EXTERNAL AUDITOR'S PLAN FOR 2009/10

1 SUMMARY

1.1 The purpose of this report is to present our External Auditor's, (PKF) Audit Plan for the 2009/10 external audit work, which is attached as an appendix.

2 INTRODUCTION

2.1 In previous years, the Council has received an Outline Audit and Inspection Plan covering the work of both PKF and the Audit Commission.

2.2 In a change to these arrangements, we now receive the information separately from the two organisations. In addition, PKF send out two documents: an Annual Audit Fee letter setting out the proposed fee and work on the 2009/10 accounts, which was received by the Audit Committee on 10 June 2009 and then this updated document presenting the Audit Plan for 2009/10, following the completion of their audit work on the 2008/09 accounts.

2.3 PKF will attend this meeting to respond to any questions.

3 RISK IMPLICATIONS

3.1 PKF use a risk based approach to determine the amount of work they will need to carry out. The risks identified for 2009/10 are detailed in the attached report and have been discussed with officers.

4 RESOURCE IMPLICATIONS

4.1 The fees for 2009/10 will be £2,935, higher than originally forecast due to additional work required in respect of the Council's accounting for fixed assets.

4.2 There is also an additional fee of £3,000 in order to cover the cost of the additional report required by the Audit Commission on the audit of grants carried out by PKF.

5 RECOMMENDATION

5.1 It is proposed that the Committee **RESOLVES**

That the external auditor's planned audit work and fees for 2009/10 be noted.

Yvonne Woodward

Head of Finance, Audit and Performance Management

Background Papers:-

None.

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If you would like this report in large print, Braille or another language please contact 01702 546366.

PKF

Accountants &
business advisers

Rochford District Council

Annual Audit Plan 2009/10

December 2009

10.3

Contents

Appendices

1 Executive summary

1.1 The purpose of this Annual Audit Plan is to update our 2009/10 fee letter issued in April 2009 now that we have concluded our 2008/09 audit work.

Key audit risk areas

1.2 These are set out in detail in Appendix A, and include:

- application of the correct accounting treatment for tangible fixed assets, in accordance with the Statement of Recommended Practice 2009 and the Council's own accounting policies
- changes in the accounting treatment of Council tax and National Non-Domestic Rates under the Statement of Recommended Practice 2009.

Fees

1.3 The audit fee for the year is £126,335, which has increased by £2,935 since we issued our Audit Fee Letter to you in April 2009. The increased fee reflects our recently updated risk assessment which identified that additional work is required to address areas not reflected in our original fee letter. Specifically, additional audit procedures and increased testing will need to be undertaken to gain assurance that the significant risks arising from the 2008/09 audit, in respect of accounting for tangible fixed assets, have been mitigated.

1.4 In addition since April 2009 the Audit Commission has mandated, on an annual basis, an overall assessment of every authority's grants control environment and also a detailed report to be issued to Those Charged With Governance covering the grants work undertaken. The fee for this additional work is estimated as £3,000 and will be billed in February 2010 once the work is complete and will be charged on the same basis as other grant certification work i.e. actual hours incurred at Audit Commission fee rates.

1.5 The assumptions we have made in setting the audit fee are set out in section 4

1.6 Grant fees for claims and returns for the year ended 31 March 2009 have been completed and the outturn fee is in the process of being finalised and will be reported in our Grants Report to those charged with Governance due to be issued by February 2010. Based upon our experience of this most recent set of reviews, we anticipate fees for claims and returns for the year ended 31 March 2010, the audit of which will be finalised this time next year, will be approximately £32,000.

Key outputs

1.7 The key reports, opinions and conclusions from the audit will be:

Output	Expected timing
Accounts	
• Annual governance report • Audit opinion covering the financial statements	September 2010
Use of resources	
Value for money conclusion	September 2010
Use of resources assessment report	November 2010
Annual audit letter	December 2010
Grants	
Grants report to Those Charged With Governance	February 2010

2 Introduction

2.1 This Annual Audit Plan sets out the audit work that we propose to undertake for the 2009/10 financial year. It has been drawn up from our risk based approach to audit planning and planning meetings held. The information and fees in this Plan will be kept under review and any significant changes will be reported to the Audit Committee.

2.2 The context in which we deliver our audit is set out in Appendix B.

Assessing risks

2.3 We are committed to targeting work to 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 ensuring that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.

2.4 Our risk assessment process focuses on the identification of significant financial and operational risks. For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

3 Risk assessment

Significant accounts risks

3.1 Summarised below are the significant accounts risks that are likely to impact on our audit of which we are currently aware. More detail on these risks can be found in Appendix A.

- application of the correct accounting treatment for tangible fixed assets in accordance with the Statement of Recommended Practice 2009 and the Council's own accounting policies
- changes in the accounting treatment of Council tax and National Non-Domestic Rates under the Statement of Recommended Practice 2009.

3.2 In addition, in accordance with International Standard on Auditing (UK and Ireland), we are required to consider management over-ride of controls to be a significant fraud risk in all audit engagements. International Standards on Auditing (UK and Ireland) presumes that a risk of management override of controls is present in all entities and requires us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. We are also required to consider the need to perform other additional procedures.

3.3 In the Audit Fee Letter issued to you in April 2009 we identified that the implementation of a new cash receipting system may present a significant risk of material misstatement in the accounts. Our updated risk assessment, however, suggests that this is no longer the case as the change of system is likely to be more akin to an IT upgrade than a change in system controls.

3.4 We have set a triviality level of £20,000 for the 2009/10 accounts audit and will not report to you any matters arising below this level.

Other emerging issues and matters of emphasis - accounts

3.5 There are some issues that we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although they may become so as changes in circumstances arise. They include:

- The current economic climate will continue to impact on asset valuations and there is a need for greater emphasis and audit assurance work on certain material balances. We will be reviewing in detail the Council's impairment review of its tangible fixed assets and will be scrutinising and challenging the methodology supporting the Council's bad debt provision to ensure these are adequate whilst also considering the level of write-offs during the year.
- The Council had a large number of earmarked reserves as at 31 March 2009, for resources set aside for future expenditure. We will be reviewing in detail the specific resource reasons for each reserve in place, considering viability, and monitoring the utilisation of the balances during the financial year.
- International Financial Reporting Standards (IFRS) will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. The Council needs to ensure it has the capacity to be able to deliver IFRS along with other audit requirements. The 31 March 2009 balance sheet and 2009/10 accounts will need to be re-stated for comparative purposes.
- Utilisation of the functions of the Council's main accounting system, Dimensions, is to be extended so that all information required for the preparation of the financial statements is centrally maintained on this system. We will be assessing the adequacy of the Council's closedown procedures and preparation of the financial statements, and monitor the progress of data reconciliation between the existing spreadsheets (which will run in parallel this year) and the Dimensions system.

Updated use of resources risk assessment

3.6 Our 2009/10 Audit Fee Letter, issued in April 2009 and presented to the Audit Committee in June 2009, notified that there was a risk that the Council may not have sufficiently progressed its arrangements for tackling health inequalities and, therefore, meeting the national target.

3.7 Building upon the Audit Fee Letter, we have updated our use of resources risk assessment for 2009/10 to take into account:

- matters arising from the completion of the 2008/09 audit
- additional audit knowledge gained since that initial risk assessment was completed.

3.8 No additional significant audit risks have been identified during our updated risk assessment.

Other emerging issues and matters of emphasis – use of resources

3.9 There are some issues that we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although they may become so as changes in circumstances arise. They include a likely reduction in Central Government funding, as a result of the economic climate, which will require the Council to critically review resource and service options. As part of our 2010/11 planning we will need to assess the impact of this on the Council's ability to deliver against its corporate objectives and achieve value for money.

4 Fees and billing arrangements

Fees

4.1 The audit fee for the year is £126,935, which has increased by £2,935 since we issued our Audit Fee Letter to you in April 2009. The increased fee reflects our recently updated risk assessment which identified that additional work is required to address areas not reflected in our original fee letter. Specifically, additional audit procedures and increased testing will need to be undertaken to gain assurance that the significant risks arising from the previous year's audit in respect of accounting for tangible fixed assets have been mitigated.

4.2 In addition since April 2009 the Audit Commission has mandated, on an annual basis, an overall assessment of every authority's grants control environment and also a detailed report to be issued to Those Charged With Governance covering the grants work undertaken. The fee for this additional work is estimated as £3,000 and will be billed in February 2010 once the work is complete and will be charged on the same basis as other grant certification work i.e. actual hours incurred at Audit Commission fee rates.

Audit area	Indicative fee as per 2009/10 Audit Fee Letter	Revised fee 2009/10
Financial statements, including WGA	60,400	63,335
Use of Resources/VFM Conclusion [including risk based work]	33,900	33,900
Planning and reporting	29,100	29,100
Total Code audit fee	**123,400**	**126,335**

4.3 If we need to make further significant amendments to the audit fee during the course of the audit, we will first discuss this with the Head of Finance, Audit and Performance and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

4.4 As well as the audit fee above at paragraph 4.1, the following fees are separately billable:

Work	Estimate £	Billing arrangement
Questions and objections	TBA	Should any arise, time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.
Grants certification	32,000*	Fees billed are based on the Audit Commission's grade related rates as set out in the *Work Programme and Fee Scales* on the basis of hours incurred. *Grant fees for claims and returns for the year ended 31 March 2009 have been completed and the outturn fee is in the process of being finalised and will be reported in our Grants Report to those charged with Governance due to be issued by February 2010. Consequently this figure is the same estimate included within our Audit Fee Letter issued earlier this year, adjusted for the additional work mandated by the Audit Commission (see para. 4.2)

4.5 The fees detailed above are based on the following assumptions:

- Internal Audit will have completed its systems testing in accordance with the plans and agreed timetable, and to an adequate standard
- We will, after re-performing a sample of Internal Audit's work, be able to place full reliance on the work of Internal Audit
- you will keep us informed of any significant changes to your main financial systems or procedures
- you will provide a comprehensive, good quality set of working papers and records to support the accounts, performance indicators and grant claims prior to the commencement of the audit and there will be no fundamental problems with them
- you will prepare a timely self assessment to support the use of resources assessment and this will be fully supported by relevant evidence for any new areas not previously assessed
- you will ensure that audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored
- there are no major changes to the content of government department grant instructions.

4.6 The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit. This assumption is based upon arrangements for 2009/10 and our consideration of your annual governance statement in your 2008/09 accounts.

Billing arrangements

4.7 Your audit fee is being billed as set out in the following table, which has been adjusted to reflect the increased fee of £2,935:

Month	£
June 2009	30,000
September 2009	30,000
December 2009	10,000
March 2010	25,000
June 2010	5,000
September 2010	26,335
Total	**£126,335**

5 Audit arrangements

Staffing

5.1 The following staff will be involved in the audit throughout the course of the year:

	Role and responsibility
Partner **Richard Bint** Email: Richard.bint@uk.pkf.com Tel: 020 7065 0497	Responsible for delivering the audit in line with the Audit Commission Code of Audit Practice, including agreeing the Audit Plan, Annual Governance Report and Annual Audit Letter. Also responsible for signing opinions and conclusions, and for liaison with the Chief Executive and Audit Committee.
Director **Lisa Clampin** Email: Lisa.clampin@uk.pkf.com Tel: 01473 320716	Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for managing our accounts and use of resources work and for completion of the Audit Plan, Annual Governance Report and Annual Audit Letter.
Senior **Christopher Donovan** EmailChristopher.donovan@uk.pkf.com Tel: 01473 320795	Responsible for managing our audit fieldwork on site for accounts and use of resources.

Timetable

5.2 The following outline timetable shows the expected dates planned for key fieldwork elements of the audit to commence:

Audit Timetable	Timing
Accounts – core financial systems	April 2010
Accounts – financial statements	July/August 2010
Use of resources assessment	February - July 2010
Use of resources – specific risks	September 2009 - March 2010
Use of resources – value for money conclusion	September 2010
Grants reviews (including HBCOUNT benefits work)	May – December 2010

5.3 We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues. The expected timing of key outputs from the audit is set out in paragraph 1.7.

Independence

5.4 Auditing Standards require auditors to communicate relevant matters relating to the audit to "those charged with governance". Relevant matters include issues on auditor independence, audit planning information and findings from the audit.

5.5 We have included in Appendix C to this Plan a statement to the Audit Committee setting out the Audit Commission's objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.

5.6 Following our audit of the financial statements we will report to the Audit Committee on the findings from our audit.

Quality of service

5.7 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Richard Bint in the first instance. Alternatively you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.

5.8 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

5.9 In addition, the Audit Commission's complaints handling procedure is detailed in their leaflet "How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors", which is available on their website http://www.audit – commission.gov.uk/complaints/

Appendix A: Risk assessment matrix

	Audit risk identified from planning	Relevant UoR KLOE	Audit response
Use of Resources			
1	*The Local Government Act 2000 placed a duty on local authorities to promote the social, economic and environmental well being of their area.* *Government has identified that tackling health inequalities is one of six key priorities, and expressed concern that the PSA target 'by 2010 to reduce inequalities in health outcomes by 10 per cent' is likely to be missed.* *Partnership working focusing on the health inequalities agenda may be ineffective, under- developed or not yet operational. The 2007/08 pan Essex review identified that further work was required in order to achieve the health inequalities agenda.*	*KLOE 1.1, 2.3*	*Assess progress made since the initial report, focussing on outcomes achieved reflecting the new use of resources approach.*
Accounts			
2	*The Council are planning to implement a new cash receipting system during the year, which increases the risk of a lapse in the controls in place over the recording of income.*	*KLOE 1.1*	*We will review the work of Internal Audit on the controls within the new system and reconsider the significance of this risk as part of our updated risk assessment later in the year. Our revised response will be included in the updated Audit Plan to be issued in December 2009.* Our updated risk assessment suggests that this does not present a significant risk of material misstatement of the accounts as the change of system is likely to be more akin to an IT upgrade than a change in system controls.

	Audit risk identified from planning	Relevant UoR KLOE	Audit response
3	There is a risk that the balances shown in the financial statements for tangible fixed assets will not be fairly stated as there were a number of errors identified in the previous year's audit indicating a weakness in the capital accounting processes. We have worked closely with the Council to secure improvements to their capital accounting arrangements. However, until we have been able to audit the effectiveness and outcomes of these new arrangements, the errors identified in the prior year accounts give rise to audit risks in the following areas: • Valuation - There is a risk that valuation of the Council's fixed assets on an incorrect basis will lead to material misstatement. • Depreciation – There is a risk of non compliance with the Council's depreciation policies and/or with the Statement of Recommended Practice (SORP). • Impairments – The value of impairments would be impacted by any errors in valuation or depreciation as a result of the above risks, increasing the risk of impairment misstatement. • Disposals – There were some disposals shown in the Income & Expenditure Account which were not reflected in the major assets note or the fixed asset register last year. There is therefore a risk that other assets are not included on the fixed asset register. • Disclosure – There is a risk of non compliance with the SORP in respect of the format of the fixed asset register which was previously being shown on a net book value (NBV) basis, rather than a gross book value (GBV) basis.	KLOE 1.3	To satisfy ourselves that the Council's improved arrangements have successfully mitigated the risk of material error in the accounts we will: • review the valuation basis adopted by the District Valuer for each class of asset to ensure valuation is in accordance with the Statement of Recommended Practice (SORP). We will assess whether we can place reliance on the valuer's report, and ensure the valuation has been appropriately treated in the accounts • assess the depreciation methodology used, and compare this with the Council's accounting policy for depreciation. We will increase our testing for a sample of assets to ensure that the appropriate charge has been made and properly reflected in the accounts. • review an increased sample of impairment charges to provide assurance that impairments are reasonably stated. • substantively select a sample of disposals both from the Income and Expenditure Account and from the fixed asset register to provide assurance over the completeness of disposals made. The accounting entries made will be substantively tested to ensure they have been properly treated. • review the changes to the format of the fixed asset register to ensure they have been reasonably effected and result in a SORP compliant document.

	Audit risk identified from planning	Relevant UoR KLOE	Audit response
4	Changes in the accounting treatment of Council tax and National Non-Domestic Rates are included in the Statement of Recommended Practice 2009. This requires the Council to only show their proportion of the balance sheet values reflecting the “Agency style” arrangement in the collection arrangements. This is a change in accounting policy. There is a risk that the Council may misstate balances.	KLOE 1.3	We will liaise with the Council to ensure they have appropriate arrangements in place to identify their proportion of the balance.

Italics = reported in fee letter presented to the Audit Committee in June 2009

Non-italics = new risk

Appendix B: Audit requirements

Accounts

The Code requires us to provide an opinion on whether your financial statements "present fairly" your financial position and have been prepared properly, in accordance with relevant legislation and applicable accounting standards.

In carrying out this work we:

- consider the extent to which your accounting and internal control systems are a reliable basis from which to prepare the accounts
- consider the robustness of your accounts preparation processes
- undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your financial statements.

Internal controls and key financial systems

International Standards on Auditing (UK and Ireland) require auditors to obtain a detailed understanding of an organisation, its environment, risk assessment processes, the information systems, internal controls and monitoring activities. This must be sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error and be sufficiently well documented to enable the auditor to design and perform further audit procedures based on identified risks.

Where the audit intends to rely on identified controls to reduce risk or the level of detailed testing the auditor must also undertake tests of the operating effectiveness of the relevant controls. The key financial systems upon which the accounts are based will therefore require additional testing and review in order to arrive at our opinion on the financial statements.

Your key financial systems are:

- Main accounting
- Cash and bank
- Payments and creditors
- Income and debtors
- Payroll and employment costs
- Council tax
- Housing and council tax benefits
- National Non-Domestic Rates
- Information technology
- Investments and investment income

Working with Internal Audit

The Audit Commission expects appointed auditors and Internal Audit departments to work together to ensure that audit work is most effectively targeted in well-managed councils, thereby minimising duplication and the overall level of audit resource input.

Fraud risk assessment

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting.

The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and "those charged with governance" (the Audit Committee).

We will make appropriate enquiries and review the counter fraud arrangements in place in order to identify the fraud risks, and the controls you have put in place on which we will seek to place reliance to mitigate those risks.

For all fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your accounts and our audit programme.

National Fraud Initiative

The NFI aims to help prevent and detect fraud and is one of the key ways in which the Audit Commission fulfils its responsibility to promote economy, efficiency and effectiveness in the use of public money. The Audit Commission processes data under its statutory powers, which are set out in Part 2A of the Audit Commission Act (1998), and puts data matching on a statutory footing for local government and NHS bodies.

The NFI compares different sets of data, like payroll or benefit records, against other records held by the same, or another organisation, bringing to light potentially fraudulent claims and payments by highlighting inconsistencies for further investigation.

The use of data for NFI purposes continues to be controlled to ensure compliance with data protection and human rights legislation. A revised Code of data matching practice was published and laid before Parliament on 21 July 2008 and governs how the data provided can be used.

Financial statements

We will consider the adequacy of your arrangements for closing down the ledger and producing accurate, timely and comprehensive financial statements and supporting working papers. We will provide officers with a detailed list of schedules and working papers required for the audit.

We will review the appropriateness and consistency of application of the accounting policies adopted by the Council and ensure that these are consistent with the *Local Authority Accounting in the United Kingdom – Statement of Recommended Practice* (SORP).

We will read the other information included in the financial statements and, if appropriate the annual report, to ensure this is consistent, complete and not misleading based on our overall knowledge. We will review your annual governance statement to assess whether it has been presented in accordance with relevant guidance, is adequately supported, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

Whole of government accounts (WGA)

As part of the WGA process we are required to review and report on the consolidation pack you have prepared for submission. The actual procedures to be performed have been developed by the Audit Commission in discussion with the National Audit Office. Our work involves ensuring consistency between the audited accounts and the consolidation pack, and the agreement of balances with other bodies.

Use of resources

The Code requires us to conclude whether or not proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This draws primarily upon the mandated Use of Resources assessment (which maps directly to the "Value for Money conclusion" criteria set by the Audit Commission), and may also be informed by targeted, local risk-based work.

Use of resources assessment

Our use of resources assessments undertaken as part of our 2009/10 audit were completed during the summer of 2009 and final scores announced on 11 September 2009. These scores were reported in our Annual Governance Report in respect of the 2008/09 audit of the accounts issued in September 2009 and in our Annual Audit Letter for 2008/09 issued in December 2009.

The fee for the forthcoming use of resources assessment, the majority of which will be undertaken within the 2009/10 financial year, will be included within our 2010/11 Fee Letter. The results of that assessment will inform our 2009/10 Value for Money conclusion. Our review will consider the progress made since our previous use of resources assessment, will assess natural resources for the first time and will also again include specific work on data quality.

We will again provide separate scores on the three key themes: managing finances, governing the business and managing resources. As for the 2008/09 assessments undertaken as part of our 2009/10 audit, there will be a single judgement on value for money in the use of resources, given by the Audit Commission, which is scored and published for each organisation following a consistency review of the professional judgements reached by the local auditor.

Local risk-based work

Local risk-based work is proposed to address audit risks relating to the accounts opinion or Value for Money Conclusion where normal levels of work are considered insufficient to fully address risk exposures. Specific pieces of work in respect of 2009/10 are set out in Appendix A.

Value for money conclusion

We will issue an overall conclusion on whether or not proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (the “value for money (or VFM) conclusion”). The Audit Commission has developed relevant criteria for auditors to apply in reaching this conclusion, as required by the Code.

As stated above, for 2009/10 our VFM conclusion will be based on our use of resources assessment to be included in your audit fee for 2010/11. For financial reporting and performance issues, we will take account of our audit of the 2009/10 Statement of Accounts that we will be undertaking during the summer of 2010.

We will also follow up on audit work from previous years to assess progress in implementing agreed recommendations.

Comprehensive Area Assessment (CAA)

Our input to the CAA process is agreed and funded separately by the Audit Commission, and falls outside the work we are required to do by the Code.

Appendix C: Communication to those charged with governance

To: Audit Committee, Rochford District Council

Auditors appointed by the Audit Commission are subject to the *Code of Audit Practice* (the Code) which includes the requirement to comply with International Standards on Auditing (ISA) when auditing the financial statements. ISA 260 requires 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.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In the case of Rochford District Council it has been agreed that 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.

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
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a *de minimis* amount (currently the higher of £30,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the *de minimis* amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

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
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence

- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission
- auditors are expected to comply with the Commission's policy for both the Partner and the second in command (Manager) to be changed on each audit at least once every five years
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner in respect of each audited body
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner 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.

Statement by the appointed auditor

In relation to the audit of the financial statements for Rochford District Council for the financial year ending 31 March 2010, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

Under the requirements of ISA 260, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed.