectives
Determining policy and making decisions
Ensuring that services meet the needs of users and taxpayers and for engaging with the wider community
Ensuring compliance with established policies, procedures, laws and regulations
Identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working
Ensuring compliance with the general duty of best value, where applicable
Managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body
Monitoring and reviewing performance, including arrangements to ensure data quality
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 (SIC).

Further details of the new Code are set out at Appendix 1.

The fee

The total fee estimate for the audit and inspection work planned for 2005/06 is £13,500 (2004/05: £13,500). The fee is based on the Audit Commission's fee guidance contained within its operational plan.

A breakdown of the fee is provided at Appendix 2. The fee is based on a number of assumptions around the work that will be required to comply with the new Code of Audit Practice.

We will formally advise you of any changes to the plan and the fee, arising from these developments, or from changes in our risk assessment during the course of the audit.

Summary of key audit and inspection risks

This section summarises our assessment and the planned response to the key risks which may have an impact on our objectives to:

- provide an opinion on your financial statements;
- provide a conclusion on your use of resources; and
- provide a report on the Authority's Best Value Performance Plan (BVPP).

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 the Authority's 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 at Appendix 3.

National Park Authorities Performance Assessment and inspections

A streamlined performance assessment for National Park Authorities has been developed, in conjunction with the Audit Commission, and is being introduced in 2005-06. The performance assessment is based on self assessment and peer review and does not include any formal involvement from the Audit Commission or the Authority's external auditors, however the external auditors will attend the round table meeting to review the report findings and improvement plans.

The Audit Commission has no planned inspection activity for 2005-06.

Use of resources

The new Code of Audit Practice requires us to issue a conclusion on whether the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources. In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements (as set out in Exhibit 1).

Using our cumulative knowledge and experience, including the results of previous work and other regulators' work, we have identified the following areas of audit risk to be addressed, as part of our work in reaching conclusions on the adequacy of the Authority's performance management and financial management arrangements.

EXHIBIT 2: SUMMARY OF USE OF RESOURCES AUDIT RISKS

Audit risk	Response
<p>The Authority does not respond appropriately to new legislation and emerging issues, for example:</p> <ul style="list-style-type: none"> • EU procurement directives • Local Authorities Order 2004 • Capitalisation of pension contributions • Single status 	<p>As part of the 2004-05 and 2005-06 audits we will discuss with the Monitoring Officer and Chief Finance Officer the proposed arrangements for compliance with legislation</p>

Financial statements

We will carry out our audit of the 2005/06 financial statements in accordance with recently revised auditing standards.

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.

EXHIBIT 3: SUMMARY OF OPINION RISKS

Opinion risks	Response
<p>The 30 June 2006 deadline for submission of the 2005-06 accounts is not met</p>	<p>We will review the Authority's planned closing procedures and timetable to ensure that the earlier deadline can be met</p>
<p>The new requirements of SORP2005 are not met</p>	<p>We will discuss the implications of the SORP2005 with the accounts team as part of the planning process and will continue to liaise with key accounts staff during the accounts preparation</p>
<p>The requirement for the submission of audited schedules for Whole of Government accounts is not met</p>	<p>We will monitor the Authority's production and submission of un-audited schedules for 2004-05 and ensure that appropriate time is included within the 2005-06 accounts timetable for audit and submission of the schedules</p>

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

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

When we have finalised our risk assessment, we will update our plan in advance of the audit 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 may lead to a reduced audit approach for these claims.

Planned outputs

We will issue a number of audit and inspection reports to the Authority, summarising the results of our work, key findings and recommendations. Appendix 3 details the formal reports we expect to issue, based on our planning to date, including expected date of issue and the recipients of draft and final reports. We will formally advise you of any changes to these arrangements, arising from our ongoing planning.

The team

The key team members, who will be involved in the delivery of this plan, are listed at Exhibit 4.

EXHIBIT 4: THE AUDIT AND INSPECTION TEAM

Name	Title
Robert Hathaway	Audit Commission Relationship Manager
Jon Roberts	RSM Engagement Director
Suzanne Waller	RSM Audit Manager
Kay Barratt	RSM In-charge Auditor

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 the Authority's financial statements we will comply with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

Complaints

If at any time you wish to discuss with us how our services may be improved or if you are in any way dissatisfied with the audit or inspection service you are receiving please contact Richard Tremeer, RSM Head of Local Government and Health Services, or Jane Wreford, Regional Director of the Audit Commission, respectively.

Status of our reports to the Authority

We will provide reports, or other output as agreed, to the Authority for each of the risk areas identified above.

Reports are:

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

International Standards on Auditing (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 Resources Committee.

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

The new Code of Audit Practice

The Audit Commission's objectives in revising the Code

The Commission's objectives in revising the Code are to achieve the following key outcomes:

- a more streamlined audit targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, with a focus on audited bodies' corporate performance and financial management arrangements; and
- better and clearer reporting of the results of audits.

The 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 and inspection fee

Audit area	Plan 2004/05	Plan 2005/06
	£	£
Planning and Direction	1,500	1,600
Accounts	*	5,000
Use of resources	*	3,400
BVPP and BVPIs	3,500	3,500
Total audit fee	13,500	13,500
Inspection	0	0
Total audit and inspection fee	13,500	13,500
Grant claim certification	550	550

* 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 (Accounts and Use of Resources).

The total audit and inspection fee compared to the indicative fee banding equates to 22 per cent above mid-point.

The fee (plus VAT) will be charged as follows:

Month	Audit fee to be billed by RSM Robson Rhodes	Inspection fee to be billed by the Audit Commission
	£	£
June 2005	3,375	0
September 2005	3,375	
December 2005	3,375	
March 2006	3,375	
Total	13,500	0

Assumptions

The fee is based on an initial risk assessment and is subject to the Audit Commission finalising:

- the level of detail required to support the auditor's conclusion on value for money, under the new Code of Audit Practice; and
- the work required by auditors to complete scoring assessments under the Use of Resources block.

In setting the fee, we have also assumed:

- that the 2004-05 accounts audit will run to plan;

- no significant impact from the 2005 SORP and the Whole of Government Accounts agenda on resource requirements for the 2005-06 accounts audit;
- the Authority informing us of significant developments impacting on our audit;
- Internal Audit meets the appropriate professional standards and 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; and
- officers will provide good quality working papers and records to support the accounts, requested information within agreed timescales and 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 Resources Committee.

Planned output	Draft due date	Draft issued to	Final issued to
Audit plan*	April 2005	Chief Finance Officer	Resources Committee
Combined accounts and performance report (including BVPP opinion) to those charged with governance (ISA 260)	September 2006	Chief Finance Officer	Resources Committee
Annual audit and inspection letter	September 2006	Chief Finance Officer	Resources Committee

* 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 Resources 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 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.