

Audit and Inspection Plan

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Last saved: 22/05/2008 11:19:00

Audit and Inspection Plan

Sedgefield Borough Council

Audit 2008/09

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.

Document Control

Author Sarah Diggle
Filename Audit and Inspection Plan-SBC 2008-09.doc

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

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

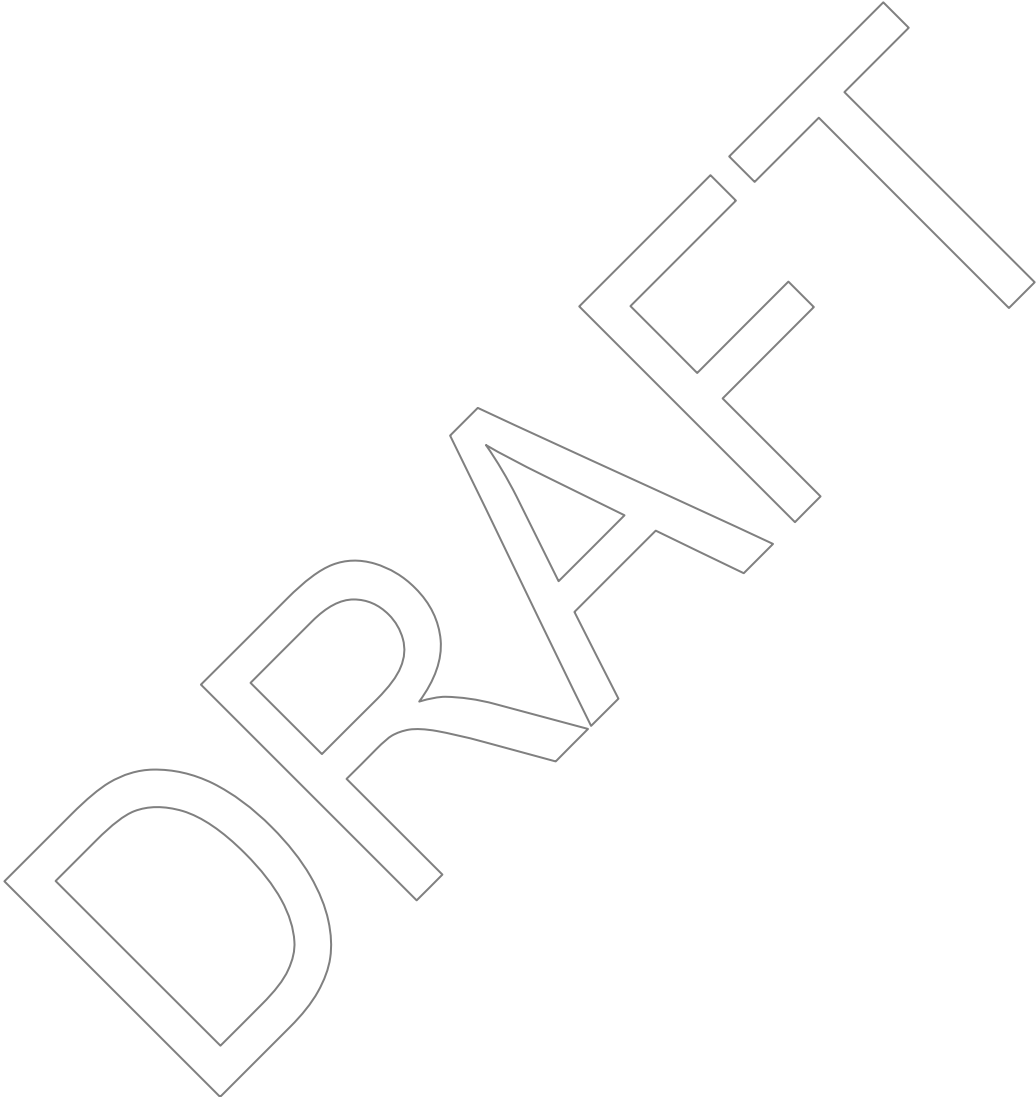
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Contents

Introduction	5
Responsibilities	6
Fees	7
Specific actions Sedgefield Borough Council could take to reduce its audit fees	8
Process for agreeing any changes in audit fees	9
Auditor's report on the financial statements	10
Financial statements	10
VFM conclusion	10
Use of Resources 2007/08	12
Mandated work	13
CPA and inspection	14
Advice and assistance	16
The audit and inspection team	17
Quality of service	17
Planned outputs	18
Appendix 1 – Elements of our work	19
Financial statements	19
Value for money conclusion	19
Use of resources assessment 2007/08	19
Data quality 2007/08	20
Whole of government accounts	21
National Fraud Initiative	21
Certification of grant claims and returns	21
Appendix 2 – Basis for fee	22
Assumptions	22
Appendix 3 – Initial risk assessment – Use of resources and VFM conclusion	25
Appendix 4 – Independence and objectivity	28

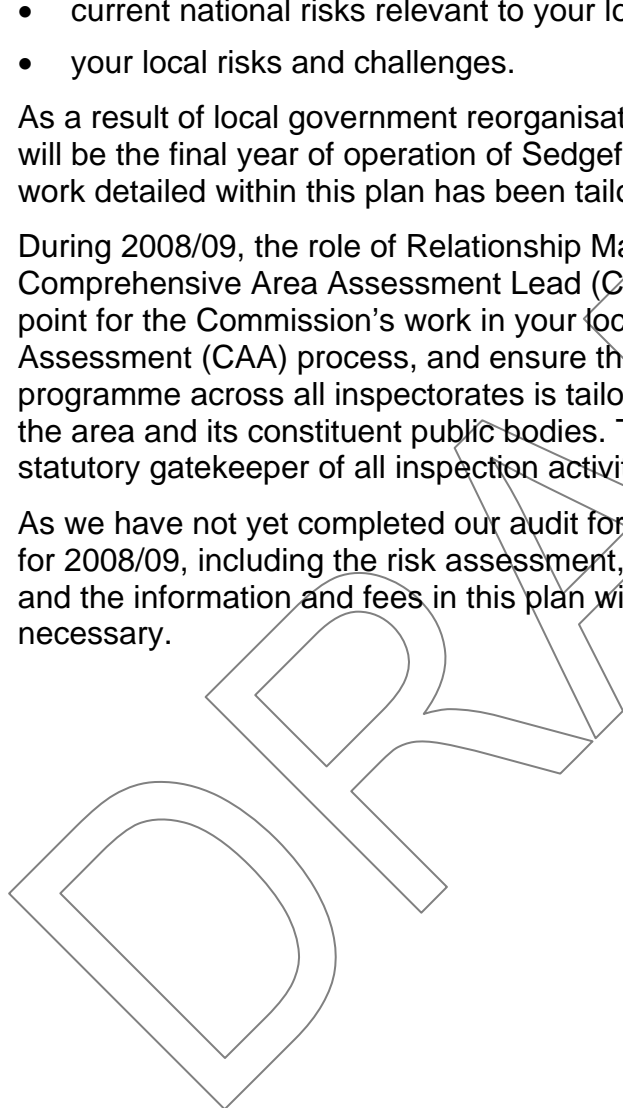
Appendix 5 – Working together
Sustainability

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Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2008/09;
 - current national risks relevant to your local circumstances; and
 - your local risks and challenges.
- 2 As a result of local government reorganisation (LGR) in County Durham, 2008/09 will be the final year of operation of Sedgefield Borough Council. Our proposed work detailed within this plan has been tailored to reflect this position.
- 3 During 2008/09, the role of Relationship Manager will be replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in your local area, lead the Comprehensive Area Assessment (CAA) process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities.
- 4 As we have not yet completed our audit for 2007/08, the audit planning process for 2008/09, 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

- 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.
- 6 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the annual governance statement); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies (from April 2008) 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.
- 8 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.

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Fees

- 9 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 10 The total indicative fee for the audit and inspection work included in this audit and inspection plan for 2008/09 is for £129,000, which compares to the planned fee of £116,330 for 2007/08
- 11 A summary of this is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions. A detailed breakdown of the audit and inspection fee is included in Appendix 2.

Table 1 Audit fee

Audit area	Planned fee 2008/09	Planned fee 2007/08	Page
Audit fee	£119,737	£104,100	9
Inspection fee	£9,263	£12,230	13
Total Audit & Inspection fee	£129,000	£116,330	
Certification of claims and returns	£14,510	£18,500	20

- 12 While the planned fee has increased between years, this is primarily a reflection of the significant audit risks attached to LGR and the Council's proposed LSVT of its housing stock. Despite making resource provision within the plan to address these issues, the fee proposed for 2008/09 is only +3 per cent compared to the Audit Commission fee scale for Sedgefield Borough Council which is £115,800. Indeed, if it were not for the need to accommodate these one-off, extraordinary items within the plan the fee would have reduced. The +3 per cent variation is well within the normal level of variation specified by the Commission.
- 13 In setting the fee, we have assumed that:
 - the level of risk in relation to the opinion and VFM conclusion will increase as the demise of the Council draws ever closer. This view is based on experiences of other local government reorganisations. Common problems have included increased risks of breakdown in internal controls, poor value for money and fraud and corruption;
 - internal audit undertakes appropriate work on all systems that they identify as high risk; and

- good quality working papers and records will be provided to support the financial statements in accordance with our Working Together protocol.

Further details of the assumptions are outlined in Appendix 2.

- 14 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.
- 15 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.
- 16 In order to deliver our responsibilities to give a value for money conclusion, we will need to monitor how the transition to a new unitary authority impacts upon the Council's governance arrangements in 2008/09. In particular we will need to:
 - review the council's actions taken to mitigate the risks arising from LGR;
 - monitor the delivery of the council's identified actions; and
 - consider any additional work which may need to be undertaken to deliver our responsibilities.
- 17 We have included a modest initial sum in the audit and inspection plan of each district council in County Durham to carry out additional work associated with LGR. This is an initial estimate of the additional fee required, but this will be revised during the year as the nature and extent of our audit work in this area becomes apparent. In this event we will follow the process outlined in paragraph 21 below, for agreeing changes in our fees.
- 18 There will also be additional risks arising from the proposed transfer of the Council's housing stock to Sedgefield Borough Homes, if the tenant's ballot in July 2008 delivers a positive result.

Specific actions Sedgefield Borough Council could take to reduce its audit fees

- 19 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. We have regular meetings with officers to ensure that any issues arising from the closure of the accounts and preparation of the final statements are addressed in a timely manner thereby keeping any possible fee increase to a minimum. We would expect to continue that approach for the coming year.

- 20 In addition we have agreed a protocol ('Working Together'), which illustrates how the Council can help us mitigate fees in 2008/2009 and implementation of these joint working arrangements is assumed in the proposed fees.

Process for agreeing any changes in audit fees

- 21 As set out in paragraph 4, we expect that the initial risk assessment may change as the year progress. Where this is the case, we will discuss this in the first instance with the Director of Resources. Supplements to the plan will be issued to record any revisions to the risk and the impact on the fee.

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Auditor's report on the financial statements

- 22 We are required to issue an audit report giving our:
- opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2009; and
 - conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial statements

- 23 We have not undertaken a risk assessment for our audit of the financial statements as many of the specific risks which may become apparent after we have completed our 2007/08 audit. A separate opinion plan for the audit of the financial statements will be issued in December 2008.
- 24 At this stage we are aware of the following risks that are likely to impact on my audit of the financial statements:
- potential changes to the experience and knowledge of staff available to produce the financial statements following transfer of responsibility to the new unitary authority;
 - possible weaknesses in internal controls resulting from secondments and leavers as a result of LGR;
 - the Council is intending to transfer its housing stock to a RSL on 31 March 2009; this will involve complex and high value accounting transactions, and
 - the Council are forming a regeneration company to deliver private sector housing renewal. There is a risk that they will need to prepare group accounts for the first time in 2008/2009.
- 25 The adoption of International Financial Reporting Standards (IFRS) is not required by local government bodies in 2008/09. However, there may be a requirement to prepare whole of government accounts (WGA) consolidation packs on the basis of IFRS. Further guidance is awaited.

VFM conclusion

- 26 In reaching our conclusion, we will review evidence that is relevant to the Council's performance management and financial management arrangements.
- 27 The key risks highlighted from the planning are summarised in the table below with details of planned work to mitigate the risks. Full details of the risk assessment are outlined in Appendix 3.

Table 2 Key risks identified

Key risks identified	Planned work to address the risk
Risks arising from the potential loss of staff leading to potential breakdown in internal control and good governance arrangements.	Review the actions taken by the council to mitigate the risks and report as necessary.
Service continuity will be at risk during the transition. Performance management and risk management must be especially robust during the change period.	Review and comment on risk and performance management arrangements.
The Council is intending to transfer its housing stock to a RSL before LGR in April 2009 but the ballot isn't scheduled until July 2008 so there are significant business risks of this not being completed or key activities needed to facilitate a successful transition being overlooked.	Review the Council's project management arrangements for LSVT.
The Council has entered into a partnership with a construction firm for all of their housing maintenance work, also covering capital investment. There is a risk that internal control will be insufficient and VFM poor if the client doesn't specify the contract and monitoring arrangements well.	Review the contract and monitoring arrangements for housing maintenance work.

Use of Resources

- 28 This audit plan covers the last year of the current regime for Use of Resources assessment. The work required to arrive at the Use of Resources assessment is fully aligned to that required to arrive the auditor's Value for Money conclusion.
- 29 Appendix 1 outlines the criteria and scoring.
- 30 The initial risk assessment for use of resources work is shown in Appendix 3. This will be updated through our continuous planning process as the year progresses.

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Mandated work

31 As part of the audit, the mandated work programme comprises:

- data quality; and
- whole of government accounts.

Appendix 1 highlights the work to be undertaken.

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CPA and inspection

- 32 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.
- 33 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. There will be no corporate assessments in County Durham during the year. Our inspection activity in 2008/09 will be governed by three factors: our role in driving continuous improvement through inspections; the requirement on us to carry out Direction of Travel assessments at all councils; and the added value that our independent assessment can bring to the new council.
- 34 Our inspection programme is designed to support the development of the new unitary council by assessing key areas of activity which are important in improving the quality of life in the county. On the basis of our previous work and of analysis of key issues, we have identified ‘sustainable communities’ as an important area for our inspection activity.

Table 3 Summary of inspection activity

Inspection activity	Reason/impact
CAAL role (incorporating previous Relationship Manager functions)	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	<p>An annual assessment, carried out by the CAAL, of how well the Council is securing continuous improvement. The DoT assessment will be reported in the Annual Audit and Inspection Letter. The DoT assessment summary will be published on the Commission’s website.</p> <p>In all the County Durham district councils, we will consider how best to carry out our DoT in 2008/09. We may combine work to assess individual councils with some assessment of Direction of Travel issues across the county. We will also discuss reporting arrangements for the Direction of Travel before the transition to the new unitary council. We will discuss</p>

	<p>these points with you nearer the time of the assessments, which are planned for September 2008 to February 2009.</p>
<p>Sustainable communities inspection</p>	<p>A county-wide inspection of all eight existing councils together of 'sustainable communities'. We will work with you to scope this inspection, which could include strategic planning, strategic housing, environmental, transport and economic development issues.</p>

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Advice and assistance

- 35 We have powers to provide 'advice and assistance' (A&A) to another public body where this is requested.
- 36 If you wish the Commission to provide additional services under these powers, please contact Janet Gauld, our regional lead on A&A (j-gauld@audit-commission.gov.uk) or Paul Heppell.

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The audit and inspection team

- 37 The key members of the audit and inspection team for the 2008/09 audit are shown in the table below.

Table 4 Audit and inspection team

Name	Contact details	Responsibilities
Marion Talbot CAAL	m-talbot@audit-commission.gov.uk 0191 4602022	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.
Steve Nicklin District Auditor	s-nicklin@audit-commission.gov.uk 0191 4602022	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.
Paul Heppell Audit Manager	p-heppell@audit-commission.gov.uk 0797 1670189	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Resources.

Quality of service

- 38 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 District Auditor in the first instance. Alternatively, you may wish to contact the Head of Operations for the North East, Yorkshire and Humberside, David Allsop.
- 39 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.

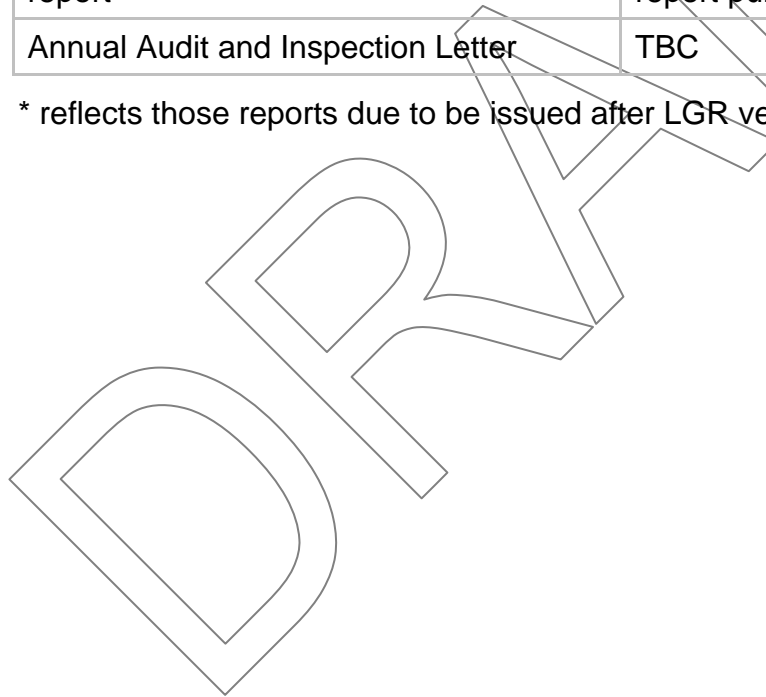
Planned outputs

- 40 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 5 Planned outputs

Planned output	Indicative date
Use of resources report	31 October 2009 *
Opinion Audit report	31 December 2008
Annual governance report	30 September 2009 *
Auditor's report giving an opinion on the financial statements	30 September 2009 *
Final accounts memorandum	31 October 2009 *
Sustainable Communities Inspection report	Inspection activity autumn 2008; report published late 2008
Annual Audit and Inspection Letter	TBC

* reflects those reports due to be issued after LGR vesting day



Appendix 1 – Elements of our work

Financial statements

- 1 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).
- 2 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 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.
- 3 We are also required to review whether the Annual Governance Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Governance Statement is misleading or inconsistent with our knowledge of the Council.

Value for money conclusion

- 4 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 the auditor to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at our conclusion.
- 5 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.
- 6 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 7 The Use of Resources themes and KLOEs are outlined below.
- 8 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

Theme	Description
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

- 9 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.
- 10 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 the CPA.

Data quality

- 11 Our data quality work is based on a three-stage approach covering:
 - Stage 1 – management arrangements;
 - Stage 2 – analytical review; and
 - Stage 3 – risk-based data quality spot checks of a sample of performance indicators.
- 12 Work will be focused on the overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data including data from partners where relevant.
- 13 The Audit Commission has specified that two housing benefit service indicators will be subject to audit as part of the stage 3 spot checks. To avoid duplication and maximise efficiencies between different elements of the audit, this approach has been planned so that we can draw on this work in conducting the later certification of the Council's Housing Benefit & Council tax claim. As a result, our planned fee for auditing the Council's grant claims has reduced.

- 14 The increase in our fee estimate for data quality reflects both this additional work and our assessment of risk in an LGR environment. While the Council's data quality arrangements have been robust and effective in our previous assessments, LGR will both test these arrangements and increase the need for good data quality. 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.

Whole of government accounts

- 15 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. The 2008/09 WGA consolidated pack may need to be produced in accordance with the International Financial Reporting Standards (IFRS) and further guidance is awaited.

National Fraud Initiative

- 16 From 2008/09 work relating to the National Fraud Initiative will be carried out directly by the Commission under its new data matching powers under the Serious Crime Act 2007. The Commission will be consulting audited bodies on the work programme and fee scales for the National Fraud Initiative later this year.

Certification of grant claims and returns

- 17 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.
- 18 As highlighted above our planned fee for auditing the Council's grant claims has reduced. We will utilise information and assurances gained from our audit of two housing benefit performance indicators, carried out as part of our data quality assessment, in order to reduce the time required to audit the Council's Housing Benefit & Council tax claim.

Appendix 2 – Basis for fee

- 1 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 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 coordinated with the work of other regulators, and that our work helps you to improve.
- 2 The 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.

Assumptions

- 3 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is significantly higher than in previous years due to LGR and LSVT;
 - you will inform us of significant developments impacting on our audit;
 - internal audit will continue to meet the appropriate professional standards;
 - good quality working papers and records will be provided to support the financial statements by 30 June 2009 (albeit this activity will occur after the LGR vesting date);
 - requested information will be provided within agreed timescales; and
 - 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.
- 4 Where these assumptions are not met, I 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.
- 5 Changes to the plan will be agreed with you. These may be required if:
 - new residual audit risks emerge;
 - additional work is required by the Audit Commission or other regulators; or

- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 Below is a detailed breakdown of the audit and inspection fee for 2008/09.
 - 7 The fee (plus VAT) will be charged in 12 equal instalments from April 2008 to March 2009.

Table 6 Detailed audit and inspection fee

Audit area	Planned fee 2008/09	Planned/Actual fee 2007/08	Page
Audit			
Financial statements *increase reflects additional time required in respect of LGR and LSVT audit risks.	89,679	76,200	9
Use of Resources	12,391	18,975	9
Data Quality *increase reflects importance of good data quality in LGR environment and Audit Commission specification that two housing benefit service indicators will be subject to audit.	14,941	6,700	19
Whole of government accounts and NFI	2,726	2,225	20
Total audit fee	119,737	104,100	
Inspection			
Relationship management	2,986	2,950	13
Direction of Travel	2,986	2,950	13
Service inspection	3,291	6,330	14
Total inspection fee	9,263	12,230	
Total audit and inspection fee	129,000	116,330	
Certification of claims and returns *decrease reflects assurances that are expected to be drawn from data quality work in respect of housing benefit claim certification.	14,510	18,500	20

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Appendix 3 – Initial risk assessment – Use of resources and VFM conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p>LGR typically involves numerous use of resources risks including:</p> <ul style="list-style-type: none"> • Increased staff turnover and key vacancies leading to a breakdown in internal control; • misappropriation of assets, especially ICT; • a rush to spend money resulting in poor value for money; and • transitional arrangements for governance and business continuity. 	<p>There is a good transition agreement designed to effectively manage this high risk with an independent project manager appointed and transitional governance arrangements in place.</p> <p>The Council’s Internal Audit plan for 2008/09 reflects LGR as the primary risk and provides for audit coverage of the principle risk areas.</p>	<p>Yes</p>	<p>We will track LGR preparations, through meetings, review of minutes and enquiry into issues arising at other reorganised authorities.</p>	<p>All aspects of the VFM Conclusion to be given by 30 September 2009 and 2008 UOR assessment (especially themes 4.2, 4.3, 5.1 and 5.2)</p>

<p>The Council is intending to transfer its housing stock to a RSL before LGR in April 2009 but the ballot isn't scheduled until July 2008 so there are significant business risks of this not being completed or key activities needed to facilitate a successful transition being overlooked.</p>	<p>The Council will be using experienced legal and financial consultants on the LSVT and the Director of Resources has experience of LSVT at another authority. The Council's Internal Audit plan for 2008/09 reflects LSVT as a risk and includes time to review this area.</p>	<p>Yes</p>	<p>We will use an LSVT specialist to review project management following the tenant's ballot.</p>	<p>Financial standing aspects of the VFM Conclusion (30/9/09) and 2008 UOR assessment.</p>
<p>The Council has entered into a partnership with a construction firm for all of their housing maintenance work. There is a risk that internal control will be insufficient and VFM poor if the client doesn't specify the contract and monitoring arrangements well.</p>	<p>As part of the letting process the Council have had regard to expected contractual and monitoring arrangements.</p>	<p>Yes</p>	<p>Review the housing maintenance contract and the arrangements in place for monitoring compliance.</p>	<p>Internal control and VFM aspects of the VFM Conclusion (30/9/09) and 2008 UOR assessment.</p>

<p>The significant change in the contracting arrangement in respect of housing maintenance work could impact upon the Council's calculation against its VAT de-minimus threshold.</p>	<p>The Council use VAT consultants.</p>	<p>Yes</p>	<p>We will use a taxation specialist to review the de-minimus calculation and check the threshold hasn't been exceeded.</p>	<p>Financial standing criteria of the VFM Conclusion for 2008/2009.</p>
<p>The adoption of International Financial Reporting Standards (IFRS) is not required by local government bodies in 2008/09. However, there may be a requirement to prepare whole of government accounts (WGA) consolidation packs on the basis of IFRS.</p>	<p>Finance staff are aware of the issue. The 2008/09 return for whole government accounts may require some restating to be IFRS compliant.</p>	<p>Yes</p>	<p>Understanding of the requirements and review of closedown arrangements for WGA.</p>	<p>Opinion on the Whole of Government submission pack</p>

Appendix 4 – Independence and objectivity

- 1 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.
- 2 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 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 the 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).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 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.
- 6 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 Council on matters which are considered to be of sufficient importance.
- 7 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.
- 8 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 and Inspection 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.
- 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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Appendix 5 – Working together

- 9 We have recently agreed a separate 'Working together' protocol, which sets out arrangements for meetings, liaison and co-ordinated working in the run-up to LGR.

Sustainability

- 10 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
 - reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.

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