

Annual Audit and Inspection Plan

April 2008



# Annual Audit and Inspection Plan

London Borough of Harrow

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, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

### **Copies of this report**

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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

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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## Introduction

- 1 This plan sets out the audit and inspection work that the Audit Commission and the Council's appointed auditor 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 improvement priorities.
- 2 I will be taking responsibility for the delivery of the planned inspection work.
- 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 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 the appointed auditor has not yet completed their 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 The Audit Commission and the Council's appointed auditor will comply with statutory requirements governing our audit and inspection work, in particular:
  - the Audit Commission Act 1998;
  - the Local Government Act 1999 (best value inspection and audit); and
  - the Code of Audit Practice.
- 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 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 audit work is undertaken in the context of these responsibilities.

## 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 £484,451 which compares to the planned fee of £440,240 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/actual fee 2007/08	Page
<b>Audit</b>			
<b>Total audit fee</b>	395,685	371,000	
<b>Inspection</b>			
<b>Total inspection fee</b>	87,002	69,240	
Certification of claims and returns	125,000 - estimate	130,000 - estimate	

- 12 [The Audit Commission scale fee for Harrow Council is £482,687. The fee proposed for 2008/09 is + 8 per cent per cent compared to the scale fee and is 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 audit of the financial statements is not significantly different from that identified for 2007/08;
  - internal audit undertakes appropriate work on all systems and good quality working papers and records will be provided to support the financial statements by 1 July 2008; and
  - no amount is included in respect of any work required under International Financial Reporting Standards (IFRS) for the whole of government accounts (WGA).

Further details of our 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.

### **Specific actions Harrow Council could take to reduce its audit fees**

- 16 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. Whilst there were improvements to the quality and timeliness of information provided to us for the purposes of the accounts audit, there were delays in receiving good quality information to clear a small number of significant issues, in addition there were some significant delays in the process of completing the Whole of Government Accounts return. Our fee estimate assumes no re-occurrence of these issues. The key action is delivering all the required information in line with the timetable agreed between Harrow Council and its auditors.

### **Process for agreeing any changes in audit fees**

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



## Auditor's report on the financial statements

- 18 Your appointed auditor is required to issue an audit report giving their:
- 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

- 19 The auditor has not undertaken a risk assessment for our audit of the financial statements as many of the specific risks may only become apparent after we have completed their 2007/08 audit. The auditor will issue a separate opinion Audit and Inspection Plan for the audit of the financial statements in February 2009.

### Pension fund

- 20 Your appointed auditor will be carrying out a separate audit of the pension fund scheme. A separate report will be issued to those charged with governance. As with paragraph 19, an opinion Audit and Inspection Plan will be issued in February 2009.
- 21 The total indicative fee for this element of the work included in this audit and inspection plan for 2008/09 is £42,000, which compares to the actual/planned fee of £21,000 for 2007/08. The change arises as a result of the need to report separately and the audit will be conducted to a lower level of materiality.

### VFM conclusion

- 22 In reaching their conclusion, the appointed auditor will review evidence that is relevant to the Council's performance management and financial management arrangements.
- 23 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 is outlined in Appendix 3.

**Table 2 Key risks identified**

Key risks identified	Planned work to address the risk
Data Quality and Performance indicators	<p>Our previous work on data quality has highlighted the need for the Council to further improve its data quality management arrangements. In our previous report we provided the Council with some clear actions that need to be implemented. We will review the progress made on these in the 2007/08 audit and highlight any further risks the Council will need to address to minimise any further risk.</p>
Use of resources	<p>In 2008/09, a new Use of Resources assessment framework will be used to assess the Council performance in respect of economy, efficiency and effectiveness. The change will result in reviewing three themes as opposed to five. Some of the detailed assessment criteria under the 2007/08 Use of Resources framework will still be applicable and we will assess the Councils:</p> <ul style="list-style-type: none"> <li>• progress in the 2007/08 Use of Resources assessment;</li> <li>• raising of awareness of the 2008/09 framework; and</li> <li>• its implementation plans to address any areas for improvement highlighted in the 2007/08 Use of Resources assessment which are also applicable for 2008/09.</li> </ul>
CAA	<p>The first CAA assessment will be undertaken in October 2009 and the work undertaken for the financial year 2008/09 will directly feed into the new assessment. We will review the Council plans and how it is engaging with the stakeholders in its area to prepare for this new assessment.</p>

## Use of resources

- 24 The Audit Commission has specified that auditors will complete a use of resources assessment for 2008/09. This will be a new assessment forming part of the CAA framework for 2009.
- 25 The approach to the use of resources assessment has been subject to consultation and will be finalised after April 2008. Further information about our use of resources work for 2008/09 will be provided once the approach has been confirmed. For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate risk, and plan our work accordingly.
- 26 Our initial risk assessment for use of resources work is shown in Appendix 3. This will be updated through the continuous planning process as the year progresses.

## Mandated work

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

- data quality;
- whole of government accounts; and
- National Fraud Initiative.

Appendix 1 highlights the work to be undertaken.

## CPA and inspection

- 28 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.
- 29 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. The Council's CPA category is, therefore, a key driver in the Commission's inspection planning process. For CPA 2007, the Council was categorised as two-star.
- 30 We have applied the principles set out in the CPA framework, '*CPA – The Harder Test*', recognising the key strengths and areas for improvement in the Council's performance.
- 31 The Council's performance in a number of areas has improved, including children and young people's services and housing benefits, but the rate of performance improvement in some other priority services is below that of other councils. Most notably street cleaning and housing services performance have declined and adult social care services have retained a one-star rating.
- 32 Other areas for improvement in the Council's performance include:
  - financial standing, which remains a key concern with the level of the Council's reserves significantly lower than the Council's reserves policy requires, despite cost savings delivered over the last 12 months; and
  - the Use of Resources score remained a two which indicates that it is 'at only minimum requirements – adequate performance'.

- 33 On the basis of the planning process we have identified where inspection activity will be focused for 2008/09 as follows.

**Table 3 Summary of inspection activity**

Inspection activity	Reason/impact
Relationship Manager	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT statement will be reported in the Annual Audit and Inspection Letter. The DoT assessment summary will be published on the Commission's website.
Regeneration	A strategic review of how the Council approaches Regeneration. This will consider how it works with partners on economic development and, in particular, the approach to regenerating the town centre, improving district centres, and promoting new businesses.

## **Advice and assistance**

- 34** Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 we have powers to provide 'advice and assistance' (A&A) to another public body where this is requested.
- 35** At this stage, we have not been invited to provide advice and assistance under this power.

## The audit and inspection team

- 36 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**

<b>Name</b>	<b>Contact details</b>	<b>Responsibilities</b>
Jackie Barry-Purssell Relationship Manager	j-barry-purssell@audit-commission.gov.uk 0844 798 2320	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.
Paul Schofield District Auditor	pschofield@deloitte.co.uk 01727 885113	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.
Matthew Hall Audit Director	mathall@deloitte.co.uk 01727 885245	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Jonathan Gooding Audit Manager	jgooding@deloitte.co.uk 07786 526459	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Hitesh Patel Performance Manager	hrpatel@deloitte.co.uk 07788 462911	Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment.

## Quality of service

- 37 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 your Relationship Manager in the first instance. Alternatively, you may wish to contact the Head of Operations, Les Kidner.



- 38 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

- 39 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
Opinion Audit Plan	February 2009
Annual governance report	September 2009
Auditor's report giving an opinion on the financial statements and value for money conclusion	By 30 September 2009
Final accounts memorandum	30 November 2009
Use of resources report	15 December 2009
Direction of Travel Assessment	February 2009
Regeneration Inspection report	TBC
Annual Audit and Inspection Letter	March 2010

## Appendix 1 – Work under the Code of Audit Practice

### Financial statements

- 1 Your appointed auditor will carry out their audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 Your appointed auditor is 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 Your appointed auditor is 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 your appointed 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. 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 their conclusion.
- 5 In meeting this responsibility, your appointed auditor 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, for example Communities and Local Government, 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 approach to the use of resources assessment for 2008/09 has been subject to a consultation process which ended in February 2008. The Commission is considering the responses to the consultation and will finalise the assessment framework after April 2008. We will provide further information on the work needed for the assessment once the approach has been confirmed.

## **Data quality**

- 8 We are required to undertake audit work in relation to data quality which will be directly linked to the VFM conclusion and the use of resources assessment.
- 9 The approach to data quality is being considered as part of the use of resources framework and we will provide further information on the work needed once the framework has been finalised. As part of the approach, the Audit Commission will specify work on housing and council tax benefit performance indicators.

## **Whole of government accounts**

- 10 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.

## **National Fraud Initiative**

- 11 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**

- 12 The Council's appointed auditor 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.
  - 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.

## 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 our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 2 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
  - our cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with Council officers;
  - liaison with internal audit; and
  - the results of other review agencies' work where relevant.

## Assumptions

- 3 In setting the fee, the Audit Commission and appointed auditor have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
  - you will inform us of significant developments impacting on our audit;
  - internal audit meets the appropriate professional standards;
  - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that they can place reliance for the purposes of their audit;
  - good quality working papers and records, together with a full set of draft accounts, will be provided to support the financial statements by the start of our audit (estimated 1 July 2009);
  - requested information will be provided within agreed timescales;
  - prompt responses will be provided to draft reports;
  - no amount is included in respect of any work required under International Financial Reporting Standards (IFRS) for the whole of government accounts (WGA); and
  - additional work will not be required to address questions or objections raised by local government electors.

- 4 Where these assumptions are not met, the auditor 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 and inspection 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 (£)
<b>Audit</b>		
Financial statements	281,585	269,500
Use of resources	66,800	56,100
Data quality	42,800	41,600
Whole of government accounts	4,500	3,800
National Fraud Initiative	1,500 (invoiced separately)	1,300 (invoiced separately)
<b>Total audit fee</b>	<b>395,685</b>	<b>371,000</b>
<b>Inspection</b>		
Relationship management	13,437	13,272
Direction of Travel	13,437	13,272
Service inspection	60,128	42,696
<b>Total inspection fee</b>	<b>87,002</b>	<b>69,240</b>
<b>Total audit and inspection fee</b>	<b>482,687</b>	<b>440,240</b>
Certification of claims and returns	125,000 - estimate	130,000 - estimate

*Note: In addition to the financial statements audit fee in 2008/09, we will be for the first time carrying out a separate audit of the pension fund scheme. The total indicative fee for this for 2008/09 is £42,000 (not included above), which compares to the actual/planned fee of £21,000 for 2007/08 which is included in the £371,000 above.*

## 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>Annual accounts are not prepared in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>The Council will monitor the timetable to ensure that the accounts are submitted to the members and for audit need in accordance with the agreed timetable and include all primary statements. They should also be free of material error.</p> <p>The Council will ensure there is a broader spread of contacts for the audit, to enable alternative work to be completed when key contacts are unavailable.</p> <p>The Council will provide memoranda addressing the audit risks identified in the Opinion Audit and Inspection Plan in advance of the start of the audit on 1 July 2009.</p>	<p>Yes</p>	<p>We will receive and consider reports provided by the Council to address key audit risk areas; and we will meet with the Council to monitor progress against the planned timetable.</p>	<p>KLOE 1.5* the organisation's financial and external reporting complies with requirements, is timely and meets the needs of users and local people.</p>

<b>Significant risks identified</b>	<b>Mitigating action by audited body</b>	<b>Residual audit risk</b>	<b>Action in response to residual audit risk</b>	<b>Link to auditor's responsibilities</b>
Budget overspend.	The Council has made significant progress in keeping within budgets. However, we did not consider that this was significantly embedded, given the overspend that occurred during 2006/07. The Council will continue to focus on ensuring detailed plans are in place to support savings prior to inclusion in budget and continuing development of risk assessment processes around budget.	Yes	We will determine whether detailed investigation of the circumstances surrounding 2008/09 budget variances is needed once the 2008/09 outturn is known.	KLOE 1.2* the organisation plans its finances effectively to deliver its strategic priorities, KLOE 1.3* the organisation has a sound understanding of its costs linked to performance and achieves value for money in the delivery of services. KLOE 1.4* The organisation's financial monitoring and forecasting is timely and contributes to the effective management of its financial performance.
Capacity issues and the need to absorb organisational and senior manager changes, may compromise the delivery of demonstrable improvements to value for money.	The Council will continue to manage and monitor value for money improvements.	Yes	Review Council's data and other publicly available information to assess whether there has been demonstrable improvement as part of use of resources work.	KLOE 5.1* The Council currently achieves good value for money; and KLOE 5.2* The Council manages and improves value for money.

24 Annual Audit and Inspection Plan | 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
Reserves outside policy range.	Implementation of 2007/08 savings plan. Council review and update of its medium term budget strategy, including its strategy for rebuilding reserves.	Yes	We will receive and consider reports on risk assessments around the budget and financial monitoring reports during the year. We will discuss major concerns arising from this on an exception basis with the Director of Finance as they arise.	KLOE 3.1 The Council manages its spending within the available resources.
Data Quality and Performance Indicators	Implementation of recommendations from our previous year's review.	Yes	We will undertake the 2007/08 data quality where we will review the current performance and progress on recommendations	All KLOEs under the Use of Resources assessment.



<b>Significant risks identified</b>	<b>Mitigating action by audited body</b>	<b>Residual audit risk</b>	<b>Action in response to residual audit risk</b>	<b>Link to auditor's responsibilities</b>
Failure to successfully regenerate the town centre and district centres leading to loss of businesses from the area and a declining local economy.	The Council has agreed a public realm strategy for the Town Centre to transform the public areas. A Town Centre Strategy is informing proposed major residential, retail, transport and educational developments to regenerate the Town centre.	Yes	We will undertake a strategic review of how the Council approaches Regeneration. This will consider how it works with partners on economic development, as well as how this links with social and physical regeneration. In particular we will consider the Council's approach to regenerating the town centre, improving district centres, and promoting new businesses.	KLOE 4.1 - The Council manages its significant business risks
Use of Resources	Implementation of recommendation made from the 2006/07 review and any recommendation from the 2007/08 review.	Yes	We will review the Council progress on the criteria for Use of Resources	All KLOEs under the Use of Resources assessment

\* These are the Use of resources assessment 2008/09 KLOEs currently under consultation.

## Appendix 4 – Independence and objectivity

- 1 We are not aware of any relationships that may affect the independence and objectivity of the appointed auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 2 The auditor complies 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 my appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 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 appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
  - The appointed 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 appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

## Appendix 5 – Working together

### Meetings

- 1 The audit and inspection team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for meetings is as follows.

**Table 7 Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive Director of Resources	Relationship Manager (RM) District Auditor (DA) Audit Director (AD)	Quarterly	General update plus: <ul style="list-style-type: none"> <li>• April - Audit and Inspection Plan;</li> <li>• June - accounts progress and VFM;</li> <li>• December - Use of Resources</li> <li>• February - DOTA</li> </ul>
Head of Finance	AD and Audit Manager (AM)	Monthly, and quarterly with Director of Resources	Update on audit and opinion issues
Chief Internal Auditor	AD and AM	Monthly	Update on audit progress and issues
Audit Committee	DA and AD	Quarterly	Formal reporting of: <ul style="list-style-type: none"> <li>• Audit and Inspection Plan;</li> <li>• annual governance report;</li> <li>• Annual Audit and Inspection Letter; and</li> <li>• other issues as appropriate.</li> </ul>

## **Sustainability**

- 3** 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.