
OUTLINE AUDIT & INSPECTION PLAN 2008/09

1 SUMMARY

- 1.1 The purpose of this report is to invite Members to give consideration to the Outline Audit and Inspection Plan ('the Plan'), which is attached. The Plan was prepared by our external auditors, PKF, who will attend this Committee to present this report.

2 INTRODUCTION

- 2.1 The Plan, attached as an appendix to this report, sets out the audit and inspection work proposed to be undertaken in 2008/09 by PKF (UK) LLP ('PKF') and the Audit Commission.
- 2.2 The Plan summarises the approach to meeting the requirements of the Audit Commission's Code of Audit Practice

3 SUMMARY OF OUTLINE AUDIT & INSPECTION PLAN 2008/09

- 3.1 The Plan covers the work of the Audit Commission and its appointed external auditors, PKF, for the financial year of 1 April 2008 to 31 March 2009 (2008/09). It sets out the staffing arrangements and timetables for visits and reporting.
- 3.2 The Audit Commission work covers the role of the Council's Relationship Manager and the Direction of Travel Assessment.
- 3.3 The External Auditors carry out the following activities, further details of which are in the Plan:-
- Review of the core financial systems (e.g. Finance, Council Tax).
 - Review of the Council's financial accounts, including the Statement on Internal Control.
 - Review of Data Quality arrangements and performance information.
 - Carry out a Use of Resources Inspection that focuses on the importance of having sound and strategic financial management to ensure that resources (money and assets) support the Council's priorities and service improvement.
 - Audit of Grant Claims.
- 3.4 The Plan includes a Risk Assessment (see Appendix A), which identifies the key risks from an audit point of view as being:-

Audit fees, which will be £129,319 compared to £146,008 in 2007/08. A detailed breakdown of the fees is given in paragraph 1.4 of the Plan.

- 3.5 Appendix B to the Plan is a statement to ‘those charged with governance’ (Councillors) confirming that PKF have complied with the guidelines set out by the Audit Commission’s guidelines on independence and objectivity.

4 RECOMMENDATION

- 4.1 It is proposed that the Committee **RESOLVES** to note the Outline Audit & Inspection Plan 2008/09.

Yvonne Woodward

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Background Papers:-

None

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Accountants &
business advisers

Rochford District Council

Annual Audit and Inspection Plan

2008/09

May 2008

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- A Risk Planning Matrix
- B Communication to those charged with governance

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

1 Executive summary

- 1.1 The Audit and Inspection Plan sets out the work that the auditor and Relationship Manager propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to planning and the requirements of the Comprehensive Performance Assessment. 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.

Key audit risk areas

- 1.2 These are set out in detail in Appendix A, and include:
- effective partnership working around the health inequalities agenda
 - how the Council works with partners to address Local Area Agreement (LAA) targets (which is a piece of work deferred from 2007/08 at the request of the County Council, the fee for which was included in that year's Plan).

Fees

- 1.3 The proposed total audit and inspection fee for the year is £129,319. The reduction of 12% in the audit and inspection fee recognises the reduced scope of work necessary to address audit risks and the absence of any planned service inspection.
- 1.4 Within the audit fee element, there has been a removal of resource and fee applied in 2007/08 in respect of performance management review, health inequalities and LAA, but reinstatement of full Use of Resources assessment resource and fee following the reduced scope work agreed last year. More detail is shown in section 7.

Audit	124,900	122,750
Inspection	21,108	6,569
Total audit and inspection	£146,008	£129,319

Key outputs

- 1.5 The key audit and inspection outputs will be:

Audit and Inspection Plan	-	May 2008
Auditor's opinion, covering:	2008/09	September 2009
• Statement of Accounts		
• Use of Resources conclusion		
ISA 260 Report on the 2008/09 Accounts	2008/09	September 2009
Report and scores on use of resources – 2007/08	2007/08	December 2008
Report on Data Quality and performance information	2007/08	December 2008
CPA and Inspections		
Direction of Travel	2008	February 2009
Annual reporting		
Annual Audit and Inspection Letter	2008	March 2009

2 Introduction

- 2.1 This joint audit and inspection plan sets out the audit and inspection work to be undertaken in 2008/09 by PKF and the Audit Commission.
- 2.2 This plan has been drawn up from our risk based approach to audit planning and planning meetings held. It reflects the Audit Commission's elements of the co-ordinated and proportionate audit and inspection programme.
- 2.3 As the audit for the 2007/08 financial year has not yet been completed the audit planning process for 2008/09, including the risk assessment, will continue as the year progresses. The information and fees in this plan will be kept under review and updated as necessary. Any significant changes to the Plan will be reported to the Audit Committee.

Audit work – PKF

- 2.4 The work of the auditors that is covered by this plan can be summarised as follows:

Accounts

- provide an opinion on the Statement of Accounts for the year ended 31 March 2009

Use of resources

- assessment of the arrangements to secure economy, efficiency and effectiveness in the use of resources
- review of data quality arrangements and selected performance information for 2007/08
- undertake any other use of resources work in response to local risks and improvement priorities.

Inspection work – Audit Commission

- 2.5 The Relationship Manager is the primary point of contact with the Council and inspectorates and co-ordinates all inspection activities, ensuring that this is underpinned by the principal of targeting work where it will have the greatest effect. This work includes preparing an annual Direction of Travel statement of performance improvements in the year.
- 2.6 From April 2009, the Audit Commission, jointly with other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA) as a replacement for Comprehensive Performance Assessment (CPA). As a result, the role of the Relationship Manager will be replaced by the Comprehensive Area Assessment Lead (CAAL). The CAAL (who is Ian Davidson) 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.

3 Accounts

- 3.1 The Code of Audit Practice requires us to provide an opinion on whether your Statement of Accounts “presents fairly” your financial position, and has been prepared properly, in accordance with relevant legislation and applicable accounting standards.

Scope of audit

- 3.2 In carrying out this work we:
- consider the extent to which your accounting and internal control systems are a reliable basis for recording transactions and from which to prepare the accounts
 - consider the robustness of the your processes for preparing the accounts, undertake analytical procedures and tests of transactions and balances in the accounts
 - consider the adequacy of the disclosures in your Statement of Accounts.
- 3.3 We shall apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

Key financial systems and internal controls

- 3.4 Auditing standards 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 Statement of Accounts 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.
- 3.5 In carrying out this review, we shall consider the environment within which those controls operate and evaluate specific controls that respond to significant risks. Following our evaluation, we will assess whether we shall be placing reliance on particular controls and where reliance is to be placed will conduct testing of the relevant controls.
- 3.6 Your key financial systems are:
- | | |
|--------------------------------|-------------------------------------|
| • Main Accounting System | • Council tax |
| • Cash and bank | • Housing and council tax benefits |
| • Payments and creditors | • Payments and creditors |
| • Income and debtors | • NNDR |
| • Payroll and employment costs | • Investments and investment income |
| • Information technology | |

Working with Internal Audit

- 3.7 The Audit Commission expects appointed auditors and Internal Audit departments to work together to ensure that audit work is most effectively targeted, thereby minimising duplication and the overall level of audit resource required.
- 3.8 We have planned the audit on the basis that we will be able to place full reliance on the work of Internal Audit and that its work will be directed to each of the key financial systems noted above.

Fraud risk assessment

- 3.9 We have a responsibility to consider specifically the potential risk of material misstatement of your Statement of Accounts as a result of fraud and error, including the risk of fraudulent financial reporting.
- 3.10 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corruption lies with management and 'those charged with governance' (the Audit Committee)
- 3.11 We have discussed possible risks of fraud with officers and 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.

Statement of Accounts

- 3.12 We will consider the adequacy of your arrangements for closing down the ledger and producing an accurate, timely and comprehensive Statement of Accounts and supporting working papers. We will provide officers with a detailed list of schedules and working papers required for the audit.
- 3.13 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 Account Practice (SORP)*.
- 3.14 We will read the other information included in the Statement of Accounts and, if appropriate the annual report, to ensure that this is consistent, complete and not misleading based on our overall knowledge.
- 3.15 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)

- 3.16 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.

Key accounts risks

- 3.17 Detailed accounts risks may not become apparent until after completion of the 2007/08 audit, although our assessment to date suggests that the only risk likely to impact on our audit of the financial statements is compliance with the SORP 2008. The Council has adequate arrangements for implementing any changes required by the SORP 2008, therefore we do not anticipate any additional risks, or work, at this stage.

Other emerging issues

- 3.18 In addition, there is the emerging issue of International Financial Reporting Standards (IFRS). IFRS are expected to be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. We intend to maintain an ongoing review of during the course of the year. This is currently not a significant issue, although it may become so as changes in circumstances arise.

4 Use of resources

4.1 The Code requires us to:

- be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money conclusion)
- be satisfied that there are adequate arrangements in place for collecting, recording and publishing performance information.

Value for money conclusion

4.2 We will give an overall conclusion on whether you have proper arrangements in place to secure value for money (VFM). The Audit Commission has developed relevant criteria for auditors to apply in reaching this conclusion.

4.3 In meeting this responsibility, we will review evidence that is relevant to your corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.

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

Use of resources assessment – 2007/08

4.5 Included as part of our 2008/09 plan, we will review the arrangements in place throughout the 2007/08 financial year to secure economy, efficiency and effectiveness in the use of resources. Our work will be undertaken during 2008 and will continue to assess the Council against the existing Audit Commission Key Lines of Enquiry which focuses on the importance of having sound and strategic financial management in the following areas:

Financial reporting	Preparation of financial statements External reporting
Financial management	Medium-term financial strategy Budget monitoring Asset management
Financial standing	Managing spending within available resources
Internal control	Risk management System of internal control Probity and propriety
Value for money	Achieving value for money Managing and improving value for money

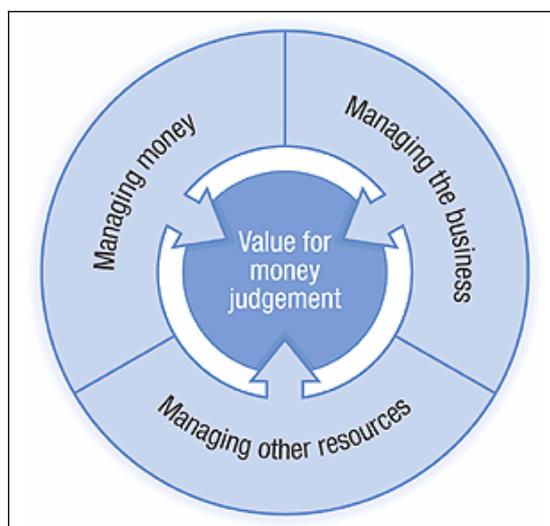
4.6 This assessment will focus on the progress made since the previous assessment and on changes to specific Key Lines of Enquiry. There are a number of modifications to the criteria, with several of the non-bold criteria now becoming bold (and assuming “must have” status), and these changes may have an impact on the scores for each of the themes above, as well as the overall assessment score for the Council.

4.7 A score of 1 to 4 will be given, based on underlying criteria, for each theme and details of the scores and judgements will be reported to you. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services. The auditor’s scores are reported to the Audit Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.

- 4.8 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion for 2007/08.

Use of resources assessment – 2008/09

- 4.9 There are likely to be changes to the assessment approach and scoring mechanism for the 2008/09 financial year to more closely align this work with Comprehensive Area Assessments and the work of other regulators.
- 4.10 Whilst the assessment methodology has yet to be finalised, the consultation document identifies three Key Lines of Enquiry themes, instead of the previous five themes, and recognises value for money as integral to each of the assessments and is at the heart of the process:



- 4.11 The methodology is expected to apply some degree of rotational review of each criteria, building on the information from the previous approach. Since this work is expected to be undertaken during 2009, the fees will be included in the 2009/10 Plan.
- 4.12 We will give separate scores on the three key themes. In addition there will be a single, annual 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.
- 4.13 We await finalised details of the overall approach to be applied, the detailed criteria on which the assessments will be based and the scoring mechanism. We will discuss these, and arrangements for the audit, with the Council once received.
- 4.14 The work will be used to support the auditor's value for money conclusion for 2008/09.

Data Quality

- 4.15 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- Stage 1 – review of overall management arrangements to secure data quality
 - Stage 2 – completeness check of reported performance information
 - Stage 3 – data quality spot check and in-depth review of specified performance indicators for 2007/08.
- 4.16 The work at Stage 1 will link to our review of your arrangements to secure data quality as required for our value for money conclusion and, together with the results of Stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at Stage 3. The results of the work at Stage 3 will inform the Commission's CPA assessment. It is expected that between one and four indicators will be subject to in-depth review at the Council.

National Fraud Initiative

- 4.17 In 2008/09 the National Fraud Initiative will be undertaken by the Audit Commission under its new data matching powers inserted into the Audit Commission Act 1998 by the Serious Crime Act 2007. The Audit Commission has not yet set a fee for this work and will do so in April 2008 when the new statutory provisions come into force. The fee will be invoiced separately by the Audit Commission.

Key use of resources risks

- 4.18 We have included in Appendix A our assessment of the risks relevant to our use of resources audit work and our planned response to those risks. The key risks are:
- following on from the review undertaken during 2007/08, effective partnership working around the health inequalities agenda remains a risk during 2008/09 where it is anticipated we will facilitate detailed action plans on a local basis to address issues raised in the 2007/08 report
 - effective governance, financial and performance management arrangements around the Local Area Agreement (LAA). This review has been deferred from the 2007/08 Audit and Inspection Plan and no additional fee will be charged for this work in 2008/09.

Other emerging issues

- 4.19 In addition there are some emerging 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 outcome of the CPA re-assessment and the impact that the extent of progress assessed would have on the Council.
 - the embedding of the performance management culture across the Council's services and the setting of challenging targets to drive continued improvement and value for money
 - the impact of the change in the Council's decision making structure and the consequential impact on scrutiny and challenge of the Council's performance and strategic direction.

5 Inspection

- 5.1 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.
- 5.2 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.
- 5.3 The Council's CPA category and Direction of Travel assessment is, therefore, a key driver in the Commission's inspection planning process. For CPA 2004, the Council was assessed as "Weak". Since then it has received positive annual Direction of Travel assessments and been successful in its application for a re-categorisation review.
- 5.4 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.
- 5.5 On the basis of our planning process we have identified where our inspection activity will be focused for 2008/09 as follows:

Relationship Manager role	To act as the Audit 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 Relationship Manager, of how well the Council is securing continuous improvement. The Direction of Travel label will be reported in the CPA scorecard alongside the CPA category. The Direction of Travel assessment summary will be published on the Commission's website.

- 5.6 This work has been agreed in full consultation with other regulators to ensure that work programmes are co-ordinated and proportionate.

6 Grant claims

6.1 As agents of the Audit Commission we are required to express an opinion on certain grant claims submitted by the Council. There are de-minimis arrangements in place for the certification of claims, which are:

- amounts below £100,000 will not be certified
- amounts between £100,000 and £500,000 will be subjected to limited audit testing to agree form entries to underlying records, but the eligibility of expenditure will not be tested
- amounts greater than £500,000 will be audited in accordance with the outcome of a control environment risk assessment.

6.2 The dates for completion of this work are laid down by the Government Departments to which the claims are submitted. We will liaise with the relevant Council officers to ensure we complete our work within the given timetable.

New integrated benefits audit approach

6.3 The Audit Commission is currently finalising a new benefits audit approach, linking data quality work to the certification of the grant claim. As soon as this approach has been trained upon, we will discuss implications with officers.

7 Fees and audit arrangements

Audit and Inspection fees

- 7.1 The Audit Commission's guideline for fee levels applicable to audited bodies remains a formula-based calculation that is adjusted to reflect the agreed scope of work applicable to local circumstances and risk profile. For audit, the calculation is based on the minimum amount of work required under the risk based audit approach outlined in the Code.
- 7.2 The audit fee, excluding grants and challenge work, for the period from April 2008 to March 2009 will be £122,750 plus VAT. The fee is based on our understanding of audit requirements at the time of drafting this Plan.
- 7.3 The fee payable for the 2008/09 programme of inspection work, net of any central government grant, is £6,569.
- 7.4 An analysis of the fee by audit area is shown below:

Work area	2007/08 Fee £	2008/09 Fee £
Code of Audit Practice		
Accounts – core audit	56,450	56,600
Whole of Government Accounts	1,450	1,500
Subtotal accounts	57,900	58,100
Use of resources assessment -2007/08	13,700	19,100
Data quality and performance information	14,650	12,050
Other targeted work (appendix A)	8,350	2,300*
Use of Resources - Other	3,100	3,200
Subtotal use of resources	39,800	36,650
Planning & Reporting	27,200	28,000
Subtotal audit	£124,900	£122,750
Inspection		
Relationship Management /Direction of Travel	12,980	6,569
Subtotal inspection	£12,980	£6,569
Total audit and inspection	£154,180	£129,319

* - this includes amounts for a follow up workshop on the Health inequalities work which was completed in previous years.

- 7.5 As well as the inspection fees of £6,569 identified in 7.3 above, the following fees are separately billable:

National fraud initiative	TBA	Billed directly by the Audit Commission.
Questions and objections	TBA	Should any arise, time spent dealing with them will be billed by PKF. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.
Grants certification	35,000	Fees billed by PKF based on the Audit Commission's grade related rates as set out in the <i>Work Programme and Fee Scales</i> on the basis of hours incurred. The estimate is based on the claims we audited for the year ending 31 March 2007.

7.6 Your audit fee will be billed in 6 instalments, to match resource input, as follows:

June 2008	15,000
September 2008	25,000
December 2008	15,000
March 2009	35,000
June 2009	5,000
September 2009	27,750
Total	£122,750

7.7 The fee is provisional and based on our current estimations of the risks and the impact of changes to requirements in 2008/09.

7.8 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Corporate Director of Resources. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

7.9 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
- 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 self assessment to support the use of resources assessment and this will be fully supported by relevant evidence
- 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.

Staffing

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

Partner David Eagles Email: david.eagles@uk.pkf.com Tel: 01473 320728	Responsible for delivering the audit in line with the Code of Audit Practice, agreeing the Audit Plan, Accounts report to those charged with governance and Annual Audit Letter. Also responsible for signing opinions and conclusions, and for liaison with the senior officers and Audit Committee.
Manager Adam Kendall Email: adam.kendall@uk.pkf.com Tel: 01473 320817	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, Accounts report to those charged with governance, and Annual Audit Letter.
Senior Kate Beauchamp Email: katherine.beauchamp@uk.pkf.com Tel: 01473 320729	Responsible for managing our audit fieldwork on site for accounts and use of resources.
Other Team Members To be confirmed	
Relationship Manager Ian Davidson Email: i-davidson@audit-commission.gov.uk	Responsible for co-ordinating inspection activity as the primary point of contact with the Council and inspectorates. Will also be responsible for delivering the Direction of Travel statement.
CAA Lead Ian Davidson Email: i-davidson@audit-commission.gov.uk	Responsible for providing a focal point for the Commission's work in your local area, ensuring 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.

Timetable

7.11 The key audit and inspection outputs will be:

Audit and Inspection Plan	-	May 2008
Auditor's opinion, covering: <ul style="list-style-type: none"> Statement of Accounts Use of Resources conclusion 	2008/09	September 2009
ISA 260 Report on the 2008/09 Accounts	2008/09	September 2009
Report and scores on use of resources – 2007/08	2007/08	December 2008
Report on Data Quality and performance information	2007/08	December 2008
CPA and Inspections		
Direction of Travel	2008	February 2009
Annual reporting		
Annual Audit and Inspection Letter	2008	March 2009

- 7.12 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.

Independence

- 7.13 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.
- 7.14 We have included in Appendix C to this Plan a statement to those charged with governance setting out the Audit Commission’s objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.
- 7.15 Following our audit of the Statement of Accounts we will report to the Audit Committee on the findings from our audit.

Quality of Service

- 7.16 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 David Eagles in the first instance. Alternatively, you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.
- 7.17 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).
- 7.18 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/>].
- 7.19 If you are in any way dissatisfied, or would like to discuss how we can improve our inspection service, please contact the Relationship Manager / Comprehensive Area Assessment Lead in the first instance. Alternatively, you may wish to contact the Head of Operations of the Audit Commission’s Central Region, Delyth Morris.

Appendix A Risk Assessment Matrix

Use of Resources				
1	<p>Governance, financial and performance management arrangements of the Local Area Agreement (LAA) may be ineffective, underdeveloped or not yet fully operational.</p> <p><i>This risk has been brought forward from the 2007/08 audit plan.</i></p>	<p>The Council has established partnership arrangements in connection with the LAA.</p>	<p>There remains a risk that current partnership arrangements may not be sufficiently effective or scoped to deliver the LAA agenda.</p> <p>Significance – High VFM conclusion criteria: 1, 2, 6</p>	<p>Participate in the cross cutting work on the LAA across Essex deferred from 2007/08 which is expected to include all Essex local authorities and NHS bodies within the LAA.</p>
2	<p>Partnership working focusing on the health inequalities agenda may be ineffective, under-developed or not yet operational. The 2007/08 pan Essex review identified further work was required in order to achieve the health inequalities agenda.</p>	<p>The profile of health inequality has been raised from the work undertaken in 2007/08 and the Council has in place a number of partnership arrangements.</p>	<p>There remains a risk that current partnership arrangements may not be sufficiently effective or scoped to deliver the health inequality agenda.</p> <p>Significance – Medium VFM conclusion criteria: 1, 7</p>	<p>Facilitate a local action planning workshop to address issues raised in the Essex Health Inequalities Report issued in 2007/08.</p>

Value for money conclusion criteria

Reference Criteria

- 1 The Body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.
- 2 The Body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.
- 3 The Body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The Body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.
- 5 The Body has put in place arrangements to maintain a sound system of internal control.
- 6 The Body has put in place arrangements to manage its significant business risks.
- 7 The Body has put in place arrangements to manage and improve value for money.
- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The Body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The Body has put in place arrangements for managing performance against budgets.
- 11 The Body has put in place arrangements for the management of its asset base.
- 12 The Body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

Appendix B

Disclosure under ISA 260 (Communication of audit matters 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 Authority 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

David Eagles, the audit Partner, is due for rotation before we undertake the accounts audit (systems and final accounts) work for 2008/09. We will discuss our proposals for rotation later this calendar year.

In relation to the audit of the financial statements for Rochford District Council for the financial year ending 31 March 2009, 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.

Statement by the Relationship Manager / Comprehensive Area Assessment Lead

I am not aware of any relationships that may affect the independence and objectivity of the Inspectors who will work with you.