

AGENDA ITEM:

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| REPORT TO: | PERFORMANCE AND AUDIT COMMITTEE |
| DATE: | 6TH SEPTEMBER 2007 |
| REPORT NO. | CFO/160/07 |
| REPORTING OFFICER: | EXECUTIVE DIRECTOR OF RESOURCES |
| CONTACT OFFICER: | KIERAN TIMMINS, EXECUTIVE DIRECTOR OF RESOURCES, EXTN. 4108 |
| OFFICERS CONSULTED: | |
| SUBJECT: | ANNUAL AUDIT PLANS 2007/08 |

Purpose of Report

1. To notify members of the proposed Audit plans for Internal and External Audit for 2007/2008 and to seek comments from members on the plans.

Recommendations

2. That members consider any comments or opinions they might have on the proposed audit plans.

Information

(a) Internal Audit

Definition

3. Internal Audit is an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. (Source: Code of Practice for Internal Audit In Local Government).
4. The Authority has a statutory duty to ensure that it maintains an adequate and effective system of Internal Audit of its accounting records and control systems. (Accounts and Audit Regulations 1996, 2003). In order to fulfil these functions the Authority has contracted with Liverpool City Council's Internal Audit Service.
5. Members will recall that the Authority has utilised the services of the City Council's Internal Audit Service since 1986. In late 2004, the Executive Director of Finance, ICT & Procurement conducted a competitive tendering exercise, in which each of the five District Councils, and others, were invited to bid to provide Internal Audit services for the Authority. Liverpool City Council won the contract which commenced on 1st April 2005.

6. The District Auditor, in her auditor's assessment, based on the code of Audit Practice and prepared for the recent C.P.A., marked the system of internal control of the Authority, including providing an adequate Internal Audit function, as "good".
7. Each year Internal Audit submit a plan for their work following consultation with the Executive Director of Finance, ICT & Procurement and other key officers. This plan is set based upon an assessment of risks, previous findings and the relationship with External Audit work. Internal Audit have examined the Authority's Risk Register and have taken this into account in preparing the plan. The proposed plan for 2007/2008 is set out in Appendix A.

(b) External Audit

Definition

8. Auditors appointed by the Audit Commission to carry out an independent audit of the organisation in accordance with the Audit Commission Act 1998. It is an external check on the arrangements in place for the governance of the Authority's affairs and the stewardship of the resources at their disposal. This includes auditing the Authority's accounts and look at aspects of performance management.
9. The Audit Commission has extended the appointment the District Audit service as the Authority's external auditors. Following restructure the District Audit service are essentially part of the Audit Commission.
10. The District Auditor submits a plan for work on an annual basis after consultation with officers of the Authority. The plan is attached as Appendix B, and is compiled on the basis of risk (see table 2 in Appendix for more details). Set out below are the key areas of work for the External Auditors.

Financial Statements and Value for Money Judgement

Auditors will carry out an audit of the 2007/08 financial statements and have regard to the International Standards on Auditing UK and Ireland (ISA UKIs). They 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.

Auditors are also required to assess the Authority's arrangements for securing economy, efficiency and effectiveness in the 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.

Best Value

Under section 7 of the Local Government Act 1999 the Authority must have its Best Value Performance Plan and its management arrangements for Best Value subject to external scrutiny. The Audit Commission has also been appointed as auditors for Best Value.

Fire and Rescue Performance Assessment Framework

The Audit Commission's fire and rescue performance assessment framework is underpinned by the principle of targeting our work where it will have the greatest effect.

This part of the inspection activity at Merseyside FRA for 2007/08 will consist of the following.

| Inspection Activity | Reason/impact |
|--------------------------------------|---|
| Relationship Manager (RM) role | To act as the Commission's primary point of contact with the Authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders. |
| Direction of Travel (DoT) Assessment | An annual scored assessment, carried out by the RM, of improvement or deterioration in performance. The assessment will be outcome-focused and will draw together other assessments of the FRA. The DoT label will be reported in the performance assessment framework scorecard published in March 2008. |
| Service Assessment* | A scored assessment which has an emphasis on service delivery. It includes a performance information element and an operational assessment of service delivery provided by Communities and Local Government. |

*Merseyside FRA was not subject to a service assessment in 2006/07 due to its excellent CPA categorisation. Arrangements for 2007/08 are still to be confirmed.

PFI

The audit fee includes £1,540 to refresh the risk assessment of the PFI Scheme as it develops. The Authority will recharge part of the fee to Lancashire and Cumbria fire authorities.

Action by Executive Director of Resources

11. The Executive Director of Resources has met with Internal Audit to discuss in detail their plan and in particular any risks arising from areas of low or zero audit coverage in the next year. Arrangements have been set in place for monitoring progress against the plan on an ongoing basis and for closely managing any ad hoc work requirements during the year.
12. The Executive Director of Resources has also met with District Audit staff to discuss their plans and in particular the relationship between the two plans.

Financial Implications

13. The estimated cost of the audits is shown in the table below. The Authority has made adequate provision in its budgets for audit services.

| | 2007/08 £,000 | 2006/07 £,000 |
|----------------|------------------|------------------|
| Internal Audit | 36 | 35 |
| External Audit | 80 | 81 |

Equality Implications

14. None arising from this report.

BACKGROUND PAPERS

- Audit Plan – Merseyside Fire & Rescue Authority 2007/08, Audit Commission, March 2005 (Appendix B)
- Internal Audit Plan 2006/07 – 2008/09, Liverpool City Council, (Appendix A)
- Audit Commission Act 1996
- Account & Audit Regulations 1996 & 2003
- Code of Audit Practice, Audit Commission, April 2005