

# **Derby City Council**

## **Audit and Inspection Plan 2007-08**

**Draft for discussion**

**28 June 2007**

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# 1 Introduction

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## Background

- 1.1 This plan sets out the audit and inspection work to be undertaken 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:
- our Code of Audit Practice responsibilities;
  - audit and inspection work specified by the Audit Commission for 2007-08;
  - current national risks relevant to the Council's local circumstances; and
  - our initial assessment of the Council's local risks and improvement priorities, based on meetings with senior officers, internal audit and review of key Council documents.
- 1.2 RSM Robson Rhodes has been appointed as the Council's external auditor from 2007-08. PricewaterhouseCoopers' 2006-07 audit is not yet complete, and our audit planning process for 2007-08, including the risk assessment, will continue as the year progresses. The information and fees in this plan will be kept under review and updated as necessary.
- 1.3 For councils like Derby City, where the auditor is rotating, the Audit Commission has specified that a number of pieces of work that fall within the 2007-08 audit plan should be undertaken by the outgoing auditor. The relevant sections of this plan indicate where work will be carried out by PricewaterhouseCoopers (PwC).
- 1.4 The Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

## Our responsibilities

- 1.5 We comply with the statutory requirements governing our audit and inspection work, in particular, the Audit Commission Act 1998, the Local Government Act 1999 and the Code of Audit Practice (the Code). Further details of our inspection work are provided in section two of this plan.
- 1.6 The Code defines auditors' responsibilities in relation to:
- audited bodies' arrangements for securing value for money in their use of resources (section three); and
  - the financial statements, including the statement on internal control (section four).
- 1.8 The Audit Commission's *Statement of responsibilities of auditors and of audited bodies*, which has been issued to every Council, sets out the respective responsibilities of the auditor and the Council. Our work is undertaken in the context of these responsibilities.
- 1.9 In addition to our Code responsibilities, we also act as agents of the Audit Commission in certifying the Council's grant claims and returns. Further details are provided in section five.

## 2 CPA and Inspection

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### Introduction and Approach

- 2.1 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting the Commission's work where it will have the greatest effect, based upon assessments of risk and performance. 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 4 stars. The Relationship Manager (RM) has 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.
- 2.2 Strengths in the Council's performance include:
- partnership working through the Local Area Agreement is progressing well;
  - evidence of good performance and improving outcomes in key services such as children's services and housing; and
  - good progress being made on delivering improved value for money
- 2.3 Relatively few areas for improvement in the Council's performance were identified through the Commission's recent 'Direction of Travel' work. The Council has maintained good scores across the CPA model, and the RM has discussed with officers what actions might be required if the Council is to further improve services in line with the best performing authorities.
- 2.4 On the basis of the Commission's planning process, the inspection activity will be focussed as follows:

#### Exhibit One: Focus of inspection activity

Inspection activity	Nature of work
Relationship Management (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 Relationship Manager (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.
Corporate assessment	The Audit Commission will carry out a corporate assessment in line with the processes set out in <i>CPA - the Harder Test</i> . The approach will be a combined corporate assessment and Joint Area Review which will include an inspection of services for children and young people.

## Timetable and Planned Outputs

- 2.5 The planned outputs from our CPA and inspection work, and the proposed dates for the fieldwork, are summarised in Exhibit Two below:

**Exhibit Two: CPA and Inspection – Timetable and Planned Outputs**

Inspection output	Fieldwork	Draft report
Corporate Assessment Report	October – December 2007	January 2008
Direction of Travel Report	September 2008 – January 2009	February 2009
Annual Audit and Inspection Letter	January – March 2009	March 2009

## 3 Use of Resources Audit

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### Introduction and Approach

- 3.1 In accordance with the Code, the Council's auditor is required to complete a number of pieces of work as part of its Use of Resources audit. These are set out in the following paragraphs.

#### **Use of Resources Assessment**

- 3.2 The Audit Commission has specified that auditors will complete a Use of Resources assessment for 2007-08. The work undertaken to support the assessment is aligned to the 2006-07 value for money conclusion, and will therefore be undertaken by PwC as the Council's outgoing auditor. PwC will issue a report summarising the scores in each of the five Use of Resources themes, accompanied, where appropriate, by recommendations for improvement. The Use of Resources assessment will be used by the Audit Commission as the basis for its overall Use of Resources score for the purposes of CPA.

#### **Data Quality**

- 3.3 The Audit Commission has specified that auditors will be required to undertake work in relation to data quality, using a three stage approach covering:
- Stage 1 - management arrangements;
  - Stage 2 - a completeness check; and
  - Stage 3 - risk-based data quality spot checks for a sample of performance indicators.
- 3.4 The work at Stage 1 will link into PwC's 2006-07 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 Audit Commission's CPA assessment. Because of the link to the 2006-07 value for money conclusion, the full data quality audit will be undertaken by PwC.

#### **Best Value Performance Plan**

- 3.5 The Council's auditor, RSM Robson Rhodes (RSM), is required to carry out an audit of the Council's BVPP in order to report whether it has been prepared and published in accordance with legislation and statutory guidance. 2007-08 is the final year that we will be required to provide an opinion on the BVPP.

#### **Value for Money Conclusion**

- 3.6 The Code requires the auditor 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, having regard to a standard set of relevant criteria, issued by the Audit Commission. In meeting this responsibility, RSM will review evidence that is relevant to the Council's corporate performance management and financial management arrangements, and follow up PwC's work from previous years to assess progress in implementing agreed recommendations. We will also take into account the findings of the corporate assessment, in evaluating these areas of the VFM conclusion not covered by the UOR assessment. This work will be carried out by RSM Robson Rhodes to inform the 2007-08 Value for Money conclusion

to be given in September 2008. Our initial risk assessment, and planned focus for our work, is summarised in Exhibit Three.

## Risk Assessment and Audit Response

### Exhibit Three: Local Risk Based Work to Support the 2007-08 Value for Money Conclusion

Risk	Proposed audit response
<p>The Council has good governance arrangements in place. However, there are local and national developments, such as increased partnership working, financial management of schools and the requirement, from 2007-08, to publish an annual governance statement in accordance with new CIPFA guidance, 'Delivering Good Governance in Local Government'.</p> <p>We are currently aware of a number of issues relating to Environmental Services and debt recovery, which the Council is responding to, which could have a bearing on our overall assessment of the internal control framework.</p> <p>To minimise the risk of failing to adequately manage these, and other emerging, requirements, the Council's governance arrangements will have to be sufficiently robust to continue to provide the required assurances.</p>	<p>We will review the effectiveness of the Council's governance arrangements, using CIPFA and other good practice.</p> <p>In particular, we will:</p> <ul style="list-style-type: none"> <li>• assess the Statement on Internal Control (SIC) framework and arrangements for converting this into the annual governance statement from 2007-08;</li> <li>• review the operation of the Audit Committee and work alongside officers and members as its role develops further;</li> <li>• assess the embeddedness of risk management and how effectively the Council's arrangements can respond to changing requirements and emerging risks;</li> <li>• carry out a full review of internal audit against revised CIPFA standards;</li> <li>• evaluate the audit implications of internal control issues within Environmental Services and debt recovery; and</li> <li>• review governance arrangements for the Council's significant partnerships.</li> </ul>

- 3.7 In addition to our core recurring audit responsibilities this year, the Audit Commission has provided auditors with a methodology for assessing the effectiveness of local arrangements for addressing health inequalities. This is an important issue for Derby City and represents an opportunity for the Council and the Primary Care Trust (PCT) to work in partnership to proactively respond to new governmental requirements, and, more importantly, to make a greater contribution to the health and well-being of the local population.
- 3.8 Effective performance in this area will also be important, as it is likely to be a significant feature of both the Local Area Agreement and the new Comprehensive Area Assessment regime. As such, we propose undertaking an assessment of both the Council and the PCT's arrangements, using the Audit Commission's 'Red Risk' methodology.

## Timetable and Planned Outputs

- 3.7 The planned outputs from our Use of Resources audit, and the proposed dates for the fieldwork, are summarised in Exhibit Four below:

**Exhibit Four: Use of Resources Audit - Timetable and Planned Outputs**

Audit output	Fieldwork	Draft report
Data quality report (PwC)	TBC	October 2007
Use of resources – 2007 update report (PwC)	TBC	December 2007
BVPP opinion (RSM)	October 2007	December 2007
Heath inequalities review	September – December 2007	January 2008
2007-08 Interim report to those charged with governance (RSM)	December – April 2008	May 2008
2007-08 Annual report to those charged with governance (RSM)	May – September 2008	September 2008
Separate reports on specific risk areas, as appropriate and agreed (RSM)	TBC	TBC

## 4 Financial Statements Audit

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### Introduction and Approach

- 4.1 The Council's financial statements are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:
- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
  - maintain proper accounting records; and
  - prepare financial statements which present fairly the financial position of the Council and its expenditure and income in accordance with the Statement of Recommended of Practice (SORP).
- 4.2 The auditor is required to audit the financial statements and to give an opinion as to:
- whether they present fairly the financial position of the Council and its expenditure and income for the period in question;
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
  - whether the Statement on Internal Control (SIC) has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.
- 4.3 In order to gain sufficient assurance to support our opinion on the financial statements, we will carry out a review of:
- the Council's arrangements for the preparation of its financial statements, the SIC and the Whole of Government Accounts consolidation pack;
  - internal audit, to determine the extent of reliance we can place on it for the purposes of our audit;
  - the internal control framework for key financial systems;
  - the materiality of balances and transactions impacting on the financial statements; and
  - the key risks relevant to the preparation and audit of the financial statements.

## Risk Assessment and Audit Response

- 4.4 We are required to issue an opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2008, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 (the SORP). We will carry out our audit of the accounts in accordance with International Standards on Auditing issued by the Auditing Practices Board.
- 4.5 Our audit will be risk based. We have not carried out a detailed risk assessment for our audit of the 2007-8 accounts, as the Council's outgoing auditors have yet to undertake the audit of the 2006-07 accounts. We understand that the Council has good arrangements in place for the preparation of accounts, reflected in its Use of Resources score of 3. Our high level risk assessment, summarised in Exhibit Five below, reflects largely national developments and issues, which may present a risk to the Council's timely and accurate preparation of its accounts. We will keep our risk assessment under review, and if necessary, amend this plan.

### Exhibit Five: 2007-08 Financial Statements Audit – Initial Risk Assessment

Area	Audit Response
Internal Audit is a key part of the Council's assurance framework. To be effective, Internal Audit must be independent, properly resourced and comply with best practice in planning and undertaking its work.	We will undertake a full review of Internal Audit to assess compliance with CIPFA's core standards and other good practice.
With a new revenues and benefits system in 2006/07, new financial ledger system from 1 April 2007 and the implementation project for a new HR payroll system underway the Council is going through significant change in key areas.  The replacement and implementation of a new system inherently presents risks such as system failure/instability, data corruption/loss or unidentified weaknesses within the altered control environment. The new ledger system particularly presents additional risks due to changed coding structures and the potential for miscoding whilst familiarisation occurs.	We will use our IT specialists to review the controls in place over the replacement systems. As part of this review we will ensure that appropriate balance migration testing and post implementation testing has been undertaken to provide assurance on the accuracy and completeness of entries being posted to the ledger.
The 2006 SORP introduced a number of significant changes to the presentation of the Council's 2006-07 accounts. Further changes will be made in the 2007 SORP.  Treasury has announced its intention that Whole of Government Accounts (WGA) will be published for the first time, and on the basis of International Financial Reporting Standards (IFRS), in 2008-09.  It will be important that the Council adopts arrangements to comply with SORP changes, and the planned introduction of IFRS, at an early stage to avoid any risk of material misstatement or adverse impact on the Council's publication timetable.	We will hold an accounts planning workshop with the Council following completion of the 2006-07 audit to discuss implications of the 2007 SORP and other local risk factors, early in the 2007-08 audit process.

<p>We expect there to be a number of specific accounting issues that may affect the Council's 2007-08 accounts, arising from local and national developments.</p> <p>For instance, we are aware that advisors have been appointed and competitive dialogue stage reached on a joint waste disposal contract with the County Council. This contract will be a Public Private Partnership ("PPP") and will be transacted through a Special Purpose Vehicle ("SPV").</p>	<p>We will review the outcome of the 2006-07 financial statements in late 2007 to identify local issues, and the Council's proposed response to any recommendations made by PwC.</p> <p>We will work closely with the Council during 2008 to discuss and agree accounting treatments for any complex or sensitive issues including the PPP scheme.</p>
<p>The assessment of the adequacy and operation of the Council's systems and controls is a key assessment within the SIC framework. We understand that Internal Audit are currently undertaking investigations within two areas of the Council which are likely to result in recommendations to enhance the control environment.</p>	<p>We will review the work of Internal Audit in these areas, the conclusions reached, action taken and the potential impact on the SIC.</p> <p>As part of our assessment of the Council's control environment we will review the broader work of internal audit supplemented by our own review for major financial transaction cycles to ensure it provides a sound framework for the specific transaction and financial reporting control processes.</p> <p>Our work on the reviewing the SIC will be fully integrated with the work undertaken on our Use of Resources conclusion, as described in section 3 of this document.</p>

## Timetable and Planned Outputs

- 4.6 The planned outputs from our financial statements audit, and the proposed dates for the fieldwork, are summarised in Exhibit Six below:

**Exhibit Six: Financial Statements Audit -Timetable and Planned Outputs**

Audit output	Fieldwork	Draft report
Interim Report to those charged with governance (including review of Internal Audit)	December 2007 – April 2008	May 2008
Final Report to those charged with governance (ISA 260)	May – September 2008	September 2008
Accounts Opinion	May – September 2008	September 2008

## 5 Grant Claims

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### Introduction and Approach

- 5.1 In addition to our Code responsibilities, we are required, acting as agents of the Audit Commission, to certify a the Council's grant claims and returns, in accordance with the following arrangements:
- claims below £100,000 are not subject to certification;
  - claims between £100,000 and £500,000 are subject to a reduced, 'light –touch' certification; and
  - claims over £500,000 will be subject to a certification approach determined by the auditor's assessment of the control environment and management preparation of claims.
- 5.2 The Council receives a significant amount of grant funding every year. Robust arrangements for preparing claims and returns are important to mitigate a number of risks, including:
- increased cost to the Council, both in terms of incurring additional audit fees and also officer time in dealing with issues arising from claim audits;
  - delayed payment of grant or financial penalty from grant paying departments, due to delays in claim certification;
  - risk of unexpected grant clawback due to amendments and qualifications; and
  - potential adverse impact on external assessment of the Council's governance and internal control arrangements.
- 5.3 To assist the Council in ensuring that arrangements for preparing 2007-08 claims and returns are robust, we will:
- participate in a planning workshop with the Council, to discuss and clarify expectations for 2007-08 and subsequent grants audits;
  - follow up on issues raised by PWC in relation to the Council's preparation of grants;
  - liaise with the Council's grants co-ordinator and agree the audit timetable and estimated budget in advance of carrying out our audit; and
  - prepare a grants report, summarising issues from the 2007-08 audit, to facilitate continuous improvement.

## Timetable and Planned Outputs

- 5.4 The planned outputs from our grant claims audit, and the proposed dates for the fieldwork, are summarised in Exhibit Seven below:

**Exhibit Seven: Grant Claims Audit - Timetable and Planned Outputs**

Audit output	Fieldwork	Draft report
Planning workshop	May 2008	n/a
Audit certificates on individual claims	July – December 2008	n/a
Grant Claims Report	July – December 2008	December 2008

## 6 Audit and Inspection Team

### Audit and Inspection Team

6.1 The key members of the audit and inspection team for 2007-08 are shown below.

#### Exhibit Eight: Key team members

Name	Responsibilities
<b>Stephen Barnett</b> <b>Relationship Manager</b> <a href="mailto:s-barnett@audit-commission.gov.uk">s-barnett@audit-commission.gov.uk</a> 01246 504352 / 07966 414853	The Audit 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.
<b>Jon Roberts</b> <b>Engagement Lead</b> <a href="mailto:jon.roberts@rsmi.co.uk">jon.roberts@rsmi.co.uk</a> 0121 697 6025 / 07919 380840.	Appointed Auditor, responsible for the overall delivery of the audit including the quality of outputs, signing the accounts opinion and vfm conclusion.
<b>Kyla Bellingall</b> <b>Senior Audit Manager</b> <a href="mailto:kyla.bellingall@rsmi.co.uk">kyla.bellingall@rsmi.co.uk</a> 0121 697 6082 / 07786 198735	Responsible for the management and delivery of the audit plan.  Primary point of contact for the Council.

### Independence

6.2 The core audit team will be supported by other specialist and support staff, as necessary, during the course of the audit, including:

- IT audit specialists;
- Governance and Risk Assurance specialists; and
- Technical Accounting specialists.

6.3 We are not aware of any relationships that may affect the independence and objectivity of the audit and inspection team, which we are required by auditing and ethical standards to communicate to you. 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 B.

6.4 We are committed to achieving and maintaining the highest quality of service. If you have any comments on our service, please contact the Relationship Manager or Appointed Auditor, in the first instance. Alternatively you may wish to contact the Audit Commission's Head of Operations (East Midlands), or RSM Robson Rhodes' national Head of Government Audit, Richard Tremeer.

## 7 Audit and Inspection Fees

### The fee

- 7.1 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.
- 7.2 The planned fee for the 2007-08 recurring Code audit work is £254,300, including the fee for the audit of the whole of government accounts return, which compares with the planned fee of £269,053 for 2006-07. This represents an increase of 2.75%, which is in line with Audit Commission guidance. In addition, this year we propose a fee of £8,500 for the review of the Council's health inequalities arrangements.
- 7.3 The fee for inspection work will be £125,874.
- 7.4 A breakdown of the audit and inspection fee is provided in Exhibit Nine below.

#### Exhibit Nine: Audit and Inspection Fee

Area	Plan 2007-08	2006/07	2005/06
Accounts (including whole of government accounts)	192,650	187,500	187,500
Use of resources ❶	61,650	60,000	65,000
<b>Total recurring audit fee</b>	<b>254,300</b>	<b>247,500</b>	<b>252,500</b>
<i>Non recurring fee for health inequalities</i>	<i>8,500</i>	<i>-</i>	<i>-</i>
<b>Total audit fee</b>	<b>262,800</b>	<b>247,500</b>	<b>252,500</b>
Relationship Management	11,062	21,553	18,000
Direction of Travel	11,062		
Corporate Inspection	103,750	-	-
<b>Total audit and inspection fee</b>	<b>388,674</b>	<b>269,053</b>	<b>270,500</b>

- ❶ Includes £49,600 to be undertaken by PwC for 2007 Use of resources, and data quality. This fee will be billed by RSM and repaid to PwC.

- 7.5 The planned fee above, excludes:
- certification of grant claims and returns - we will provide an estimate of the cost of auditing 2007-08 grant claims and returns once the 2006-07 audit has been completed;
  - the Audit Commission's fee for participation in the National Fraud Initiative, which continues to be billed separately; and
  - dealing with local government elector questions and objections, which will be billed separately, as required.

## Assumptions

7.6 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;
- the Council 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; and
- prompt responses will be provided to draft reports.

## Process for agreeing changes in audit fees

7.7 Any changes to the plan and proposed fee will be agreed with the Acting Director of Resources in advance, and reported to the Audit and Accounts Committee. Changes may be required if the Council's residual audit risks alter, or is a different level of work is required, for example by the Audit Commission or as a result of changes in legislation, professional standards or financial reporting requirements.

## Billing Arrangements

7.8 The audit and inspection fee will be billed as follows:

Fee		Billing Profile
Audit Fee	£262,800	Four equal quarterly instalments, invoiced June 2007, September 2007, December 2007 and March 2008
AC Fee	£125,874	Tbc

## Non Code Work

7.9 We may agree to carry out additional work outside of the Code of Practice audit, for example IT security testing. The scope and fees for any such work will be agreed with management in advance and will be reported to the Audit Committee.

## Appendix A Summary of Planned Outputs

### Audit and Inspection Outputs

The table below summarises the audit and inspection reports we plan to issue in respect of the 2007-08 audit and inspection plan.

#### Exhibit Eleven: Summary of Planned Outputs - Inspection

Planned output	Responsibility	Planned Fieldwork	Draft report	Final report to Audit and Accounts Committee
Corporate Assessment Report	AC	October – December 2007	January 2008	February 2008
Direction of Travel statement	AC	September – January 2009	February 2009	March 2009
Annual Audit and Inspection Letter	AC	January – March 2009	March 2009	March 2009

#### Exhibit Twelve: Summary of Planned Outputs - Audit

Planned output	Responsibility	Planned Fieldwork	Draft report	Final report to Audit and Accounts Committee
2007-08 Audit and Inspection plan	RSM / AC	May - June 2007	June 2007	28 June 2007
Data quality report	PwC	Tbc	October 2007	October 2007
Use of resources: 2007 update report	PwC	Tbc	December 2007	December 2007
BVPP opinion	RSM	October 2007	December 2007	December 2007
Heath inequalities review	RSM	September – December 2007	January 2008	February 2008
2007-08 Interim report to those charged with governance (which will cover accounts and use of resources)	RSM	January – April 2008	May 2008	June 2008
2007-08 Annual report to those charged with governance ('ISA 260' report which will cover accounts and use of resources)	RSM	May – September 2008	September 2008	September 2008
2007-08 Grant Claims Report	RSM	July – December 2008	December 2008	January 2009

## **Status of our Reports to the Council**

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies, issued by the Audit Commission. Reports are addressed to members or officers and are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

## Appendix B The Audit Commission's requirements in respect of independence and objectivity

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Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISAs when auditing the financial statements. Professional standards require 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. Standards also place requirements on auditors in relation to integrity, objectivity and independence.

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 Executive matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as non Code work in the plan.

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/Director and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner/Director in respect of each audited body; and
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.