

Audit and Inspection Plan

March 2007



Audit and Inspection Plan

Southampton City Council

Audit 2007-2008

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; and
- 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 and 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

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

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

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Introduction

- 1 This plan has been developed by the Relationship Manager and appointed auditor. It sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2007/08;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.
- 3 As we have not yet completed our audit for 2006/07, 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.

Responsibilities

- 4 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999 (best value inspection and audit); and
 - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the statement on internal control (SIC)); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

CPA and Inspection

- 8 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.
- 9 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. For CPA 2006, the Council was categorised as 3 stars.
- 10 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 Council's performance.
- 11 Strengths in the Council's performance include:
 - value for money - relatively low cost services with improving performance;
 - financial reporting - the standard of annual accounts and working papers; and
 - financial standing - budget management.
- 12 Areas for improvement in the Council's performance include:
 - financial management - the integrity of asset records, and the integration of financial and non-financial performance reporting; and
 - internal control - partnership governance arrangements and controls over benefits administration, assuming that the improvements in internal audit and risk management arrangements are embedded and effective in practice.
- 13 Based on our planning process we have identified where our inspection activity will be focused for 2007/08 as follows.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council 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 Council 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.

Inspection activity	Reason/impact
Corporate assessment	We will carry out a corporate assessment in line with the processes set out in <i>CPA - the Harder Test</i> . Our approach will be a combined corporate assessment and Joint Area Review which will include an inspection of services for children and young people.

Work under the Code of Audit Practice

Financial statements

- 14 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 15 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year.
- 16 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Council.

Use of resources

Value for money conclusion

- 17 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 18 In meeting this responsibility, we will review evidence that is relevant to the Council'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.
- 19 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 20 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 Council's priorities and improve services.
- 21 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.

- 22 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes.

Theme	Description
Financial reporting	<ul style="list-style-type: none"> • Preparation of financial statements • External reporting
Financial management	<ul style="list-style-type: none"> • Medium-term financial strategy • Budget monitoring • Asset management
Financial standing	<ul style="list-style-type: none"> • Managing spending within available resources
Internal control	<ul style="list-style-type: none"> • Risk management • System of internal control • Probity and propriety
Value for money	<ul style="list-style-type: none"> • Achieving value for money • Managing and improving value for money

- 23 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services.
- 24 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.

Data quality

- 25 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 - management arrangements;
 - stage 2 - completeness and reasonableness check; and
 - stage 3 - risk-based data quality spot checks of a sample of performance indicators.
- 26 The work at stage 1 will link to our review of the Council's arrangements to secure data quality as required for our 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.

- 27 Our fee estimate reflects an assessment of risk in relation to the Council's performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Best Value Performance Plan

- 28 We are required to carry out an audit of your Best Value Performance Plan (the Corporate Improvement Plan) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.
- 29 Based on our findings in previous years, we have assumed that this task will be straightforward, involving only confirmation of the required inclusions and of publication by 30 June 2007.

Assessing risks

- 30** The Audit Commission is committed to targeting its 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 other regulators, and that our work helps the Council to improve.
- 31** Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.
- 32** We have not included here a risk assessment for our audit of the financial statements, as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the 2007/08 financial statements in November 2007. At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements.
- Proposed changes to accounts requirements in the 2007 SORP, particularly relating to the new requirements for a revaluation reserve.
 - Accounting for a strategic partnership, children's trust, local area agreement and increased pooling of budgets with other agencies.
 - Upgrade of the main accounting system to Agresso 5.5.
 - Restructuring of the Council's accounts.
- 33** For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.
- 34** Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

Work specified by the Audit Commission

Whole of government accounts (WGA)

- 35 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office which is proportionate to risk.

National Fraud Initiative

- 36 The Council participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

Voluntary improvement work

- 37 Under section 35 of the Audit Commission Act 1998, the Commission may undertake voluntary improvement work at the request of the audited body. The authority has requested that we undertake the following voluntary improvement work for 2007/08.
- The Council has carried out a review of secondary schools, entitled Learning Futures, to promote high pupil attainment, address the excessive number of surplus places and to prepare for a major programme to renew secondary school provision through the Government's 'Building Schools for the Future programme'.
 - The Council has asked us to assess whether governance arrangements for implementing the Learning Futures proposals for secondary school re-organisation are appropriate, will facilitate fair competition and ensure effective public consultation to inform the Schools Adjudicator.

Certification of grant claims and returns

- 38 We will continue to certify the Council's claims and returns, in accordance with the agreed protocol, on the following basis:
- claims below £100,000 will not be subject to certification;
 - claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
 - claims over £500,000 will be subject to a certification 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 certification approach for these claims.

The audit and inspection fee

- 39 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 40 The total indicative fee for audit and inspection work included in this audit and inspection plan for 2007/08 is £300,538 (plus £114,124 for the Corporate Assessment), which compares with the planned fee of £278,720 for 2006/07.
- 41 Further details are provided in Appendix 2, which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee such as the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions the Council could take to reduce its audit and inspection fees; and the process for agreeing any changes to the fee. The fee includes all work identified in this plan unless specifically excluded.
- 42 In addition, we estimate that we will charge approximately £70,000 for the certification of claims and returns and £15,000 for agreed voluntary improvement work.
- 43 As indicated in paragraphs 3 and 34, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 40 above. Any changes to the fee will be agreed with you.

Other information

The audit and inspection team

- 44 The key members of the audit and inspection team for the 2007/08 audit are shown in the table below.

Table 2

Name	Contact details	Responsibilities
Stephen Taylor Relationship Manager	s-taylor@audit- commission.gov.uk [0844 798 1749]	The 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.
Stephen Taylor District Auditor	s-taylor@audit- commission.gov.uk [0844 798 1749]	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and audit committee.
Kevin Suter Audit Manager	[k-suter@audit- commission.gov.uk] [0844 798 4634]	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Resources.
Angie Blowman Local Performance Lead	[a-blowman@audit- commission.gov.uk] [07747 756601]	Responsible for the delivery of elements of the use of resources work including the Direction of Travel statement and the value for money theme of the CPA use of resources assessment.
Helen Hinchliff Team Leader	[h-hinchliff@audit- commission.gov.uk] [07855 133398]	Responsible for delivery of the opinion audit and the regularity elements of the VFM Conclusion and CPA Use of Resources

- 45 In order to help us address our responsibilities under ISA (UK&I) 315 - understanding the entity, we will maintain our knowledge of your issues to inform our risk based audit through regular liaison with key officers. Appendix 3 sets out the meetings we propose, to enable us to achieve this and to keep officers updated on the progress of the audit.

Independence and objectivity

- 46 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 47 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 4.

Quality of service

- 48 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the Relationship Manager/District Auditor in the first instance. Alternatively, you may wish to contact the South Central Head of Operations, Neil Childs.
- 49 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *Something to Complain About* which is available from the Commission's website or on request.

Planned outputs

- 50 Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

Table 3 Planned outputs from the audit

Planned output	Indicative date
Corporate Assessment	August 2007
Data quality report (if appropriate)	October 2007
Opinion audit plan	November 2007
BVPP report	December 2007
Use of resources report	December 2007

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Planned output	Indicative date
Direction of Travel report (included in 2007 Annual Audit and inspection Letter)	February 2008
Interim audit report (if appropriate)	May 2008
Annual governance report	September 2008
Opinion and value for money conclusion	September 2008
Final accounts report (if appropriate)	October 2008
Annual audit and inspection letter 2008	TBC

Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
Strategic service partnership	Analysis of and response to risks of this and the alternative option	Yes	Tracking the Council's progress in managing the associated risks, and commenting as appropriate, regardless of whether or not the SSP option is pursued.	VFM conclusion criteria 6 and 7 (and others) UoR KLOE 4.1 and 5.2
Resilience of IT infrastructure	Being tackled through SSP; alternative plans being prepared in case SSP option not adopted	No	N/A	VFM Conclusion criterion 6 UoR KLOE 4.1
Member oversight of risk management	Arrangements being strengthened and training has been held	No	N/A	VFM Conclusion criterion 6 UoR KLOE 4.1
Private Finance initiative schemes	Project management arrangements	Yes	Assessing how the legal, financial and operational risks are managed in order to deliver VFM and sound accounting arrangements.	VFM Conclusion criteria 6 and 7 UoR KLOE 5.2

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
Local area agreement, partnerships and pooling of budgets	Performance management arrangements	Yes	Assessing whether the Council's governance arrangements ensure effective control over shared and pooled budgets and how the Council is working with its partners to address health inequalities.	VFM Conclusion criterion 5 UoR KLOE 4.2
Responding to the CPA Corporate Assessment and Joint Area Review	None at this stage	Yes	Liaising with the review team and participating in improvement planning to gain assurance on the Council's response.	VFM Conclusion criteria 1 to 4 UoR KLOE 5.1 and 5.2
Capital project management	New arrangements and monitoring reports	No	N/A	VFM Conclusion criteria 3 and 6 UoR KLOE 4.1
Children's Trust and possible externalisation of leisure facilities	Not known at this stage	No - subject to consideration during our 2006/07 audit	None planned at this stage	VFM Conclusion criteria 5 and 6 UoR KLOE 4.1 and 4.2
Learning futures - implementation of secondary school restructuring	Project management arrangements	No	N/A	VFM Conclusion criteria 6 & 11 UoR KLOE 2.3, 4.1 and 5.1

Appendix 2 – Audit and inspection fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the planned fee for 2006/07.

Table 4

Audit area	Planned fee 2007/08 £	Planned fee 2006/07 £
Audit		
Financial statements	179,300	168,919
Use of resources (including BVPP)	73,500	58,719
Data quality	20,800	26,000
Whole of government accounts	1,550	2,560
National Fraud Initiative (billed separately)	1,050	----
<i>Total audit fee</i>	<i>276,200</i>	<i>256,198</i>
Inspection		
Relationship management	12,169	11,812
Direction of Travel	12,169	10,710
Service inspection	----	----
Corporate inspection	114,124	----
<i>Total inspection fee</i>	<i>138,462</i>	<i>22,522</i>
<i>Total audit and inspection fee</i>	<i>414,662</i>	<i>278,720</i>
Certification of claims and returns	70,000	80,000
Voluntary improvement work	15,000	----

- 2 The Audit Commission audit scale fee for the Council is £325,241. The audit fee of £276,200 proposed above for 2007/08 is 15 per cent below the scale fee and is within the normal level of variation specified by the Commission.

- 3 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 4 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 5 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

Specific audit risk factors

- 6 In setting the audit fee we have taken into account the following specific risk factors.
 - Upgrade of the main accounting system to Agresso 5.5.
 - Revision of the accounts structure.
 - Changes to the SORP, particularly regarding the introduction of the revaluation reserve and the need to ensure that asset records are adequate to support the change.
 - Establishing a Strategic Service Partnership, or tackling IT and support service modernisation if the SSP does not go ahead.
 - Street lighting PFI and accounting treatment.
 - Integrity of asset records.
 - Controls in the administration of benefits and the reconciliation of year-end figures.
 - The standard of Internal Audit, subject to the conclusions from our 2006/07 review.
 - Increasing use of pooled budgets in partnerships with the health sector.
 - The governance of partnerships, including the LAA.
 - Tackling health inequalities.
 - The management of debt, subject to the conclusions from our 2006/07 work.
 - Administration of and accounting for Direct Schools Grant.

Assumptions

- 7 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
 - 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 systems that provide material figures in the financial statements sufficient that we can place reliance on it for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by 7 July 2008;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 8 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.
- 9 Changes to the plan will be agreed with you. These may be required if:
 - new residual audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Specific actions the Council could take to reduce its audit and inspection fees

- 10 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. We have identified the following actions this Council could take.
 - Implement recommendations from our current reports.
 - Ensure that the asset records on which accounts entries are based are comprehensive, consistent with other property records and adequate to meet the revaluation reserve requirements.
 - Ensure that ongoing improvements to Internal Audit and risk management arrangements are completed effectively.
 - Comply fully with new SORP requirements.

- Ensure that benefits processes and controls are improved.
- Ensure that the governance arrangements for partnerships and pooled budgets are effective.

Process for agreeing any changes in audit fees

- 11** If we need to make any significant amendments to the audit fee during the course of delivering this plan, we will firstly discuss this with the Chief Executive and Director of Resources. We will then prepare a report outlining the reasons why the fee needs to change, for discussion with the audit committee.

Appendix 3 – Working together

Meetings

- 1 In order to help address our responsibilities under ISA (UK&I) 315 - understanding the entity, we will maintain our knowledge of your issues to inform our risk based audit through regular liaison with key officers.
- 2 The meetings will be organised by the Audit Commission and our proposal for this is as follows.

Table 5 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive, Director of Resources, Monitoring Officer.	RM/DA, AM, LPL	Quarterly: April, August, November, February	General update plus: <ul style="list-style-type: none"> • April - audit plan • August - accounts progress • November - use of resources • February - direction of travel
Directors	RM/DA, AM, LPL	Annually - autumn	General update focusing on issues to inform our Direction of Travel assessment
Monitoring Officer	DA and AM	Quarterly	Update on legal and democratic issues
Head of Corporate Policy and Performance	AM and LPL	Quarterly	Update on CPA, VFM and data quality issues
Head of Finance	AM and TL	Monthly, and quarterly with Director of Resources	Update on audit and opinion issues
Chief Internal Auditor	AM and TL	Monthly	Update on audit progress and issues
Audit Committee	DA and AM, with TL and/or LPL as appropriate	Quarterly	Formal reporting of: <ul style="list-style-type: none"> • Audit Plan • Annual governance report • Annual audit letter • Other issues as appropriate

Working paper requirements

- 3 We will agree our working paper requirements for the accounts audit with the Head of Accountancy in advance of the accounts closedown process. In the above meeting schedule, we will also discuss the process on completion to agree areas for improvement next year.

Grant claims

- 4 We will continue to work with designated lead officers from the council on our audit of grant claims, in accordance with the agreed protocol, and will provide a schedule of expected Grant Claims that require certification including the associated deadlines for the Council and the auditor.

Appendix 4 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard 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 audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee;
- auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- the District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- the District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- the District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.