

Audit and Inspection Plan

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Audit and Inspection Plan

Chorley Borough 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 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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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 2004, the Council was categorised as 'Fair'.
- 10 We have applied the principles set out in the CPA framework, *CPA – district council framework from 2006*, recognising the key strengths and areas for improvement in the Council's performance.
- 11 Strengths in the Council's performance include:
 - significant improvements in its performance over the last three years;
 - effective arrangements in place to deliver a better deal for the young within the area through the Lancashire children and young people partnership; and
 - strong performance in delivering value for money in terms of a range of economic, effective and efficient services.
- 12 Areas for improvement in the Council's performance include:
 - to better integrate the approach to the Local Area Agreement and the county and district Local Strategic Partnerships with other authorities in Lancashire;
 - monitoring the implementation of the Corporate Plan to achieve top performance on the Council's overall use of resources;
 - further development of financial management to challenge the future use of Council's resources;
 - embedding a proactive anti fraud and corruption and wider ethical governance culture;
 - the development of a data quality strategy and policy statement to drive accurate and timely performance information, with ownership and an understanding at the service level, that it is the bedrock of the performance management framework; and
 - monitoring the impact of the large scale voluntary transfer of its housing stock in terms of the retained strategic housing function and overhead re-allocation across all remaining service areas.
- 13 On the basis of 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 statement will be reported in the annual audit and inspection letter. The DoT assessment summary will be published on the Commission's website. |
| CPA re-assessment | The Council has various opportunities during 2007/08 to apply for re-categorisation of its CPA assessment. If the Council chooses to apply then during 2007/08 we may carry out a CPA re-assessment. The fee for this work will be invoiced separately and is not included in this plan. |

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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 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 (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

Assessing risks

- 29 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 you to improve.
- 30 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.
- 31 We have not included 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 may issue a separate opinion audit plan, if necessary, for our audit of the 2007/08 financial statements during in the year. At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
- issues around the Large Scale Voluntary Transfer of the housing stock in March 2007;
 - changes to the SORP for 2007, and
 - potential accounting adjustments in preparation of the move to International Financial Reporting Standards in 2008/09.

- 32 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.

Health inequalities

- 33 Health and well being is a key national focus for improvement and a significant risk for organisations if not adequately addressed in strategic plans. The promotion of healthier communities has an effect on the well-being and prosperity of the population and investment is likely to yield significant long term benefit. Addressing such a large issue is not the preserve of any organisational sector alone – but must be approached through co-operation and shared vision across sectors recognising the key role of the voluntary, charity and faith groups.
- 34 Currently Lancashire has areas with life expectancies well below the English national average. For females the life expectancy ranges from 78.6 to 82.7 (English national average is 81.1). For men it ranges from 74.4 to 78.6 (English national average is 76.9). Despite progress in recent years Lancashire is not projected to achieve the Public Service Agreement (PSA) targets.
- 35 The Health Inequalities (HI) project will involve engaging with clients across all sectors in Lancashire using a three phase approach.
- Phase 1 - research a wide range of health and wellbeing issues across the county using fieldwork to include interviews and documentary reviews across all organisations which will identify the overall strengths and weaknesses across Lancashire.
 - Phase 2 – arrange workshops to look in depth and breadth at the key points in greatest need of attention arising from the review in phase one.
 - Phase 3 - will pull together the action plans arising from the workshops.
- 36 The benefits to clients of this project will be a full report and agreed action plans with local feedback as required to discuss the way forward on key questions including:
- Do HI strategies ‘fit’ within other strategic priorities?
 - Do partnerships charged with addressing HI function effectively?
 - Do the resources used in gathering information and intelligence on health inequalities support partnerships efficiently?
 - Are the workforce planning arrangements adequate to address the skills and competencies needed to address health inequalities?
 - Do partnerships have performance management frameworks that ensure resources are utilised to their optimum?

- 37 The review is particularly relevant to Chorley because of its adopted strategic objective for 'Improving Equality of Opportunities and Life Chances' and its expected long term outcomes of 'Healthier Communities and Reduced Health Inequalities'. We will review health inequalities throughout Lancashire and involve health and voluntary bodies as well as local authorities. Whilst the main output will focus on the main messages for Lancashire, we will also highlight specific actions Chorley could take to reduce health inequalities.

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Work specified by the Audit Commission

Whole of Government Accounts (WGA)

- 38 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

- 39 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).

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Voluntary improvement work

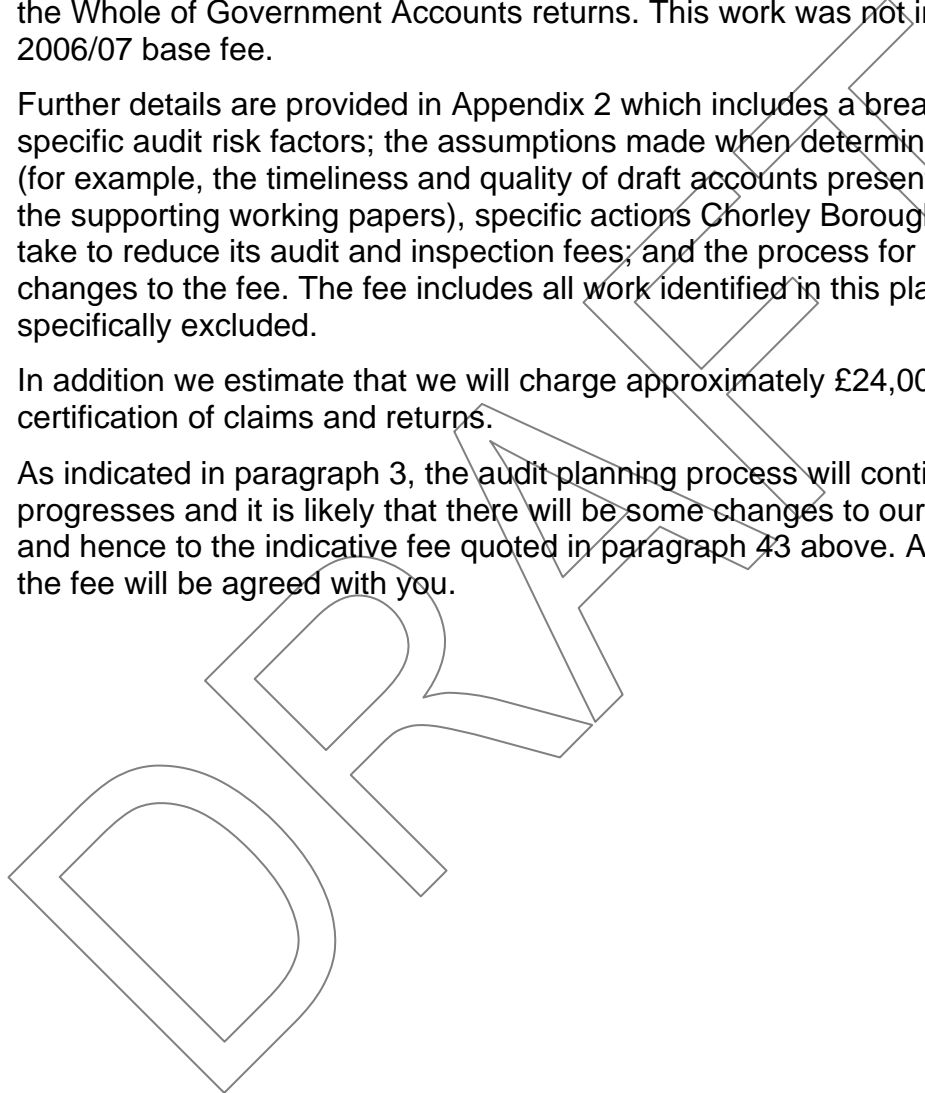
- 40 Under section 35 of the Audit Commission Act 1998, the Commission may undertake voluntary improvement work at the request of the audited body. . We have identified to do the following voluntary improvement work which appears relevant to Chorley Borough Council for 2007/08:
- Improvement through Better Financial Management; and
 - Audit Committee development workshop.
- 41 If you request us to do this work, we will agree specific project specifications for each of the above and agree an additional fee with Director of Resources and the Audit Committee prior to commencing the work.

Certification of grant claims and returns

- 42 We will continue to certify the Council's claims and returns 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

- 43 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.
- 44 The total indicative fee for audit and inspection work included in this audit and inspection plan for 2007/08 is £110,000 which compares with the actual fee of £105,080 for 2006/07. The 2007/08 fee includes an element to cover the audit of the Whole of Government Accounts returns. This work was not included in the 2006/07 base fee.
- 45 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 (for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers), specific actions Chorley Borough 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.
- 46 In addition we estimate that we will charge approximately £24,000 for the certification of claims and returns.
- 47 As indicated in paragraph 3, 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 43 above. Any changes to the fee will be agreed with you.



Other information

The audit and inspection team

- 48 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 |
|---|--|---|
| <p>Mike Thomas Relationship Manager and District Auditor</p> | <p>m-thomas@audit-commission.gov.uk 01204 877300</p> | <p>The 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.</p> <p>Responsible for the overall delivery of the audit including the quality of outputs, signing the audit opinion and vfm conclusion, and liaison with the Chief Executive and Audit Committee.</p> |
| <p>Tony Hough Audit Manager</p> | <p>t-hough@audit-commission.gov.uk 01204 877300</p> | <p>Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Finance.</p> |
| <p>Wanda Rossiter Area Performance Lead</p> | <p>w-rossiterr@audit-commission.gov.uk 01204 877300</p> | <p>Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment.</p> |

Independence and objectivity

- 49 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.
- 50 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 3.

Quality of service

- 51 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 or Audit Manager in the first instance. Alternatively you may wish to contact the Head of Operations, Frank Kirkham.
- 52 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

- 53 Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 3

| Planned output | Indicative date |
|--|------------------------|
| Data Quality Findings Report | December 2007 |
| Use Of Resources Report | December 2007 |
| BVPP Report | December 2007 |
| Direction of Travel | December 2007 |
| Opinion Audit Plan (If required) | January 2008 |
| Health Inequalities | January 2008 |
| Interim Audit Memorandum (If required) | June 2008 |
| Annual Governance Report | September 2008 |
| Opinion On The Financial Statements and Value For Money Conclusion | September 2008 |
| Final Accounts Memorandum (If required) | November 2008 |
| Annual Audit And Inspection Letter | To be confirmed. |
| CPA Re-Assessment (If undertaken) | To be confirmed. |

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 |
|---|---|---------------------|---|--|
| Risk of incorrect value for money conclusion. In accordance with the Code of Audit Practice, auditors are required to give a positive conclusion as to whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. | Use of resources assurances in order to identify a plan of action for improving the Council's economy, efficiency and effectiveness. | Yes | We will complete the use of resources review to assess how well the Council manages and uses its financial resources. | All Use of resources KLOEs and VFM conclusion |
| Risk that the Data quality arrangements are not robust to ensure accurate and timely performance information to underpin the performance management framework. | The Council is aware of the weaknesses in relation to data quality and accuracy on some PIs reported. | Yes | We will carry out a data quality review to assess progress on arrangements, with targeted spot checks on specific PIs. | VFM Conclusion |
| Health inequalities are a significant problem in the Lancashire area. Our information shows, amongst other indicators, that there is significant variation within the county area and upon regional and national comparison, such as: <ul style="list-style-type: none"> • average life expectancy; • infant mortality rates death by suicide and death by accidents; and • cancer, heart disease, stroke rates. | There are strategic partnerships in place between NHS and Local Authority bodies. These are the Lancashire Strategic Partnerships, the Local Area Agreement (LAAs) and the Local Strategic Partnership (LSP) with specific targets. | Yes | Health inequalities are not just an NHS issue, but needs a partnership approach across all public sector bodies. Therefore a cross cutting piece of audit work, including the PCT and Local Government bodies, will be completed. The audit will include areas such as: <ul style="list-style-type: none"> • corporate responsibility; • performance management; • public health services; • commissioning including the identification of disadvantaged communities; and • voluntary and community sector engagement. | Use of resources - Value for money 5.1 and 5.2 |

18 Audit and Inspection Plan | 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 |
|--|---|---------------------|---|--|
| <p>Use of resources indicates that the Council meets minimum requirements in its promotion of suitable probity and propriety in the conduct of its business, but needs to make improvements if it were to be able to demonstrate that:</p> <ul style="list-style-type: none"> • it is proactive in raising the standards of ethical conduct amongst members and staff; and • the counter fraud policy is embedded within the culture of the organisation and is supported and promoted by members and senior management. | <p>Members and Officers are aware of the need to embed ethical governance arrangements.</p> | <p>Yes</p> | <p>We will follow up our 2006/07 review and assess the effectiveness of the actions taken to embed ethical standards and an anti-fraud culture.</p> | <p>Use of resources 4.3</p> |
| <p>Ethical Governance- changes to the Code of conduct from April 2007 and to the role of the Standards Board or England from April 2008.</p> | <p>Members and officers are aware of the issues.</p> | <p>Yes</p> | <p>Follow up of ethical governance review in 2006/07.</p> | <p>VFM conclusion criterion 12 and UOR KLOE 4.3</p> |
| <p>The Council transferred its housing stock to Chorley Community Homes on 31 March 2007. However, it retains the strategic housing function and it will need to review overhead re-allocation across the remaining services.</p> | <p>Members and officers are aware of the issues and are monitoring the position.</p> | <p>Yes</p> | <p>We will complete the use of resources review.</p> | <p>All Use of resources KLOEs and VFM conclusion</p> |

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 actual fee for 2006/07.

Table 4

| Audit area | Planned fee 2007/08 £ | Planned fee 2006/07 £ |
|---------------------------------------|----------------------------------|----------------------------------|
| Audit | | |
| Financial statements | 44,600 | 41,536 |
| Use of resources (including BVPP) | 43,700 | 59,340 |
| Data quality | 13,500 | Included in UoR |
| Whole of government accounts | 2,300 | Invoiced separately |
| Total audit fee | 104,100 | 100,876 |
| Inspection | | |
| Relationship management* | 2,950 | 1,682 |
| Direction of Travel* | 2,950 | 2,522 |
| Service inspection | 0 | 0 |
| Corporate inspection | Invoiced separately | 0 |
| Total inspection fee | 5,900 | 4,204 |
| Total audit and inspection fee | 110,000 | 105,080 |
| Certification of claims and returns | 24,000 (estimate) | 26,000 (planned) |

* The amounts for relationship management and direction of travel are in line with the national agreed fee levels issued by the Audit Commission in 2007.

- 2 The Audit Commission scale fee for this Council is £110,000. The fee proposed for 2007/08 is 6 per cent above the recommended scale fee for District Councils 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 June 2007 to May 2008.

Assumptions

- 6 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 for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by 30 June 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.
- 7 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.

- 8 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 Chorley Borough Council could take to reduce its audit and inspection fees

- 9 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 Chorley Borough Council could take:
- information to support the accounts and use of resources could be improved in some areas;
 - improve the overall use of resources score of the Council by acting on any improvement areas reported such as financial and risk management;
 - improve the working papers supporting the Statement of Accounts especially explanations of variances;
 - provide any information requested within agreed timescales; and
 - implement audit recommendations promptly.

Process for agreeing any changes in audit fees

- 10 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Chief Executive and Director of Finance. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Corporate Services Committee.

Appendix 3 – 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.

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