

AGENDA ITEM: 8

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Meeting	Audit Committee
Date	17 February 2011
Subject	Audit Plan 2010/11
Report of	Deputy Chief Executive & Chief Finance Officer
Summary	This report advises the committee of Grant Thornton's Audit Plan for 2010/11.

Officer Contributors	Maria Christofi, Assistant Director Financial Services, Finance Directorate Anisa Darr, Finance Manager (Closing & Monitoring)
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A – Audit Plan 2010/11
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Anisa Darr, Finance Manager (020 8359 7106).

1. RECOMMENDATIONS

1.1 That Grant Thornton's Audit Plan for 2010/11 be noted.

1.2 That the Committee consider whether there are any areas on which they require additional information or action.

2. RELEVANT PREVIOUS DECISIONS

2.1 None.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 The Audit Plan 2010/11 will assess fundamental aspects of financial standing and performance management in Barnet, which relates to the council's 'Better Services with Less Money' corporate priority.

4. RISK MANAGEMENT ISSUES

4.1 The Audit Plan 2010/11 highlights the council's responsibility in respect of producing the financial statements and identifies particular areas of risk in producing them. If these risks are not taken into consideration it carries the risk of adverse financial and / or reputational consequences.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 The Audit Plan 2010/11 covers the inspection and assessment of all services within the authority which, in turn, impact on all members of the community.

6. USE OF RESOURCES IMPLICATIONS (FINANCE, PROCUREMENT, PERFORMANCE & VALUE FOR MONEY, STAFFING, ICT, PROPERTY, SUSTAINABILITY)

6.1 This report sets out the timeline and framework for the assessment of the council's financial reporting, management and standing, as well as value for money.

7. LEGAL ISSUES

7.1 None in the context of this report.

8. CONSTITUTIONAL POWERS

8.1 Constitution Part 3, Section 2 details the functions of the Audit Committee including "To consider the external auditor's annual letter" and "To comments on the scope and depth of external audit work and to ensure it gives value for money".

9. BACKGROUND INFORMATION

9.1 The purpose of the audit plan for the financial year 2010/11 is to communicate

the work that Grant Thornton will carry out in discharging their responsibilities to give an opinion on the council's financial statements and a conclusion on the council's arrangements for achieving value for money.

- 9.2 The plan is based on Grant Thornton's risk based approach to audit planning and is based on their assessment of the potential business and audit risks that need to be addressed by the audit and the controls the council has in place to mitigate these risks.
- 9.3 The audit plan identifies the council's responsibilities as ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority; maintaining proper accounting records; and preparing accounts which accurately represent the financial position of the council and its expenditure and income in accordance with International Financial Reporting Standards.
- 9.4 The audit plan identifies Grant Thornton's responsibilities as auditing the financial statements and giving an opinion as to whether they give a true and fair view of the financial position of the council and its expenditure and income for the period in question; whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and whether the Annual Governance Statement 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 their knowledge.
- 9.5 Six main audit risks have been identified in the audit plan along with a planned audit response. The risks are drawn to the attention of the Committee below:
- 9.5.1 Accounting under International Financial Reporting Standards (IFRS)
Prior to the main financial accounts audit taking place, restated statements will be reviewed by Grant Thornton to gain assurance over those figures, the accounting policies adopted will be reviewed, specialist technical support will be made available and the implication of any developing issues through reference to IFRS guidance and discussion with the council will be reviewed.
- 9.5.2 Financial performance pressures
Grant Thornton will review the council's financial performance for the year against its agreed budget and will consider the use of general reserves during the year. The council's medium term financial strategy in light of current funding arrangements will also be reviewed.
- 9.5.3 Revaluation of fixed assets
External Audit will review any valuations undertaken and ensure that these are in compliance with the requirements of IFRS. They will also undertake a detailed review of property, plant and equipment accounting to ensure all issues identified in prior year have been addressed, as well as those arising upon adoption of IFRS.

9.5.4 Implementation of new revenues system

Grant Thornton will carry out work, with Internal Audit, to gain assurance that there has been appropriate reconciliation procedures performed to ensure the completeness and integrity of the figures included in the council's financial statements. They will also review the council's overall data conversion arrangements around replacement of the system.

9.5.5 Use of estimates and judgements

All judgements used by the council, including those used by professionals such as property valuers, will need to be clearly documented and evidenced.

9.5.6 Valuation of council dwellings

Grant Thornton will review the documented judgements made by the council in determining which indices and assumptions are used in line with the introduction of the Clarity ISAs (International Standards on Auditing).

9.6 As part of the accounts audit, Grant Thornton, will review the Annual Governance Statement (AGS) to determine if it is consistent with their knowledge of the council.

9.7 Grant Thornton will review the Whole of Government Accounts (WGA) consolidation pack for consistency with the council's accounts.

9.8 The Code requires Grant Thornton 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. From 2010/11 the value for money conclusion will be based on two reporting criteria specified by the Audit Commission:

- The council has proper arrangements in place for securing financial resilience;
- The council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

9.9 In addition to the audit of the council's financial statements and Value for Money, Grant Thornton are required to certify grant claims and returns above predetermined thresholds. Prior to the commencement of this work, a grants plan will be issued and on conclusion of the certification work a report will be issued.

9.10 The audit plan confirms the indicative audit fee for 2010/11 which was presented at Audit Committee (21/06/2010).

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: MM

CFO: MC / JH

London Borough of Barnet

Audit plan 2010/11

December 2010



An overview of your 2010/11 Audit Plan

This is our audit plan for the financial year 2010-11 for the London Borough of Barnet (the Council). It sets out the work that we will deliver in discharging our responsibilities to give an opinion on the Council's financial statements and a conclusion on the Council's arrangements for achieving value for money.

We set an indicative fee in March 2010. In setting this fee, we assumed that, whilst the transition to IFRS is a significant change and challenge, the underlying level of risk in relation to the audit would not be significantly different from that identified for 2009/10. Following the completion of the 2009/10 audit we have updated our accounts audit risk assessment.	See Accounts audit
In August 2010 a new approach to local Value for Money audit work was introduced by the Audit Commission. From 2010/11 we will give our value for money conclusion based on two reporting criteria specified by the Audit Commission.	See Value for money audit
We have introduced some new members to the audit team from 2010-11. As in previous years, we will use specialists from across Grant Thornton to support our work and ensure that you are getting the required levels of expertise from us.	See Engagement team
We have used the Audit Commission scale of fees work programme for 2010/11 to calculate your proposed audit fee which remains unchanged from the indicative fee which we communicated to you in March 2010.	See Audit fee
You will receive a number of reports and other outputs from us throughout the year which will provide you with the detailed conclusions of our work culminating in the issue of our Annual Audit Letter to the Council.	See Outputs and timeline
We have considered our independence and objectivity in respect of the Audit and draw your attention to our approach in placing reliance on the work of internal audit. We comply with the Audit Commission's requirements in respect of independence and objectivity	See Appendix A

Accounts audit

Introduction

This section of the plan sets out the work we propose to undertake in relation to the audit of the 2010/11 accounts. The plan is based on our risk-based approach to audit planning and is based on our assessment of the potential business and audit risks that need to be addressed by our audit and the controls the Council has in place to mitigate these risks.

The Council's responsibilities

The Council's accounts are an essential means by which it demonstrates its stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:

- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
- maintain proper accounting records
- prepare accounts, which accurately represent the financial position of the Council and its expenditure and income in accordance with International Financial Reporting Standards.

Our responsibilities

We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the Council and its expenditure and income for the period in question
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- whether the Annual Governance Statement (AGS) 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.



Accounts audit - risk assessment

Accounting risks and planned audit response

Table 1 below summarises the results of our initial risk assessment of significant financial risks facing the Council and our planned response.

Table 1: Accounting risks and planned audit response

Key audit risk	Audit areas affected	Audit approach
Accounting under IFRS	All areas of the financial statements	<ul style="list-style-type: none"> • Prior to the main financial accounts audit taking place we will agree a programme of work on the restated statements to gain assurance over these figures • We will review the accounting policies used by the Council in its adoption of IFRS for the first time. • Specialist technical IFRS support will be made available to the Council if required. • We will review the implications of any developing issues through reference to IFRS guidance and discuss with the Council accordingly.
Financial performance pressures	All areas of the financial statements	<ul style="list-style-type: none"> • We will review the Council's financial performance for the year against its agreed budget. • We will consider the use of general reserves during the year. • We will review the Council's medium term financial strategy in light of current funding arrangements.
Revaluation of fixed assets	Property, plant and equipment	<ul style="list-style-type: none"> • We will review any valuations undertaken and ensure that these are in compliance with the requirements of IFRS. Where possible, this work will be performed prior to our final accounts audit fieldwork. • We will undertake a detailed review of property, plant and equipment accounting to ensure all issues identified in the prior year have been addressed, as well as those arising upon adoption of IFRS.

Accounts audit - risk assessment

Accounting risks and planned audit response (continued)

Table 1: Accounting risks and planned audit response

Key audit risk	Audit areas affected	Audit approach
Implementation of new revenues system	Statement of Comprehensive Income, Balance Sheet and Collection Fund	<ul style="list-style-type: none"> We will carry out work, with Internal Audit, to gain assurance that there has been appropriate reconciliation procedures performed to ensure the completeness and integrity of the figures included in the Council's financial statements. We will review the Council's overall data conversion arrangements around replacement of the system.
Use of estimates and judgements	All areas of the financial statements	A project has been completed by the International Auditing and Assurance Standards Board to clarify the International Standards on Auditing. The main area of our work that this is likely to impact on is the use of estimates and judgements within the financial statements. All judgements used by the Council, including those used by professionals such as property valuers, will need to be clearly documented and evidenced.
Valuation of Council dwellings	Property, plant and equipment	<ul style="list-style-type: none"> We will review the documented judgements made by the Council in determining which indices and assumptions to use in line with the introduction of the Clarity ISAs (International Standards on Auditing).

Accounts audit - approach

Audit approach

We will:

- work closely with the Finance Team to ensure that we meet audit deadlines and conduct the audit efficiently
- plan our audit on an individual task basis at the start of the audit, and timetables agreed with all staff involved.
- consider the materiality of transactions when planning our audit and when reporting our findings.

In summary our audit strategy comprises:

Planning	Updating our understanding of the Council through discussions with management and a review of the management accounts
Control evaluation	<ul style="list-style-type: none"> • Reviewing the design and implementation of internal financial controls, including IT, where they impact the accounts • Assessing audit risk and developing and implementing an appropriate audit strategy • Testing the operating effectiveness of selected controls • Updating our assessment of internal audit against the CIPFA Code of Practice
Substantive procedures	<ul style="list-style-type: none"> • Reviewing material disclosures in the financial statements • Performing analytical review • Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate
Completion	<ul style="list-style-type: none"> • Performing overall evaluation of the process • Determining an audit opinion • Reporting to Audit Committee

Accounts audit - other issues

Other issues

Annual Governance statement

As part of our work on the accounts audit, we will review the Annual Governance Statement (AGS) to determine if it is consistent with our knowledge of the Council.

Whole of Government Accounts

We will also review the Whole of Government Accounts (WGA) consolidation pack for consistency with the Council's accounts

Elector challenge

The Audit Commission Act 1998 gives electors certain rights:

- the right to inspect the accounts
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form a decision on the elector's objection. The additional work may be significant and could result in the requirement to seek legal representations on the issues raised. The costs incurred in responding to any questions or objections raised by electors are not part of the audit fee. In the event of costs being incurred as a result of elector's objections we will discuss these with the Council and, where appropriate, charge for this work in accordance with the Audit Commission's fee scales.

Certification of Grants and Returns

In addition to our audit of the Council's financial statements and Value for Money, we are required to certify grant claims and returns above predetermined thresholds.

In carrying out work in relation to grant claims and returns, Grant Thornton UK LLP acts as an agent of the Audit Commission, on behalf of the grant paying bodies. The work that the auditor is required to undertake is specified in a Certification Instruction, issued by the Audit Commission for each scheme, following discussion with the grant paying body. As agents of the Audit Commission we are required to recover, in respect of each grant claim and return, a fee that covers the full cost of the relevant work undertaken. These rates are based on the hourly rates for certifying claims and returns set out in the Audit Commissions 'Work programme and scales of fees 2010-11.

Prior to the commencement of our work we will issue a grants plan and report in full to the Council on conclusion of our certification work.

National Fraud Initiative (NFI)

The Council participates in the National Fraud Initiative, the Audit Commission's data-matching exercise designed to prevent and detect fraud in public bodies. We will review the Council's progress and actions in following up the matches identified.

Value for money audit

Introduction

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.

2010/11 VFM conclusion

Since we issued our indicative fee letter, a new approach to local Value for Money audit work has been introduced by the Audit Commission. From 2010/11 we will give our value for money conclusion based on two reporting criteria specified by the Audit Commission:

Code criteria 1

The council has proper arrangements in place for securing financial resilience

We will consider whether the Council has robust financial systems and processes to manage effectively financial risks and opportunities and to secure a stable financial position that enables it to continue to operate for the foreseeable future

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- Undertake an in-depth review of the Council's medium term financial plan including considering the anticipated financial impact of the Council's One Barnet programme
- Consider the Council's financial performance against Local Government financial ratios
- Consider the Council's response to the Spending Review and the impact that this will have on the Council's financial planning.

Value for money audit

Code criteria 2

Work to be undertaken

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness

We will consider whether the Council is prioritising its resources within tighter budgets

Risk-based work focusing on arrangements for prioritising resources and improving productivity and efficiency.

Specifically we will:

- Apply our VfM benchmarking tool to the Council's 2009/10 performance to establish how services performed during the year.
- Carry out a review to assess the adequacy of the Council's arrangements for managing personal budgets in Adult Social Services.
- Perform a review of scrutiny arrangements, following up on our work done in 2008/09 and looking at the effectiveness of the current arrangements.
- Consider the arrangements the Council has in place to ensure effective delivery of a selected One Barnet workstream.

We will tailor our VfM work to ensure that as well as addressing our high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance for officers and members. Where we plan to undertake specific reviews to support our VfM conclusion, we will agree brief Terms of Reference with officers.

The results of all our local VfM audit work and key messages will be reported in our Report to Those Charged with Governance (ISA 260 report) and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.



Value for money audit

Other business issues identified

We have identified a number of other business risks as part of our audit planning. Through our regular liaison meetings we will discuss the Council's progress in dealing with these issues and consider the implications for our VfM conclusion. We will keep under consideration whether we determine that, due to increasing risk, there needs to be further assurance work carried out in these areas before we can give our VfM conclusion for 2010-11 or in subsequent years. At the Council's request, we are able to carry out earlier, more in depth work in these areas and would discuss and agree the scope of any such work and the fee implications with officers and the Audit Committee.

Changes in the NHS

The restructuring of the NHS and introduction of GP consortia in place of Primary Care Trusts is likely to significantly impact the Council and its interaction with local NHS partners.

Partnership working

Consider the arrangements put in place by the Council to address the challenges being raised by the Government's "Big Society" agenda.

Performance measurement

Following the abolition of national indicators the Council is establishing a new locally determined framework for understanding performance. It is important that the new framework and performance indicators will help drive the Council's operational decision making processes to improve performance.

One Barnet

The programme, which is fundamental to the Council's organisational development and efficiency agenda, includes a number of workstreams. We would anticipate carrying out further audit work as the programme develops.

Engagement team - key contacts

Your main audit team is based in London and are all public sector specialists. However, we operate as a national practice, coordinating the work of all our offices to ensure that new ideas, good practice experiences and services are developed and disseminated to all, irrespective of location.



Paul Hughes (CPFA)
Client Relationship Lead
T 020 7728 2256
E paul.hughes@uk.gt.com

Paul will lead our relationship, bringing his extensive local authority expertise to the Council. Paul will be a key contact for the Chief Executive, the Deputy Chief Executive, the ADs of Finance, other senior Council officers and the Audit Committee. Paul is responsible for the overall delivery of the audit including the quality of output.



Tom Foster (ACCA)
Manager
T 020 7728 2085
E thomas.foster@uk.gt.com

Tom is responsible for the audit strategy, planning and liaison with, including liaising closely with the Head of Finance and the AD of Finance – Audit and Risk Management for an effective managed audit approach. Tom ensures the delivery of planned audit outputs including quality of reporting prior to presenting plans and reports to the Council's officers and Members.



Melanie Fox (ACCA)
Assistant Manager
T 020 7728 2419
E melanie.fox@uk.gt.com

Melanie is responsible for managing the audit of the financial statements and is the main contact for the Finance Manager.

Melanie will provide feedback to the Council throughout the audit process and is the first point of contact for resolving technical accounting issues.



Simon Cooke (ACA)
Executive
T 020 7728 2790
E simon.j.cooke@uk.gt.com

Reporting to Melanie, Simon is responsible for the performance of the audit fieldwork and day-to-day liaison with the Council's finance department.

Simon will be supported by a team of audit assistants.

Engagement team - specialist support



Paul Dossett (CPFA)
Supporting Partner
T 020 7728 3180
E paul.dossett@uk.gt.com

Paul will support Paul Hughes in the delivery of the audit, using his wide public sector knowledge and experience of the Council and wider local government. Paul will be available, as needed, to meet and discuss issues with the Chief Executive and Members.



Nick Taylor (ACA)
Grants Manager
T 07500 815 358
E nick.taylor@uk.gt.com

Nick is responsible for the overall management of the grants audit programme and will work with the Council to coordinate the certification of the grant claims.



Denis Thorpe (CPFA)
Technical and Quality Lead
T 077 6832 6514
E denis.thorpe@uk.gt.com

Denis is responsible for ensuring that complex technical issues are dealt with consistently across all our clients. His role will include technical support to the audit team and will be available to support in the resolution of any complex accounting issues with the Council.



David Longbottom
Advisory Specialist
T 020 7728 2996
E david.longbottom@uk.gt.com

David has extensive public sector experience specialising in financial, efficiency and performance reviews and transformation and change management. David's expertise will be used to support our work on the Council's Value for Money conclusion.

Audit fee

What is the scale audit fee?

This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2008.

It represents the Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment.

How we calculate your scale audit fee

The Council's audit fee is calculated in accordance with the Audit Commission's scale of audit fees for 2010-11. For the Council, the scale calculation includes a fixed element for a London Borough and a percentage of planned gross expenditure as determined by the Audit Commission.

Variations to the scale audit fee

Based on a thorough review by the audit team which includes discussions with Council officers and Members, we then tailor our work to reflect local circumstances. This may result in a variation upwards or downwards on the scale audit fee. Any variation to the scale fee must be approved by the Audit Commission, following agreement of the proposed fee with the Council.

2010-11 audit fee

As set out in our indicative Audit Fee Letter issued March 2010, the total indicative fee for the audit (excluding the Pension Fund) for 2010/11 is £415,000 (exclusive of VAT), this is in line with the 2009/10 fee.

The scale audit fee for the Council has been calculated at £441,037 which is 6% lower than the suggested scale fee for the Council.

In setting the audit fee below scale, we have made the following assumptions:

- ✓ a good level of proactive joint working with the Council's finance and valuations teams with timely and good quality working papers and records being provided to support the accounts audit
- ✓ no significant issues impacting on our audit with the transition to IFRS
- ✓ internal audit will continue to meet appropriate professional standards and undertake work on all material systems that provide figures in the financial statements, sufficient to support our audit
- ✓ the Council will inform us of significant developments impacting on our audit and prompt responses will be provided to draft reports.

The fee will be subject to review and may be revised if significant new risks are identified or if we are unable to progress the audit as planned due to the timing or quality of information provided by the Council. In the event that we consider it necessary to revise the Council's audit fee upwards, we will discuss this with the Deputy Chief Executive.

Audit fee

A summary of the audit fee is shown in the table below:

Table 2: 2010/11 audit fee

Audit area	Planned fee 2010/11	Actual fee 2009/10
Financial statements#	220,000	170,000
VfM conclusion	195,000	245,000
Total audit fee	^£415,000	£415,000
Certification of claims and returns*	£75,000	£75,000

inclusive of Whole of Government Accounts and the impact of the first year of IFRS accounting, including audit review of the 2009-10 restated accounts

^ we are billing £415,000 for the 2010/11 audit but the Audit Commission will give a rebate of around £15,000, meaning that the net audit fee for the year is £400,000

* the quoted fee for grant certification work is an estimate only and will be charged at published hourly rates

New approach to local VfM work – impact on the audit fee

The Audit Commission wrote to all council chief executives in August 2010 to advise of the new approach to local Value for Money for audit work and the impact of this on the 2010/11 audit fee following the cessation of the Comprehensive Area Assessment. For 2010-11, the Commission has already given a 6% rebate to mitigate the increases in audit fees arising from the transition to IFRS and a further rebate of 3.5% of scale fee (around £15,000) has recently been announced which reflects the cessation of Use of Resources. This has the net effect of reducing the Council's 2010-11 audit fee to £400,000. The Commission has also confirmed that the Council will not be charged for abortive CAA Managing Performance Work which, if billed, would have been in the region of £17,000.

For 2011-12, the scale fee for the Council will be reduced by a further 10%, which, subject to no major movements in the variable elements of the scale fee, would be around £383,000. We will set our 2011-12 fee against the scale based on the assessed level of risk at the Council.

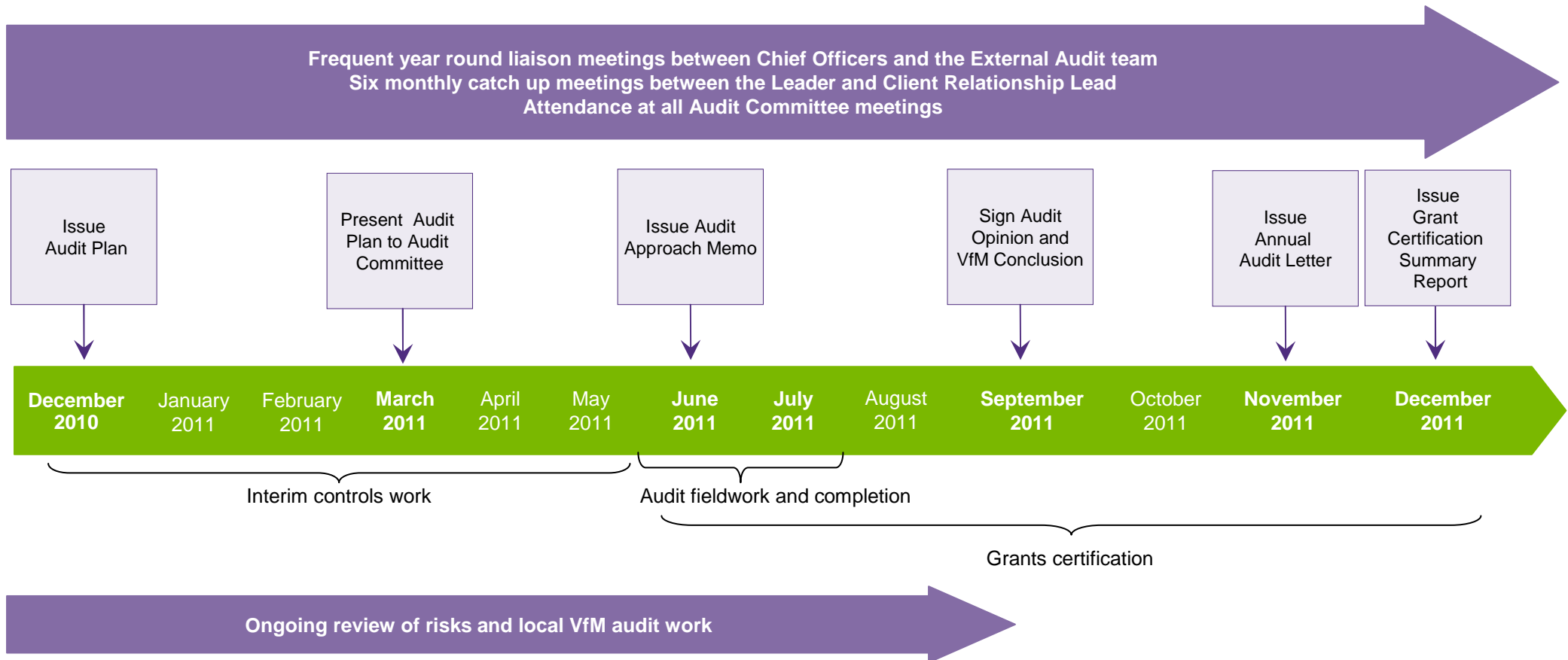
Outputs

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

Reports are addressed to management and the Audit Committee and are prepared for the sole use of the Council, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Output	Purpose	Issue date
Audit Plan	<ul style="list-style-type: none"> • Outline audit approach • Identify initial high risk areas and our planned response • Confirm Plan with Audit Committee 	December 2010
Audit Approach Memorandum	<ul style="list-style-type: none"> • Outline our audit strategy on conclusion of detailed audit planning • Review risks and update planned response accordingly • Highlight focus areas for the audit • Confirm with Senior Officers and Audit Committee 	June 2011
Report to those charged with Governance (ISA 260)	<ul style="list-style-type: none"> • Highlight key issues arising from the audit and their resolution • Communication of adjusted and unadjusted audit differences • Improvement recommendations resulting from audit procedures 	September 2011
Auditor's Reports	<ul style="list-style-type: none"> • Report on financial statements • Report on value for money conclusion 	September 2011
Annual Audit Letter	<ul style="list-style-type: none"> • Summarises the key issues arising from our 2010/11 audit 	November 2011
Grants Claim Certification	<ul style="list-style-type: none"> • Highlights key issues arising from our grants certification work • Recommendations identified for improvement 	December 2011

Timeline



Appendices

Appendix A

Independence and objectivity

We are required to communicate to you an relationships that may affect the independence and objectivity of the audit team. Following the Council's employment of a former Grant Thornton employee as Assistant Director of Internal Audit and in order to comply with ethical standards we will utilise an independent partner and additional resource, as required.

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.

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).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

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
- 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.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.

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.

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 (i.e. work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The Engagement Lead responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years
- The Engagement Lead 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 Engagement Lead and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.



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