

Audit and Inspection Plan

May 2006



Audit Plan

Stevenage Borough Council

Audit 2006-2007

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 to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to 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 sets out the audit and inspection work that we propose to undertake in 2006/07. The plan has been drawn up from our risk-based approach to audit planning and reflects:
 - the Code of Audit Practice;
 - audit and inspection work specified by the Audit Commission for 2006/07;
 - your local risks and improvement priorities; and
 - current national risks relevant to your local circumstances.
- 2 Your relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Our responsibilities

- 3 In carrying out our audit and inspection duties we have to comply with the statutory requirements governing them, and in particular:
 - the Audit Commission Act 1998;
 - the Code of Audit Practice (the Code) with regard to audit; and
 - the Local Government Act 1999 with regard to best value inspection and audit.
- 4 The Code defines auditors' responsibilities in relation to:
 - the financial statements of audited bodies; and
 - audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources. Auditors are now required to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources. We will give the first such conclusion by 30 September 2006 as part of the 2005/06 audit.

The fee

- 5 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 6 Inspection fees are based on the actual number of days included in the plan for each programmed activity.
- 7 The total fee estimate for the audit work planned for 2006/07 is £126,110 and the total fee estimate for inspection work planned for 2006/07 is £4,753. This compares with a total audit and inspection fee of £126,557 in 2005/06.
- 8 In addition we estimate that we will charge approximately £60,000 for the certification of claims and returns. Further details are provided in paragraph 34 and in Appendix 1.
- 9 The audit and inspection fees include all work identified in this plan unless specifically excluded. Further details are provided in Appendix 1 which includes specific audit risk factors, the assumptions made when determining the audit fee, specific actions Stevenage Borough Council could take to reduce its audit fees and the process for agreeing any additional fees.
- 10 Changes to the plan and the fee may be necessary if our audit risk assessment changes during the course of the audit. This is particularly relevant to work related to:
 - the opinion on the 2006/07 accounts since we have yet to audit the accounts for 2005/06 and detailed financial reporting requirements for 2006/07 are not yet known; and
 - work on selected performance indicators, since we have yet to assess your overall arrangements for securing the quality of this data and then to undertake a formal risk assessment.
- 11 We will formally advise you if any changes to the fee become necessary.

CPA and inspections

- 12 The CPA framework for District Councils from 2006 is currently subject to consultation. It is expected that the proposed methodology will be published by April 2006 and that the opportunity for re-categorisation will be available for some councils during 2006/07.
- 13 If the new methodology identifies the need or opportunity for a revised corporate assessment for Stevenage Borough Council, we will discuss an amendment to this plan and agree an additional fee for completion of the work.
- 14 Following the Council's classification as a good council in April 2004 we have applied the principles of strategic regulation recognising the key strengths/weaknesses in the Council's performance. These include:
 - assessment of risk management arrangements, in particular reviewing the Council's development of a corporate risk register aligned to strategic aims and objectives;
 - reviewing the Council's revised corporate management arrangements in terms of leadership, governance, decision making and ability to drive improvement;
 - reviewing the Council's approach to partnership working covering governance, accountability and probity; and
 - evaluating progress with diversity, user focus and race equality.
- 15 As a consequence our inspection activity will focus on the following:
 - a direction of travel statement; and
 - a proportionate housing inspection focussing on the Council's development of an ALMO during 2006.

Table 1 Summary of inspection activity

| Inspection activity | Reason/impact |
|---------------------------|--|
| Relationship Manager role | To act as the Audit Commission's primary point with the Council and the interface at the local level between the Audit Commission and the other inspectorates, ie Benefits Fraud Inspectorate as well as links with government offices and other key stakeholders. |

| Inspection activity | Reason/impact |
|----------------------------|--|
| Direction of Travel review | To provide a focussed review of the Council's progress against its CPA improvement plan and wider delivery of core strategic aims and objectives. This work will provide the Council will areas to focus on in terms of continuous improvement. |
| ALMO | <p>The Council are in the process of implementing an Arms Length Management Organisation (ALMO) for the delivery of its housing service.</p> <p>We are undertaking a proportionate housing inspection as part of our 2005/06 audit plan assessing preparedness for ALMO. Our inspection activity planned for 2006/07 covers assessment of the effectiveness of the ALMO post implementation.</p> |

Summary of key audit risks

- 16 This section summarises our assessment and the planned response to the key audit risks which may have an impact on our objectives to:
- provide an opinion on your financial statements;
 - provide a conclusion on your use of resources;
 - provide a scored judgment on the use of resources to feed into the CPA process;
 - undertake audit work in relation to specified performance indicators to support the service assessment element of CPA; and
 - provide a report on the Council's best value performance plan (BVPP).
- 17 In assessing risk we have taken into consideration the Council's participation in wider partnership working and identified; where applicable, specific cross-cutting studies.
- 18 Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including Internal Audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.

Value for money conclusion

- 19 The Code of Audit Practice requires us to issue a conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources (the value for money conclusion). The Audit Commission has developed relevant criteria for auditors to apply in reaching our value for money conclusion as required under the Code of Audit Practice. These criteria are listed in Appendix 2. In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. We will give the first such conclusion by the end of September 2006 as part our audit of the 2005/06 accounts. This may influence our risk assessment for similar work to be carried out as part of the 2006/07 and we will keep you informed of any changes to this plan that may become necessary.

Use of resources judgement

- 20 Over and above the Code requirements described above, the Audit Commission requires auditors to make more qualitative assessments of the effectiveness of those arrangements in the form of a series of use of resources judgements. The key lines of enquiry (KLOEs) issued in June 2005 will be updated in Spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment. Our fee estimate for 2006/07 assumes that the KLOEs will be broadly similar to those used in 2005/06. If this changes we will discuss with you the implications, including any impact on the fee.
- 21 These judgements may also be used by the Commission as the basis for its overall use of resources judgement.
- 22 Using our cumulative knowledge and experience, including the results of previous work and other regulators' work, we have identified the following areas of audit risk to be addressed.

Table 2 Summary of use of resources audit risks

| Audit risk | Response |
|--|--|
| <p>Statement on Internal Control (SIC): During our use of resources review for 2005/06, we noted weaknesses in the assurance framework to support the preparation of the SIC and to enable review by members.</p> | <p>We will review the arrangements in-year for the production of the SIC and the engagement of members in its review.</p> |
| <p>Audit Committee: The Council recognises the need to constitute an independent audit committee for monitoring and accountability of audit matters both internal and external.</p> | <p>We will work with the Council in developing terms of reference and a constitution for a standalone Audit Committee.</p> |

| Audit risk | Response |
|--|---|
| <p>Financial reporting: During our audit of 2004/05 financial statements, we identified issues regarding the availability of comprehensive and auditable working papers at the start of the audit and the capacity within the finance department to address audit queries.</p> <p>The Council are in the process of addressing these areas by appointing a project manager for closedown of 2005/06 financial statements and a closedown/ project plan has been approved by the Council's strategic management board (SMB). This process should strengthen arrangements for 2005/06 and 2006/07.</p> | <p>Liaison meetings will be held with the Assistant Chief Executive (Finance) and Interim Head of Finance on the closedown process outlining our working paper requirements and wider audit expectations for 2005/06.</p> <p>We will continue to review the robustness of the closedown arrangements for 2005/06 and report any matters to the Council and those charged with governance; if appropriate, to assist the Council in preparing for closedown of 2006/07 financial statements.</p> |
| <p>Financial management: The Council has historic budget under-spends in both capital and revenue. This suggests that there may be weaknesses in the period of assessment on budget setting and monitoring.</p> <p>The Council has taken action during the past twelve months to strengthen budget setting and monitoring arrangements through medium term financial planning and annual budget review processes. We should begin to assess the identifiable outcomes from this process in the Council's overall reported financial position/ standing.</p> | <p>We will continue to review of the robustness of the Council's budgetary control and monitoring arrangements to strengthen medium term financial planning.</p> |
| <p>Value for Money: The Council does not make use of comparative unit cost data for all of its services and makes limited use of benchmarking to assess VFM.</p> | <p>We will share the Audit Commission performance indicator context packs with the Council to enable better comparison on performance against others.</p> |

| Audit risk | Response |
|--|--|
| <p>Partnership working (Local Area Agreements - LAA)</p> <p>Stevenage Borough Council will be a partner in developing a County wide local area agreement (LAA) hosted by Hertfordshire County Council.</p> <p>The establishment of the LAA presents risks on effective governance and performance management of local priorities.</p> | <p>We will be undertaking a County wide cross-cutting review of the LAA, focussing on the effectiveness of partnership working, ensuring accountability, performance management and assessing how the scheme addresses local priorities and value for money.</p> |

Performance information

- 23 In 2006/07, auditors are required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA, subject to the basis of the agreed methodology. This work will be risk based and will link at least in part to our review of the Council's overall arrangements to secure data quality (as required for our value for money conclusion). Our fee estimate includes an element for this work on the basis that we will assess Stevenage Borough Council as medium risk in relation to its performance indicators.
- 24 This risk assessment may change depending on our assessment of your overall arrangements. When we have finalised our risk assessment we will update our plan including any impact on the fee.

Best value performance plan

- 25 We are required to report on whether or not you have complied with legislation and statutory guidance in respect of the preparation and publication of your best value performance plan (BVPP).

Financial statements

- 26 We will carry out our audit of the 2006/07 financial statements and follow the International Standards on Auditing (UK and Ireland).
- 27 We are also required to review whether the Statement on Internal Control 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 of the Authority.
- 28 On the basis of our preliminary work to date we have identified the following audit risks.

Table 3 Summary of Opinion risks

| Opinion risks | Response |
|--|---|
| <p>The 2006 SoRP requires fundamental changes to the structure of the consolidated revenue account as this is being replaced with an income and expenditure account. The SoRP also brings in changes to capital accounting and removes the requirement for an Asset Management Revenue Account (AMRA) as depreciation is to be charged directly to services and notional interest is no longer charged.</p> | <p>We will work with the Council in assessing the changes brought about by the SoRP and provide any further information where this is available.</p> |
| <p>The requirements of whole of government accounts (WGA) places challenges on the Council to ensure robust processes are in place for the earlier closedown of accounts and production of financial statements. In particular a return is required to be audited in 2006/07.</p> | <p>We will work with the Council to assess arrangements for meeting the requirements of WGA and for auditing the return.</p> |
| <p>As part of the managed audit approach, we have agreed a programme of work with Internal Audit to ensure we address the requirements of the ISAs. We will need to assess and be able to place reliance on the work of Internal Audit before determining the scope of any additional opinion audit work.</p> <p>We will also need to review the consortium arrangements in place for providing Internal Audit services to both Uttlesford and Harlow District Councils.</p> | <p>We will undertake a detailed review of Internal Audit arrangements and assess whether we can place reliance on their work to address the requirements of ISAs.</p> <p>Where appropriate, we will inform the Council of any additional audit work and proposed fee required to address ISAs.</p> <p>We will review the Council's approach to partnership working covering governance, accountability and probity.</p> |

| Opinion risks | Response |
|---|--|
| As part of the 2005/06 use of resources assessment, it was identified that there are concerns over the capacity of the finance department and the quality of the working papers that are produced to accompany the financial statements. | We will provide the Council with a list of working paper requirements and work with the Council to monitor the capacity of the finance department and the progress with the preparation of the financial statements. |
| As a result of changes to capital accounting in 2004/05 the Council has had problems in calculating the adjustment A required with regards the capital financing requirement. Although work is still progressing on this issue, if it is not resolved by 31 March 2006 the accounts will be qualified with a limitation of scope opinion. This will remain in place until the calculation can be substantiated and the issues are resolved. | We will work with the Council to continue to assess the underlying issues with the capital financing requirement and any onward risks to our opinion on financial statements. |

- 29** Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will be maintained and that internal audit will complete their planned work on key information systems to the agreed quality and by the agreed date and that the accounts will be prepared and fully supported by working papers by July 2007.
- 30** We have yet to undertake the audit of the 2005/06 financial statements and our 2006/07 financial statements audit planning will continue as the year progresses. This will take account of:
- the 2005/06 opinion audit;
 - our documentation and initial testing of material information systems;
 - our assessment of the 2006/07 closedown arrangements; and
 - any changes in financial reporting requirements.
- 31** When we have finalised our risk assessment in respect of your financial statements, we will update our plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

Whole of government accounts

- 32 The government is introducing whole of government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required to be audited. The Audit Commission is currently discussing the scope of the likely audit work with the NAO and other stakeholders. The fee for this work is not included in this plan and we will discuss this with the Chief Financial Officer and Chair of the Statement of Accounts Committee when further details are available.

Claims and returns certification

- 33** We will continue to certify the Council's claims and returns.
- Claims for £50,000 or below will not be subject to certification.
 - Claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit.
 - Claims over £100,000 have an audit 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 audit approach for these claims.
- 34** Charges for this work are based on skill-related fees scales set out in the Audit Commission's work programme and fee scales 2006/07. Based on this and on the assumption that the level of grant work will remain unchanged we estimate that the fees for grant certification work will be around £60,000. The fee represents an increase from our 2005/06 audit and inspection plan accounting for an estimate of additional work required to certify the Housing Benefits and Council Tax Benefit claim.

Voluntary improvement work

- 35 We are proposing to maintain a watching brief over the Council's implementation of electronic government initiatives and will work with the Council to determine if a review would be useful during 2006/07 to assess current progress and identify further improvement opportunities. Any review would examine wider linkages to the Council's performance management, scrutiny and governance arrangements for implementing electronic government schemes.

Other information

Outputs from the audit and inspection plan

- 36 The expected outputs from our planned audit and inspection work are listed in Appendix 3.

The team

Table 4

| Name | Title |
|------------------|--|
| Rob Murray | Relationship Manager and Appointed Auditor |
| Neil Harris | Audit Manager |
| Gary Hammersley | Area Performance Lead |
| Stephanie Wrench | Audit Team Leader |

- 37 We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.
- 38 We comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

Future audit plans

- 39 As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. Key areas identified include:
- ongoing review of partnership working including governance, accountability and financial arrangements; and
 - revisit of the Council's overall performance management arrangements used in assessing delivery of strategic aims and objectives.
- 40 We will discuss these in more detail as the audit year progresses.

Appendix 1 - Audit and inspection fee

Table 5

| Fee estimate | Plan 2006/07 (£) | Plan 2005/06 (£) |
|-------------------------------------|--|------------------|
| Audit | | |
| Accounts | 86,448 | 86,163 |
| Use of resources | 39,662 | 37,219 |
| Total audit fee | 126,110 | 123,382 |
| Inspection | | * |
| Relationship management | 4,753 (net of ODPM grant) | * |
| Service inspection | <i>(Note - ALMO not included in fee)</i> | * |
| Corporate inspection | | * |
| Total inspection fee | 4,753 | 3,174 |
| Total audit and inspection fee | 130,863 | 126,557 |
| Certification of claims and returns | 60,000 | 52,000 |
| Voluntary improvement work | TBC | TBC |

* Comparative information is not available for 2005/06 due to the changed fee structure.

- 41** The fee (plus VAT) will be charged in 12 equal instalments from April 2006 to March 2007.
- 42** The fee above includes all work contained in this plan except:
- any work required in relation to the Whole of Government Accounts (discussed in paragraph 32); and
 - any specific work required for CPA in 2006/07.

Specific audit risk factors

- 43 In setting the audit fee we have taken account of the following specific risk factors:
- no significant changes in personnel and fundamental systems since 2004/05 with the exception of the implementation of a new payroll system;
 - weaknesses identified in the quality of working papers and supporting information provided as part of our audit of the Council's financial statements for 2004/05;
 - the Council's responses to changes in financial reporting requirements from the 2006 SoRP;
 - significant issues arising during our certification of the Housing Benefits and Council Tax Benefit claim for 2004/05;
 - stretched capacity within the finance department for the production of financial statements supported by auditable working papers by the statutory deadlines;
 - processes being developed to strengthen risk, financial and performance management arrangements; and
 - weaknesses in arrangements for the production of the Statement on Internal Control (SIC), including developing an assurance framework and scrutiny/review by members prior to approval of the draft financial statements.

Assumptions

In setting the audit fee we have assumed:

- 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 material information systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing (ISA);
 - officers will provide good quality working papers and records to support the financial statements by July 2007;
 - officers will provide requested information within agreed timescales;
 - officers will provide prompt responses to draft reports; and
 - your Performance Indicators will be adequately prepared and reviewed.
- 44 The key lines of enquiry (KLOEs) issued in June 2005 will be updated in Spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment.

- 45 Where these requirements are not met or our assumptions change, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 46 Changes to the plan will be agreed with you. These may be required if:
- new risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - there are any changes to financial reporting requirement, professional auditing standards or legislation which results in additional work.

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

- 47 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. We have identified the following actions Stevenage Borough Council could take:
- the Council should review and sign off all working papers supporting the financial statements to ensure that they tie in to the approved draft accounts, and clearly cross referenced to supporting evidence; and
 - as part of the managed audit approach, work with internal audit to liaise with ourselves to cover specific case testing and review of prior year qualification issues on the Housing Benefit and Council Tax Benefit grant claim.

Process for agreeing any changes in audit fees

- 48 If we need to amend the audit fees during the course of this plan we will firstly discuss this with the Chief Executive and Assistant Chief Executive (Finance). We will then prepare a report outlining the reasons why the fee needs to change for discussion with those charged with governance.

Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for establishing strategic and operational objectives

- 1 The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

Arrangements for ensuring that services meet the needs of users & taxpayers, and for engaging with the wider community

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

Arrangements for ensuring compliance with established policies, procedures, laws and regulations

- 5 The body has put in place arrangements to maintain a sound system of internal control.

Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working

- 6 The body has put in place arrangements to manage its significant business risks.

Arrangements for ensuring compliance with the general duty of best value

- 7 The body has put in place arrangements to manage and improve value for money.

Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body

- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

Arrangements for ensuring that the audited body’s affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption

- 12 The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

Appendix 3 – Planned outputs

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

Table 6

| Planned output | Start date | Draft due date | Key contact |
|---|-----------------|-----------------|----------------------|
| Audit and Inspection Plan* | 1 February 2006 | 31 March 2006 | Audit Manager |
| Interim audit memorandum | 1 March 2007 | 31 May 2007 | Audit Manager |
| BVPP opinion and PI audit memorandum | 1 July 2006 | 31 October 2006 | Audit Manager |
| Report on financial statements to those charged with governance (ISA 260) | August 2007 | September 2007 | Audit Manager |
| Opinion on financial statements | TBA | September 2007 | Audit Manager |
| VFM conclusion | TBA | September 2007 | Audit Manager |
| Final accounts memorandum | July 2007 | October 2007 | Audit Manager |
| Local performance work | TBA | TBA | Performance Lead |
| Inspections | TBA | TBA | Performance Lead |
| Annual audit and inspection letter (including direction of travel assessment) | October 2007 | December 2007 | Relationship Manager |

** To be revisited during the year to reflect outcome of 2004/05 final visit and 2006/06 interim visit.*

Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISA UKIs 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.
- 2 The standards define ‘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.
- 3 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.
- 4 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 work carried out under s 35 of the Audit Commission Act 1998.
- 5 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 or Regional Director;
 - audit staff are expected not to accept appointments as lay school inspectors;

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- 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 District Auditor and the second in command (Audit 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 District Auditor 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 District Auditor 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.