

BABERGH DISTRICT COUNCIL

FROM: Head of Finance

REPORT NUMBER **G19**

TO: Overview and Scrutiny (Stewardship)
Committee

DATE OF MEETING: 5 June 2007

AUDIT COMMISSION LETTER AND WORK PLAN

1. **PURPOSE OF REPORT**

The Audit Commission's Audit and Inspection Letter for 2005/06 and Audit and Inspection Plan for 2007/08 are presented for consideration. Representatives from the Audit Commission will attend the meeting to present these and highlight the key issues from the two papers.

2. **RECOMMENDATIONS**

- 2.1 That Members note the key issues from the Audit Commission's Audit and Inspection Letter for 2005/06.
- 2.2 That the arrangements and coverage of the Audit and Inspection Plan for 2007/08 are also noted.

The Committee is able to resolve these matters.

3. **FINANCIAL IMPLICATIONS**

- 3.1 None directly. The Audit and Inspection Fee indicated for 2007/08 is within budget and savings may be possible for savings to be agreed in relation to this in due course.

4. **RISK MANAGEMENT**

- 4.1 This work is most clearly linked to the Significant Business Risk No. 7 – Financial, Performance and Risk Management. There is also some link to Risk No. 1 – Local Government Review/Pathfinder in relation to the LAA:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Members do not accept the Audit and Inspection Plan for 2007/08	Very Low	Marginal	The plan has been discussed and agreed with officers and only includes the key statutory and risk-based audit requirements.

5. **KEY INFORMATION**

5.1 The two papers attached to this report are a backward look on the Audit Commission's work in the last year and a forward look for the year ahead.

Audit and Inspection Letter for 2005/06

5.2 This summarises Babergh's performance and the improvements it has made and what more can be done to improve further. The key elements are:-

- Direction of Travel
- Local Area Agreements
- Financial Management and Value for Money - Use of Resources Assessment

5.3 Although this report is primarily backward looking, it also highlights key areas of focus for the future in terms of improvements and performance in key areas. There is a separate, more detailed report on improving use of resources on today's agenda.

2007/08 Audit and Inspection Plan

5.4 This has been produced by the Council's new auditors, PKF. The main aspects are:

- The proposed fee for 2007/08
- Summary of key audit risks
- The key areas of the plan

5.5 The Audit Commission will explain the main points relating to the report and the changeover arrangements. They and officers will answer any queries from Members and provide additional clarification where necessary.

6. **APPENDICES**

A – Annual Audit and Inspection Letter 2005/06

B – 2007/08 Audit and Inspection Plan

7. **BACKGROUND PAPERS REFERRED TO:**

None

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Annual Audit and Inspection Letter

Babergh District Council

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 Council

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 non-executive members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from any inspections that have been undertaken in the last year. The letter includes our review of how well the Council has progressed (our Direction of Travel report) and the auditor's assessment of how well the Council has managed its finances (the Use of Resources scores). These latter components will be an important feed into any future decision regarding the potential for rescoring the Council's Comprehensive Performance Assessment (CPA) category.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council included in this report are as follows.

Summary of Direction of Travel Report

- Council performance as measured by a basket of key Best Value Performance Indicators (BVPIs) selected by the Audit Commission has improved both in absolute terms, and relative to other councils. Sixty three per cent of these improved between 2004/05 and 2005/06, compared to an average for all districts of 58 per cent and 47 per cent were in the top quartile as compared with 31 per cent nationally. Local people can see some improvements in services, notably planning and benefits. The Council has also kept down the overall cost of its services and is proposing a below inflation increase in council tax of 2.9 per cent for 2006/07. The Council is in the second year of its four year Corporate Performance Assessment (CPA) improvement plan. It has delivered some planned improvements in the last year, although there has also been some slippage against target dates.
- The Council has been actively involved in partnership working on several projects which, if successful, will deliver improvements in services. A notable example is choice based lettings, which is designed to allow tenants a choice of accommodation across the Haven Gateway area. The Council has still to deliver further planned improvements in some areas, including implementing the full range of service standards and managing complaints.

Summary of Local Area Agreement (LAA) governance arrangements

- There is strong political and managerial leadership for the LAA with an ongoing commitment to partnership working. The partnership has developed a governance model and management structures and is working on targets overseen by four 'Block' Boards.

- However, governance arrangements that are fully 'fit for purpose' requires further work with central government. LAA partners are now seeking this through an ambitious 'Pathfinder' bid that builds on the LAA model. At the time of our work there was no overarching clear vision other than the achievement of LAA targets. Also, some key systems and processes were in need of development.
- Phase 2 of this work will be carried out between April and October 2007.

Summary of financial management and value for money assessment

- The Council has been assessed overall as performing well in its annual Use of Resources assessment.

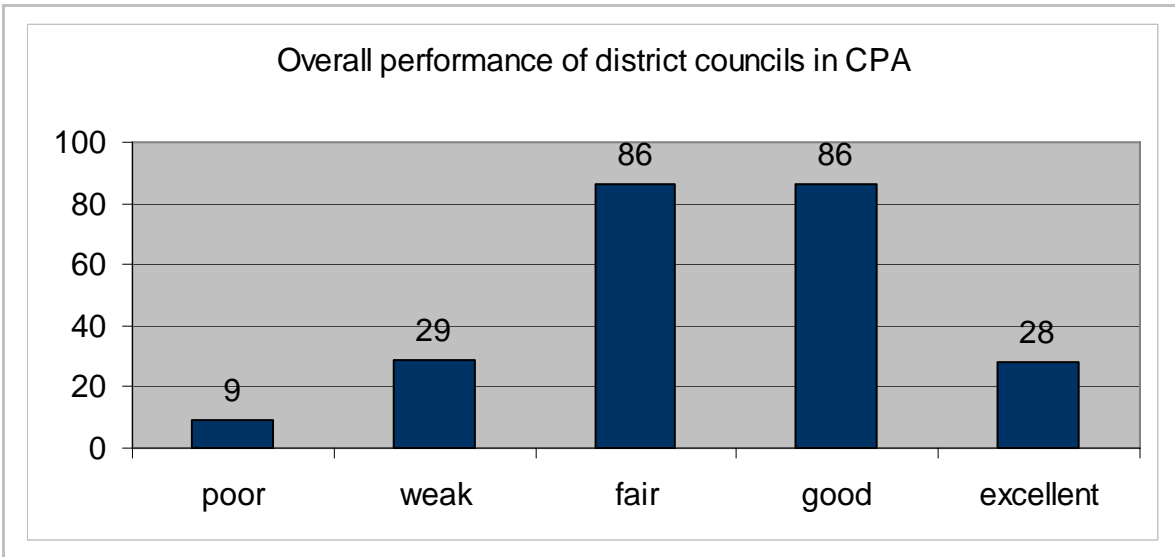
Action needed by the Council

- Ensure that issues arising from the Annual Direction of Travel Assessment are included in the Council's Improvement Plan.
- Monitor progress and outcomes against the various areas for improvement arising from the Use of Resources assessment for the Council.

How is Babergh District Council performing?

- 4 Babergh District Council was assessed as 'Good' in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and we are now starting to revisit these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

What evidence is there of the Council improving outcomes?

- 5 The Council has taken action to improve its services. The planning and benefits services have piloted business process re-engineering (BPR). This tool is intended to implement more efficient customer-focussed services. In benefits this has resulted in a reduction in the turnaround time for the customer from an average of 25 days to ten days. A cashable saving from this, and the implementation of an efficient document image processing in revenues, have been delivered; although the savings are much lower than forecast in the original business case. The Council has achieved consistently high performance in revenues and benefit with 11 out of 12 BVPI measures above the median. In Planning there have been delays in implementing the new processes arising from business process re-engineering, but an implementation plan is now in place. The proposals are expected to improve the turnaround times for customers, provide for greater autonomy and empowerment for staff and provide cashable savings. The report indicated that a savings of 1.5 posts could be made although this has yet to be confirmed. Planning BVPIs for 2005/06 show that waiting times for both major and minor planning applications have been improving and the national targets are now consistently being exceeded. The planning quality of service indicator has also improved. Babergh's Local Plan was formally adopted on 1 June 2006, after several years of development and consultation, so the Council is now able to move forward with this.
- 6 The Babergh 'Be Active' project has continued to address both health and social issues throughout the district. In March 2006 it won a beacon award in the category of culture and sport for hard-to-reach groups'. Its achievements include:
 - 630 places taken up on activity programmes for those with disabilities;
 - 522 places taken up on activity programmes for disaffected youths; and
 - 12 young people at risk of offending referred through an Acceptable Behaviour Contract mentoring scheme.
- 7 The Council has also implemented a new leisure trust service from 1 April 2006 achieving a saving of £148,000 per annum. This trust also aims to improve leisure services through the range of activities offered; as yet it is too early to see evidence of improvements being delivered.

8 Annual Audit and Inspection Letter | How is Babergh District Council performing?

- 8 Progress on recycling and waste, which is a priority identified by local residents, has been good. In March 2006 Babergh won another beacon award, jointly with all other Suffolk authorities, for its achievements in recycling. The councils were commended for strong formal partnership arrangements and a strategic vision that includes the wider waste stream. Recycling achieved top quartile performance on key BVPIs and collection is second quartile for amount of rubbish collected. Babergh has signed a new contract for waste collection, in conjunction with Mid Suffolk Borough Council. It expects that this will deliver substantial savings compared to what it would have cost for a separate contract just for Babergh.
- 9 Performance on affordable housing has improved and the proportion of affordable homes completed is above the national average. The Council had completed 230 homes by the end of 2006 and anticipates meeting its target of 700 new homes between 2004 and 2009.
- 10 A full range of service standards are still not yet available to use to measure improvement and effectiveness of services. Consequently the Council cannot fully assess whether its services to the public are meeting its own requirements for the level of performance. The target date for completion of service standards has slipped and the Council will now consult and publish these through the 2007/08 CPA Improvement Plan. SMART action plans are also still not in place yet, this task has been identified a priority for policy staff once they are appointed. Responding to complaints is another area the Council has still to review. This is dependent on the development of service standards.
- 11 Diversity and equalities has still to be fully addressed as part of the access project. Some issues have been addressed, for example access to translation services. As a result of their stage in development, the Council cannot yet be confident it understands its community's needs.

How much progress is being made to implement improvement plans to sustain future improvement?

- 12 Progress on improving access has been thorough but slow. Babergh had attempted to take forward a partnership approach to customer access with other Suffolk councils, but, following discussion has concluded that there are no opportunities, in the short term, to develop this approach. It has also concluded that there is no business case to pursue any other form of delivery partnership or outsourcing arrangement for access. The Council has instead agreed a two year programme plan to develop its own internal solution. This aims to develop an enhanced front office service and resolve 80 per cent of calls at first point of contact. It then intends to complete a 'take-stock review' to compare its progress to other councils before determining the future direction. The Council has continued to develop its approach to community engagement through its annual State of the District Event, which this year was focussed on three of the council priorities: a safe and sustainable environment, easy, convenient access to quality services and raising individual and community ambitions, and encouraging active citizenship.

- 13 The Council intends to continue with its business process re-engineering (BPR) project, but an analysis of the Council's business has indicated that it does not have the scope to deliver a large programme of process reviews that will deliver substantial revenue savings. This is because most processes only involve a few staff. A scaled back, more focused, approach to continue with BPR is proposed in the two year plan for Customer Access and Service Transformation (CAST). Councillors have recognised the need to improve quality as well as achieve efficiency gains and are interested in using the process to review service integration and administration but have raised other ideas for consideration by Overview and Scrutiny Committees.
- 14 Babergh has been actively involved in several projects to improve joined up working with other councils. It has taken up the invitation in the Local Government White Paper to submit a bid for Pathfinder status. This has been developed in conjunction with all other Suffolk councils, except Ipswich. The bid proposes a three tier approach to integrate services and co-ordinate wider public sector agencies, in order to deliver improved outcomes for local people. Babergh is also working with sub regional economic partnership, the Suffolk Development Agency and Haven Gateway Partnership to promote the district, and enhance facilities for the community. Babergh has led a successful bid to secure £132,000 towards implementing Choice-Based Lettings (CBL). This is a Government initiative which promises to offer new and existing social housing tenants greater choice, and to allow tenants to search online and bid for properties across the Gateway area. The partnership aims to have this in place by 2008.
- 15 Partnership working with the two Local Strategic Partnerships (LSPs) is ongoing but tangible outcomes are not clear as yet. An evaluation of the LSPs is now being undertaken using the Partnership Evaluation Model. The West Suffolk LSP has developed a new ten year Community Plan. Babergh, in conjunction with St Edmundsbury Borough Council and Forest Heath District Council and other partners, has also won a government funding to run 50 structured workshops to engage 2000 households and 25 businesses in the West Suffolk LSP, to raise awareness of climate change and encourage behavioural change (Climate Change Now!). The Council recognises that the much smaller Babergh East LSP is overstretched, and focus needs to improve; and further support is required from the Council. Babergh is also supporting the plans to develop a University Campus in Suffolk. Although the main University site will be in Ipswich, there are plans to open a number of 'learning points' throughout Suffolk so that students can study specific subjects. Sudbury has been identified as a potential learning point, and the Council has hosted a road-show to discuss the benefits with local people.
- 16 Babergh has also made some progress in improving its internal processes. It has developed priority action plans (PAPs) for each priority within its Corporate Plan for 2006/07, but has yet to embed the links of PAPs to service plans and targets. Until this is completed services, delivery of the action plans remains unclear. Non-priorities are also still not explicit.

- 17 The Council has improved its data quality. In our audit of 2005/06 BVPIs we found that the management arrangements were adequate. A review by internal audit of selected BVPIs in June 2006 found that the quality of data had improved and only minor errors were found. The Council has made progress in implementing its corporate risk management strategy. Risk management workshops have been run and an initial exercise has been undertaken to identify and mitigate risks. Risk assessments are now included in all reports to management team. Risk management has yet to be incorporated into all service plans and PAPs; this is scheduled for the 2007/08 planning round.
- 18 The Council has completed its organisational development review and has reduced the number of service heads to six. The target date for introducing Single Status is now March 2007. The Council is progressing with its plans to re-skill staff and councillors but outcomes are not yet clear.

Other performance work

Local Area Agreement (LAA) governance arrangements

- 19 In our Phase 1 of our Local Area Agreement (LAA) report we found that the Suffolk Local Area Agreement (LAA) is characterised by strong political and managerial leadership, particularly through the Suffolk Strategic Partnership (SSP) and the SSP Development Group. A successful track record in delivering eg public service agreement (PSA) through effective partnership working has provided a sound basis for the development and delivery of the LAA in Suffolk. An ongoing commitment to partnership working is demonstrated by the active involvement of senior representatives from a broad spectrum of partners.
- 20 Since its inception in March 2005 there has been significant progress in a number of areas, particularly in establishing governance and management structures and addressing some key governance issues. Through the LAA a range of targets to improve service performance, in areas important to the people of Suffolk, have been identified.
- 21 Progress has been made in the pooling and alignment of funding to support the delivery of LAA targets. The impact of this process is variable and there are some limited examples where resources have been reallocated to meet identified need. In other cases alignment has predominantly been a paper based exercise with little impact on outcomes.
- 22 Financial arrangements and capacity are currently appropriate but require further significant development if they are not to limit the development of the LAA. Financial control arrangements currently relate only to local authorities, and they are expected to apply their own internal systems. The role of block boards and target leads in financial management is not clear.

- 23 Despite this progress the breadth and complexity of the initiative means that many areas remain to be addressed if the LAA is to effectively deliver recognisable outcomes for the people of Suffolk. Other than the achievement of the LAA targets there is no clear shared vision for the future of the LAA or explicit shared values. Partner involvement with the initiative is variable and tensions remain around the role, responsibilities and partner representation on participating bodies. The breadth of awareness of the LAA in both partner organisations and amongst the public is very limited.
- 24 There are a number of areas which the partnership acknowledges need to be developed. In most areas early action has been initiated but the pace of change is being limited by the capacity of individual organisations and staff to deliver and implement the changes. In the short term there is a need to establish a number of key arrangements, particularly performance and risk management, scrutiny, a mechanism to determine benefits realisation and a structured approach to communications. Some progress has been made in each area eg the development of an innovative approach to risk sharing, and the creation of a web site and electronic newsletter but for the majority there are currently few demonstrable outcomes.
- 25 A number of external factors are constraining the development of the LAA. The requirement that the County Council retains accountability for the allocation of pooled funding is likely to limit the pooling of funds by other partners as they would lose direct control of their own resources. Enabling measures formerly referred to as freedoms and flexibilities have had little impact on the delivery of the LAA and few significant flexibilities have been sought or agreed. At this early stage in its development it is difficult to demonstrate that the LAA is adding value.

Financial management and value for money

- 26 We reported separately to the Strategy Committee on 28 September the key issues arising from the 2005/06 audit, and have provided:
- an unqualified opinion on your accounts;
 - an unqualified conclusion on your value for money arrangements; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 27 The findings are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made in the following areas.
- Financial reporting - including the preparation of the accounts of the Council and the way these are presented to the public.
 - Financial management - including how the financial management is integrated with strategy to support council priorities.
 - Financial standing - including the strength of the Council's financial position.
 - Internal control - including how effectively the Council maintains proper stewardship and control of its finances.
 - Value for money - including an assessment of how well the Council balances the costs and quality of its services.
- 28 For the purposes of the CPA we have assessed the Council's arrangements for Use of Resources in these five areas as follows.

Table 1 Use of Resources assessment

Theme	Assessment
Financial reporting	3
Financial management	2
Financial standing	3
Internal control	2
Value for money	3
Overall assessment of the Audit Commission	3

(Note: 1 = inadequate performance, 2 = adequate performance, 3 = performing well, 4 = performing strongly)

- 29 The key findings arising from the audit, as reflected in the above judgements where appropriate, are as follows.

Financial reporting

- 30 The Council is performing well in this area with the key areas of strength from our previous assessment remaining the same, with the Council producing their annual accounts in accordance with relevant standards and timetables and promoting external accountability.

Financial management

- 31 The Council is performing adequately in this area. Many of the key areas of strength from our previous assessment remained the same. These included:
- integrated financial and business planning projecting over a three year period;
 - comprehensive budget setting with appropriate delegation and detailed budget monitoring information available;
 - variances being addressed, where applicable, and service delivery not being affected; and
 - an affordable capital programme being set using prudential indicators and which prioritises capital projects.
- 32 It was also noted that the Medium Term Financial Strategy has been more widely communicated to staff and stakeholders. However, given the Council's recent restructuring there are arrangements and plans which require reviewing and updating, in particular the Asset Management Plan, and these caused the overall theme score to be reduced.

Financial standing

- 33 The Council is performing well in this area, with the key areas of strength remaining the same as the previous assessment, and arrangements are in place to manage spending within available resources.

Internal control

- 34 The Council is performing adequately in this area although a number of improvements since our previous assessment were noted including embedding of arrangements in regard to reviewing risk management processes, risk management reporting to Members and using the assurance framework to underpin the Statement on Internal control.
- 35 However, the Council needs to continue to embed the Risk Management Strategy in terms of training and enhance arrangements to ensure the Council is complying with its constitutional documents.

Value for money

- 36 The key areas of strength from our previous assessment remained the same and improvements were noted which further embedded existing arrangements including:
- Council costs remaining below average and moving into the lowest quartile for its nearest neighbour group;
 - improvement in performance indicators; and
 - reporting efficiency savings in excess of the Gershon targets.

Going forward

- 37 The 2007 use of resources assessment will be a harder test for the Council as a number of criteria at both level 2 and 3 will change to 'must have' status. Consequently, in order for the Council to sustain or improve upon its current performance at the next assessment, it will need to meet these criteria. Furthermore, in order to achieve scores of 3 and above, arrangements must be 'embedded'; that is have been operating consistently with clear outputs and impact. The assessment will also, for the first time, be aligned to the financial year and will therefore only take into consideration arrangements in place as at 31 March 2007, although information up to the date of the actual assessment can be taken into account in assessing embeddedness.

Conclusion

- 38 This letter has been discussed and agreed with senior officers. A copy of the letter will be presented to Members at the Council meeting on the 17 April 2007.
- 39 The Council has taken a positive and constructive approach to our audit and inspection. We would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.

Availability of this letter

- 40 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Edwina Child
Relationship Manager

March 2007

Robert Davies
District Auditor



Accountants &
business advisers

Babergh District Council

Annual Audit and Inspection Plan

2007/08

May 2007

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Appendices

- A Risk Planning Matrix
- B Communication to Those Charged With Governance

1 Executive summary

Work scope

- 1.1 The scope of the audit is determined by the Audit Commission's "Code of Audit Practice", which covers two key areas – Accounts and "Use of Resources". The detailed Code audit approach is unchanged from 2006/07, although Use of Resources assessments will now be better matched to financial years, this period being to 31 March 2007.
- 1.2 Handover arrangements have been agreed with the Audit Commission, who will undertake the Use of Resources and Data Quality assessments in support of their 2006/07 opinions.

Key audit risk areas

- 1.3 These are set out in detail in Appendix A, and include:
- How the Authority works with partners to address Local Area Agreement (LAA) and, separately, health inequality issues
 - The work with the Third Sector is becoming increasingly important with its prominence in both the LAA and in the Pathfinder bid
 - Compliance of the Accounts with the 2007 Statement of Recommended Practice, which is likely to include some notable changes compared to previous years.

Fees

- 1.4 Audit and grants fees have increased by only 1.6%, representing a saving of 1.15% against the Audit Commission inflation rate of 2.75%, which itself is set after securing Gershon efficiency savings against actual increases in professional costs.

	2006/07	2007/08
Audit and Grants	130,750*	132,910
Inspection (net of CLG grant)	5,500	5,900
Total audit, grants and inspection	£136,250*	£138,810

* - Accounts audit work is to be undertaken, so figures quoted are provisional and not outturn.

Key outputs

- 1.5 The key audit and inspection outputs will be:

Output	Authority's financial year covered	Expected timing
Audit and Inspection Plan	2007/08	May 2007
<i>Report on use of resources and Use of Resources assessment scores**</i>	2006/07	December 2007
<i>Report on data quality arrangements and results of risk-based BVPIs audits**</i>	2006/07	December 2007
ISA 260 Report on the 2007/08 Accounts	2007/08	September 2008
Auditor's Opinion, covering: <ul style="list-style-type: none"> • Statement of Accounts • Use of Resources conclusion • BVPP 	2007/08	September 2008
Workshop feedback on LAA and HI reviews	2007/08	TBA
Annual Audit and Inspection Letter	2007/08	December 2008
Direction of Travel statement	2007/08	March 2008

** To be reported by the Audit Commission as outgoing auditors

2 Introduction

- 2.1 This joint audit and inspection plan sets out the audit and inspection work proposed to be undertaken in 2007/08 by PKF (UK) LLP (“PKF”) and the Audit Commission.
- 2.2 This Plan has been drawn up from our risk based approach to audit planning and planning meetings held with you. It reflects the Audit Commission’s elements of the co-ordinated and proportionate audit and inspection programme.
- 2.3 As the audit for 2006/07 has not yet been completed, the audit planning process for 2007/08, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.
- 2.4 The Relationship Manager will be responsible for ensuring further integration and co-ordination with the work of other inspectorates.

Transitional arrangements

- 2.5 In 2007/08, transitional arrangements are necessary such that part of the audit work covered by this Plan will be carried out by the Authority’s outgoing auditors, the Audit Commission. This is because the relevant elements (Use of Resources and Data Quality assessments) feed into the 2006/07 conclusion on Use of Resources which is issued with the audit opinion on the 2006/07 Statement of Accounts (for which the Audit Commission is responsible).
- 2.6 From 2008/09, *all* Code audit work will be undertaken by PKF.

Audit work - PKF

- 2.7 The work covered by this plan is:
- review of the core financial systems used in preparing the accounts to 31 March 2008.
 - review of the financial accounts prepared for the year ending 31 March 2008.
 - review of the BVPP, and supporting BVPIs, as published in June 2007.
 - work on use of resources issues in the period 1 April 2007 to 31 March 2008, including local and cross-cutting reviews.
- 2.8 Our principal objective as your Appointed Auditor is to carry out an audit that is tailored to focus on the specific financial and operational risks you face and meets the requirements of the Code.

Audit work – Audit Commission

- 2.9 The work covered by this plan is:
- Use of Resources assessments against the Audit Commission’s Key Lines of Enquiry for the year ended 31 March 2007.
 - Data Quality assessments against the Audit Commission’s Key Lines of Enquiry, and spot checks of Commission-selected BVPIs and non-BVPIs influencing CPA, for the year ended 31 March 2007.

Inspection work – Audit Commission

- 2.10 This Plan also sets out in Section 5 the inspection work that is proposed in 2007/08.
- 2.11 Discussions have been, and will continue to be, held between auditors and the Relationship Manager to ensure that the audit and Relationship Manager input described in this Plan continues to be co-ordinated and targeted at your key areas for improvement.

Assessing risks

- 2.12 We are committed to targeting our work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of inspectors and other regulators, and that our work helps you to improve.
- 2.13 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Authority with reference to our cumulative knowledge of the Authority, planning guidance issued by the Audit Commission, the specific results of previous and ongoing audit work, discussions with Authority officers, liaison with Internal Audit and the results of other review agencies' work where relevant.
- 2.14 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Authority to mitigate the risk, and plan our work accordingly.

3 Accounts

- 3.1 The Code of Audit Practice requires us to provide an opinion on whether your Statement of Accounts “presents fairly” your financial position, and has been prepared properly, in accordance with relevant legislation and applicable accounting standards.
- 3.2 In carrying out this work we consider:
- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the Accounts; and
 - the robustness of your Accounts preparation processes.
- 3.3 We also undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your Accounts.

Internal controls and key financial systems

- 3.4 International Standards in Auditing (UK and Ireland) require auditors to obtain a detailed understanding of an organisation, its environment, risk assessment processes, the information systems, internal controls, and monitoring activities. This must be sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error and be sufficiently well documented to enable the auditor to design and perform further audit procedures based on identified risks.
- 3.5 This requires additional work to be undertaken to identify and understand the internal controls, evaluate the design of the control and determine whether it has been implemented. The evaluation of the design of a control involves considering whether it, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements.
- 3.6 Where the audit intends to rely on identified controls to reduce risk or the level of substantive testing otherwise required, the auditor must also undertake tests of the operating effectiveness of the relevant controls. The core financial systems upon which the accounts are based will therefore require additional testing and review in order to arrive at our opinion on the Statement of Accounts.

Working with Internal Audit

- 3.7 The Audit Commission expects that appointed auditors and Internal Audit departments have been working together to ensure that audit work is most effectively targeted in well-managed authorities, thereby minimising duplication and optimising the overall level of audit resource input.
- 3.8 We have planned the 2007/08 audit on the basis that we will be able to place full reliance on the work of Internal Audit, the relevant areas of this coverage are set out in our fee assumptions in Section 7. These assumptions are based upon the preliminary discussions in respect of arrangements for 2006/07, our consideration of your Statement on Internal Control in your 2005/06 accounts, review of Internal Audit’s 2007/08 Audit Plan and liaison with your Internal Auditor.

Fraud risk assessment

- 3.9 Under ISA240, we have a responsibility to consider specifically the potential risk of material misstatement of your Statement of Accounts as a result of fraud and error, including the risk of fraudulent financial reporting.
- 3.10 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and “those charged with governance”.

- 3.11 In order to identify the fraud risks, and the controls you have put in place on which we will seek to place reliance to mitigate those risks, we will:
- discuss your anti fraud and corruption arrangements with officers and “those charged with governance”;
 - consider the extent to which the work of Internal Audit is designed to detect material misstatements in the Accounts arising through fraud;
 - make inquiries regarding instances of actual fraud you have identified; and
 - consider any material unusual or unexpected relationships that have been identified in performing analytical procedures.
- 3.12 For all residual fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your Accounts and our audit programme.

Accounts preparation

- 3.13 We will consider the adequacy of your arrangements for closing down the ledger and producing an accurate, timely and comprehensive Statement of Accounts and supporting working papers. We will provide officers with a detailed list of schedules and working papers required for the audit.

Statement on Internal Control

- 3.14 We will review your 2007/08 Statement on Internal Control to assess whether it has been presented in accordance with guidance, is adequately supported by an assurance framework, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

Whole of Government Accounts

- 3.15 As part of the WGA process we are required to review and report on the consolidation pack you have prepared for submission. The actual procedures to be performed have been developed by the Audit Commission in discussion with the National Audit Office and for Band 2 Authorities, of which you are one, focuses on ensuring consistency between the audited accounts and the consolidation pack, and the agreement of balances with other bodies.

Key accounts risks

- 3.16 We have not included a detailed risk assessment for our audit of the financial statements as the specific risks may not become apparent until after completion of the 2006/07 audit. If necessary we will issue a separate update to this audit plan for issues in respect of our audit of the financial statements in November 2007. However, at this stage the only risk that we are aware of that is likely to impact on our audit of the financial statements is compliance with the SORP 2007.
- 3.17 There are some issues that, as part of our continuous audit planning processes, we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although they may become so as changes in circumstances arise. They include:
- As announced by the Chancellor in the recent Budget Speech, annual financial statements of public sector bodies from 2008/09 will need to be prepared in accordance with International Financial Reporting Standards (IFRS) adapted for the public sector. Where this results in material changes to accounting policies, a restatement of 2007/08 comparatives will be required
 - Leisure Trust arrangements and group accounting (particularly in the light of the impact of the preceding point).

4 Use of Resources

4.1 The Code requires us to:

- be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money conclusion);
- be satisfied that there are adequate arrangements in place for collecting, recording and publishing performance information; and
- audit your best value performance plan.

Value for money conclusion

4.2 In reaching the value for money conclusion the Code requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission.

4.3 In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.

4.4 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of Resources assessment

4.5 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Authority's priorities and improve services.

4.6 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.

4.7 A score of 1 to 4 will be given, based on underlying key lines of enquiry, for each of the following themes:

Theme	Description
Financial reporting	Preparation of financial statements External reporting
Financial management	Medium-term financial strategy Budget monitoring Asset management
Financial standing	Managing spending within available resources
Internal control	Risk management System of internal control Probity and propriety
Value for money	Achieving value for money Managing and improving value for money

4.8 This assessment will focus on the progress made since the last assessment, as completed by your previous auditors, as well as changes to specific KLoEs. Due to the need for the outgoing auditors to place reliance on the results of this work, when assessing their value for money conclusion, the outgoing auditor will perform this work.

- 4.9 Details of the scores and judgements will be reported to the Authority. The scores will be accompanied, where appropriate, by recommendations of what the Authority needs to do to improve its services. The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.

Best Value Performance Information – Data Quality

- 4.10 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- Stage 1 – review of overall management arrangements to secure data quality
 - Stage 2 – completeness check of reported performance information
 - Stage 3 – data quality spot check and in-depth review of specified performance indicators.
- 4.11 The work at stage 1 will link to the review of the Authority's arrangements to secure data quality as required for the value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will inform the Commission's CPA assessment. It is expected that between 1 and 4 indicators will be subject to in-depth review for a District Council.
- 4.12 Due to the need for the outgoing auditors to place reliance on the results of Stage 1, when assessing their value for money conclusion, the outgoing auditor will perform this work.

Best Value Performance Plan (BVPP)

- 4.13 We will consider and report on whether you have complied with statutory requirements in respect of the preparation and publication of your BVPP, including specified performance information and associated targets.

Key use of resources risks

- 4.14 We have included in Appendix A our assessment of the risks relevant to our Use of Resources audit work and our planned response to those risks. The key risks are:
- effective partnership working around the health inequality agenda
 - effective partnership working with the Local Area Agreement (LAA)
 - performance management of Third Sector activity funded by the Authority, this also linked to LAA arrangements and priorities.

5 Audit Commission CPA and Inspection

- 5.1 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 5.2 The Authority's CPA category is therefore a key driver in the Commission's inspection planning process. For CPA 2004 the Authority was assessed as "Good".
- 5.3 We have applied the principles set out in the CPA framework, *CPA – the Harder Test*, recognising the key strengths and areas for improvement in the Authority's performance.
- 5.4 On the basis of our planning process we have identified where our inspection activity will be focused for 2007/08 as follows.

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 assessment, carried out by the RM, of how well the Authority is securing continuous improvement. The DoT label will be reported in the CPA scorecard alongside the CPA category. The DoT assessment summary will be published on the Commission's website.

- 5.5 This work has been agreed in full consultation with other regulators to ensure that work programmes are co-ordinated and proportionate.

6 Grant Claims

- 6.1 As agents of the Audit Commission we are required to express an opinion on certain grant claims submitted by the Authority. There are de-minimis arrangements in place for the certification of claims, which are:
- amounts below £100,000 will not be certified
 - amounts between £100,000 and £500,000 will be subjected to limited audit testing to agree form entries to underlying records, but the eligibility of expenditure will not be tested
 - amounts above £500,000 will be audited in accordance with the outcome of a control environment risk assessment.
- 6.2 The dates for completion of this work are laid down by the Government Departments to which the claims are submitted. We will liaise with the relevant Authority Officers to ensure we complete our work within the given timetable.

7 Fees and Audit Arrangements

Fees

- 7.1 As for previous years, the guideline for fee levels applicable to audited bodies remains a formula-based calculation that is adjusted to reflect the agreed scope of work applicable to local circumstances and risk profile. For audit, the calculation is based on the minimum amount of work required under the risk based audit approach outlined in the Code.
- 7.2 The audit and grants fee, excluding challenge work, for the period from April 2007 to March 2008 will be £132,910 plus VAT. The audit fee is based on our understanding of audit requirements at the time of drafting this Plan, with grants estimated at current rates.
- 7.3 The total fee estimate for the inspection work planned for 2007/08 is £5,900 (after CLG grant). The fee is based on the Audit Commission's fee guidance contained within its operational plan and reflects the Authority's comprehensive performance assessment (CPA) overall score of "Good".

Analysis

- 7.4 An analysis of the fee by auditor and Inspector is shown below:

Responsible	2006/07 Fee £	2007/08 Fee £
Audit Commission	130,750	21,000
PKF	-	111,910
Audit and grants	130,750	132,910
Inspection	5,500	5,900
Total audit and inspection	£136,250	£138,810

- 7.5 As noted previously, the work on the update to the KLOE scores and data quality will be completed by your previous auditor, and as such subject to a separate billing arrangement with them. We have included the fee for this work here to allow for a comparison to the prior year of the overall fee by audit, grants and inspection.

Grants

- 7.6 The fee for the review of grant claims will be billed separately, based on the Audit Commission's grade related rates as set out in their publication "*Work Programme and Fee Scales 2008/09*". We anticipate this will be released in April 2008.

Questions and Objections

- 7.7 Time spent dealing with questions and objections will be billed separately. Where possible, we will provide an estimate of the likely time required to respond to the matters before starting the work.

Assumptions

- 7.8 The fees detailed above are based on the following assumptions:
- Internal Audit will have completed their systems testing in accordance with their plans and to an adequate standard.
 - you will keep us informed of any significant changes to your main financial systems or procedures.
 - you will provide a comprehensive, good quality set of working papers and records to support the accounts and grant claims prior to the commencement of the audit and there will be no fundamental problems with them.
 - you will ensure that action plans are completed promptly and the implementation of recommendations by the due date is actively monitored.
 - there are no major changes to the content of government department grant instructions and you will prepare your grant claims in accordance with the Audit Commission's "Statement of responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns".
- 7.9 Arrangements relating to Use of Resources KLOE work and Data Quality will need to be discussed directly with the outgoing auditors.

Billing Arrangements

- 7.10 The PKF element of your audit fee will be billed in instalments to be agreed with officers to best match audit inputs within the financial year boundaries.
- 7.11 Use of Resources and Data Quality audit work and all Inspection work will be billed separately by the Audit Commission.
- 7.12 It is likely that instalments relating to grants work will be due in October/November 2008.

Staffing

- 7.13 The following staff will be involved in the audit throughout the course of the year:

PKF Audit Staff		
Partner	David Eagles	david.eagles@uk.pkf.com / 01473 320728
Manager	Zoe Thompson	zoe.thompson@uk.pkf.com / 01473 320734
Supervisor	Clare Beesley	clare.beesley@uk.pkf.com / 01473 320781
Other Team Members	Wayne Davies Dickson Chan	

Audit Commission Audit Staff		
District Auditor	Robert Davies	r-davies@audit-commission.gov.uk / 01473 203000
Manager	Kevin Sharman	k-sharman@audit-commission.gov.uk / 01473 203000

Inspection Staff		
Relationship Manager	Edwina Child	e-child@audit-commission.gov.uk / 0116 250 4100
Inspector	Various	

Timetable

- 7.14 The following outline audit timetable shows the main dates planned for audit visits for the period covered by this Plan:

Audit element	Start date
Accounts – core financial systems	March/April 2008
Accounts – Statements of Account and Statement on Internal Control	July 2008
<i>Use of Resources – KLOE review</i>	<i>To be determined by outgoing auditors</i>
<i>Use of Resources – Data Quality and spot checks of BVPIs and non-BVPIs</i>	<i>To be determined by outgoing auditors</i>
Use of Resources – BVPP	September 2007
Use of Resources – LAA, Health Inequalities and Third Sector reviews	TBA in discussion with other audit suppliers across Suffolk

- 7.15 We will agree specific dates for our visits with officers, in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers, to discuss progress on the audit and obtain an update on relevant issues.

Independence

- 7.16 International Standard on Auditing 260 (“ISA260”) requires auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.
- 7.17 We have included in Appendix B to this Plan a statement to the Overview and Scrutiny Stewardship Committee setting out the Audit Commission’s objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.
- 7.18 Following our audit of the Statement of Accounts we will report to the Overview and Scrutiny Stewardship Committee on the findings from our audit.

Quality of Service

- 7.19 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact David Eagles in the first instance. Alternatively, you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.
- 7.20 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).
- 7.21 In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain: What to do if you wish to complain about the Audit Commission or one of its Appointed Auditors” that is available on request.

Appendix A Risk Assessment Matrix

Audit risk identified from planning		Mitigating controls	Residual audit risk	Audit response to residual audit risk
Accounts				
1	There will be a new SORP in operation for the 2007/08 Statement of Accounts. There is a risk that the Authority may not produce its accounts in line with the new regulations.	The Authority has appropriate staffing arrangements to follow developments in order that it is aware of the requirements once the 2007 SORP is finalised.	There remains a risk that the Authority will not have prepared the Statement of Accounts fully compliant with the 2007 SORP requirements. Significance – Medium	We will agree with officers the necessary amendments to the accounts preparation processes reporting format, and undertake detailed audit procedures on those transactions and balances subject to amendment as a result of the SORP 2007.
Use of Resources				
2	Partnership working focusing on the health inequalities agenda may be ineffective, under-developed or not yet operational.	The Authority has established partnership arrangements in place with joint working across the health and voluntary sector, although there have been recent reorganisations within the NHS and mergers of PCTs in the locality.	There remains a risk that current partnership arrangements may not be sufficiently effective or scoped to deliver the health inequality agenda. Significance – Medium VFM opinion criteria: 1/2/3/7 KLOE: 5.1/5.2	Participate in the cross-cutting work on health inequalities across Suffolk (and the East of England) which will include health bodies and other local authorities.
3	Governance and financial and performance management arrangements of the Local Area Agreement may be ineffective, under-developed or not yet fully operational.	The Authority has established and further developed partnership arrangements in connection with the LAA, although there have been recent reorganisations within the NHS and mergers of PCTs in the locality.	There remains a risk that current partnership arrangements may not be sufficiently effective or scoped to deliver the LAA agenda. Significance – Medium VFM opinion criteria: 1/2/3/7 KLOE: 5.1/5.2	Participate in the cross-cutting work on the LAA across Suffolk which is expected to include all other Suffolk local authorities and NHS bodies within the LAA.
4	Across Suffolk, considerable sums are spent by Councils on the Third Sector. This expenditure has associated risks for Councils in ensuring that systems are in place to ensure that monies are being spent in accordance with intentions of Council and expected performance delivery is being achieved.	The Council has established systems to monitor grants to the Third Sector, but these have not been examined independently.	The residual risk remains because the arrangements have not been tested. Significance – Medium VFM opinion criteria: 1/2/3/7 KLOE: 5.1/5.2	This cross-cutting piece of work, in conjunction with other Suffolk local authorities, will consider the governance and the effectiveness of arrangements for Council partnerships established with the Third Sector.

Appendix B

Disclosure under ISA 260 (Communication of audit matters to those charged with governance)

To: Overview and Scrutiny Stewardship Committee, Babergh District Council

Auditors appointed by the Audit Commission are subject to the *Code of Audit Practice* (the Code) which includes the requirement to comply with International Standards on Auditing (ISA) 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.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In the case of Babergh District Council it has been agreed that the appropriate addressee of communications from the auditor to those charged with governance is the Overview and Scrutiny Stewardship 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;
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a *de minimis* amount (currently the higher of £30,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the *de minimis* amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

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;
- 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 Partner and the second in command (Manager) to be changed on each audit at least once every five years;
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner 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 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.

Statement by the Appointed Auditor (PKF)

In relation to the audit of the financial statements for Babergh District Council for the financial year ending 31 March 2008, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

Under the requirements of ISA 260, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed.

In respect of these relationships, in our professional judgement, the firm is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

Statement by the Relationship Manager

I am not aware of any relationships that may affect the independence and objectivity of the Inspectors who will work with you.