

Audit and Inspection Plan

West Yorkshire Fire and Rescue Service

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Reference:	YO020 Audit and Inspection 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).

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 arrangements for:

- 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; 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 and inspection work planned for 2005/06 is £48,500 (2004/05: £41,600). The fee is based on the Audit Commission's fee guidance contained within its operational plan. The majority of the increase in the fee over 2004/05 is caused by the impact of the CPA process, compounded by the fact that only a minimal fee was charged in 2004/05 for Use of Resources work. The 2005/06 fee is only 0.4 per cent above our original for estimate for 2003/04.

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 and inspection 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;
- provide a scored judgment on the 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 3.

CPA and inspections

CPA is to be carried out at West Yorkshire Fire and Rescue Service, for the first time, commencing in April 2005. The CPA process should identify key strengths and weaknesses in performance. For this reason the 2005/06 audit plan contains an element earmarked for improvement planning, to be firmed up once the CPA has taken place. This element includes an allowance of time for liaison with the ODPM, but does not include any additional substantive work which might be required following on from the CPA process.

Use of resources

The new Code of Audit Practice requires us to issue a conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources. In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements.

We will audit the Authority's Best Value Performance Plan and Performance indicators as part of our work under this Code area, and will also issue a conclusion on the Authority's overall Value for Money at the conclusion of the audit.

Using our cumulative knowledge and experience, including the results of previous work and other regulators' work, we have not identified any specific areas of audit risk to be addressed in respect of use of resources. However, we have yet to receive findings from the 2005 CPA process and our 2005/06 use of resources audit planning will continue as the year progresses. If findings impact upon our risk assessment we will update our plan in advance of the audit.

Financial statements

We will carry out our audit of the 2005/06 financial statements and have regard to the newly introduced ISAs.

We are also required to review whether the Statement of 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.

The Audit Commission's National Fraud Initiative is currently underway to identify data matches which may indicate potential fraud. As part of our work towards our opinion on both the Statement of Accounts and the Statement of Internal Control we will work with the Authority to support the investigation of relevant data matches.

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

EXHIBIT 1: SUMMARY OF OPINION RISKS	
Opinion risks	Response
The move towards Whole of Government Accounts (WGA) requires earlier closedown of accounts in 2005/06. The risk of failing to hit the statutory deadline needs to be effectively managed.	<ul style="list-style-type: none"> Although the Authority has a good record in this area we will review closedown procedures and work to identify any changes that can be made to enable earlier production of the financial statements.
The accounting treatment of firefighters pensions is likely to change during the scope of this plan. These changes will need to be properly included in the Authority's statement of accounts to avoid the risk of material mis-statement.	<ul style="list-style-type: none"> We will assess the level of assurance that will be required regarding costs of the unfunded fire-fighter's pension scheme charged to the revenue accounts and liaise with the auditor of the Pension Authority to provide the required level of assurance. As part of our audit of the financial statements we will review the level of the pension's reserve. We will also consider the implications of accounting changes that may be required as indicated in the draft regulations discussed in Circular 4 2005.

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 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 would lead to a reduced audit approach for these claims.

The team

Name	Title
I McConnell	Relationship Manager and Appointed Auditor
S Dennis	Audit Manager
J Thornton	Performance Lead
S Marsden	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. The main area identified is the possibility of changes to the Fire Fighters Pension Scheme, which we will discuss this 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 Finance and General Purposes 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 and inspection fee

Audit area	Plan 2004/05	Plan 2005/06
Accounts	*	£38,843
Use of resources	*	£9,657
Total audit fee	£41,600	£48,500
Inspection	0	0
Total audit and inspection fee	£41,600	£48,500
Grant claim certification	£910	£1,100

* 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 and inspection fee compared to the indicative fee banding equates to the mid point.

The fee (plus VAT) will be charged in 12 equal instalments from April 2005 to March 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 Committee.

Planned output	Start date	Draft due date	Key contact
Audit plan*	1 February 2005	31 March 2005	Audit Manager
Interim audit memorandum	December 2005	April 2006	Audit Manager
BVPP opinion and PI audit memorandum	April 2005	September 2005	Audit Manager
Report to those charged with governance (ISA 260)	August 2006	September 2006	Audit Manager
Opinion on accounts, SIC and value for money conclusion.	July 2006	September 2006 (Statutory deadline.)	Audit Manager
Final accounts memorandum	July 2006	October 2006	Audit Manager
Local performance work/Improvement planning	To be confirmed.	To be confirmed.	Performance Lead
Annual audit and inspection letter	October 2006	December 2006	Relationship Manager

* 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 Finance and General Purposes Committee. The auditor reserves the right, however, to communicate directly with the Board 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 s 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.