

## **AUDIT COMMITTEE**

**17 DECEMBER 2009**

### **ANNUAL AUDIT PLAN 2009/2010**

Report from: Mick Hayward, Chief Finance Officer

Author: Mick Hayward, Chief Finance Officer

#### **Summary**

This report and attachment sets out the annual audit plan. The Council's external auditors (PKF) have produced the plan and it is reported to this committee to comply with governance requirements.

#### **1. Budget and Policy Framework**

1.1 International Standards on Auditing require the audit plan to be communicated to 'those charged with governance.' The terms of reference of this committee include: discussions with the external auditor on new accounting standards, changes to the reporting framework and the basis of the annual audit, including the content of performance work.

#### **2. Background**

2.1 In accordance with the International Standard of Auditing (UK and Ireland) 260 it is necessary to communicate the annual audit plan for 2009/2010.

2.2 As the external auditor, independently appointed by the Audit Commission, PKF has a responsibility to audit and provide an opinion on the Statement of Accounts and to provide a conclusion on the use of resources.

2.3 The annual audit plan for 2009/2010, produced by PKF, is attached as Appendix 1 to this report.

#### **3. Scope of the Plan**

3.1 The overall scope of the work to be carried out is determined by the Audit Commission's Code of Audit Practice and PKF have drawn up the detailed plan in accordance with their risk based approach to audit planning and planning meetings held. PKF will target work where it will have the greatest effect based upon assessments of risk and performance.

3.2 The scope of the audit work is set out in the attached plan.

#### **4. Financial and Legal Implications**

- 4.1 Audit fees are calculated in accordance with national scales established by the Audit Commission. Auditors have some discretion to vary the charge and the Original amount proposed by PKF for audit fees (£329,000), agreed by this committee on 24 March 2009 was 10% below the Audit Commission guidelines for a 'medium' risk authority. However, PKF are proposing a £6,000 increase in the fee due to the Audit Commission imposing additional duties on external auditors in respect of grant claims and Government returns which cannot be charged as grant fees. This fee increase can be contained within the existing budget.
- 4.2 The International standards on Auditing require the plan to be communicated to discharge governance requirements.

#### **5. Risk Analysis**

- 5.1 PKF have assessed the key audit risks which are contained within Appendix A of the audit plan. However, there will always be a risk that the auditor may find material errors or misstatements in the accounts and the results of the audit of the statements will not be known before they are presented for adoption by the Council as part of the Audit Committee function. Due regard will be taken of the changing regulations and accounting requirements in producing the 2009/2010 statements and the position put before the Audit Committee is the officers' interpretation of these requirements.

#### **6. Recommendation**

- 6.1 That the Audit Committee accepts the proposed annual audit plan for 2009/2010.

#### **Background papers**

The annual audit plan 2009/2010 (attached as Appendix 1)

**Report author:** Mick Hayward, Chief Finance Officer.

Appendix 1



Accountants &  
business advisers

**Medway Council**

**Annual Audit Plan 2009/10**

**December 2009**

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# 1 Executive summary

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

## Key audit issues and risk areas

- 1.2 The key audit risk area is shown at Appendix A:
- implementing the proposed changes to CIPFA's Statement of Recommended Practice 2009

## Developing issues

- 1.3 Developing audit issues we will be keeping under review in 2010 are shown at Appendix B and include
- maintaining progress towards implementing International Financial Reporting Standards (IFRS).
  - Improving financial management arrangements further by:
    - managing the financial risks across demand-led services and income streams while balancing the overall financial position
    - ensuring the medium term financial strategy remains sustainable while planning for reduced growth in resources
    - delivering efficiencies identified through the 'star chamber' process and managing the risks involved systematically
  - finding more innovative ways of working with strategic partners in the challenging economic climate
  - embedding the value for money framework by implementing the new Performance Management System ('Covalent') to enable the more systematic use of data and information
  - sustaining performance in services (such as the Strategic Housing Service) where improvement is being reported
  - ensuring risks identified in the 'Gateway' procurement process are kept under review.

## Fees

- 1.4 Each year we determine a fee for the audit of the Council based on the Audit Commission's published programme of work and a fee calculation based on a fixed element, and a variable element using Council expenditure and the external auditor's assessment of risk.
- 1.5 In 2009/10, the audit fee for the year is £335,000, which has increased by £6,000 since we issued our Audit Fee Letter to you. The reason for the increase is the Audit Commission has mandated, on an annual basis, an overall assessment of every Council's control environment for preparing and submitting grant claims and other Government returns. The outcome of this work should be reported to Those Charged With Governance covering the grants work undertaken. The additional work, which was not included in the Fees and Work Programme document, is estimated as £6,000 and cannot be charged as part of grants fees and so increases the main Code audit fee.
- 1.6 The assumptions we have made in setting the audit fee are set out in section 4.
- 1.7 Grant fees for claims and returns for the year ended 31 March 2009 have been completed and the outturn fee is expected to be about £75,000. 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 to be approximately £77,000 taking account of grade rate changes outlined in the Audit Commission's Work Programme and Fees document for 2010/11.

## Key outputs

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

Output	Expected timing
<b>Accounts</b>	
<ul style="list-style-type: none"> <li>Annual governance report</li> <li>Audit opinion covering the financial statements</li> </ul>	September 2010
<b>Use of resources</b>	
Value for money conclusion	September 2010
Use of resources report to those charged with governance, including the use of resources assessment	September 2010
<b>Annual audit letter</b>	November 2010
<b>Grants</b>	
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 C.

### Assessing risks

- 2.3 We are committed to targeting work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means 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

3.1 The key accounts risks, other emerging issues and matters of emphasis and our updated use of resources risk assessment are summarised below.

#### Key accounts risk

3.2 Summarised below is the key accounts risk likely to impact on our audit of which we are currently aware. Further details about the following risk can be found in Appendix A:

- implementing the proposed changes to CIPFA's Statement of Recommended Practice 2009 to mitigate the audit risk of producing accounts which do not fully comply with professional guidance.

3.3 We have set a triviality level of £50,000 for the 2009/10 accounts audit and will not report to you any matters arising below this level. We will keep the triviality level under review.

#### Updated use of resources risk assessment

3.4 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 our initial risk assessment which was included in our 2009/10 Audit Fee Letter, presented to the Audit Committee in January 2009.

3.5 There are no audit risks arising from our updated assessment other than the accounts risk highlighted at paragraph 3.2 above. The Council has addressed the risks arising from our previous risk assessment reported to the Audit Committee in March 2009..

#### Other developing issues and matters of emphasis

3.6 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. Appendix B provides details about new and developing issues including:

- maintaining progress towards implementing International Financial Reporting Standards (IFRS).
- Improving financial management arrangements further by:
  - managing the financial risks across demand-led services and income streams while balancing the overall financial position
  - ensuring the medium term financial strategy remains sustainable while planning for reduced growth in resources
  - delivering efficiencies identified through the 'star chamber' process and managing the risks involved systematically
- finding more innovative ways of working with strategic partners in the challenging economic climate
- embedding the value for money framework by implementing the new Performance Management System ('Covalent') to enable the more systematic use of data and information
- sustaining performance in services (such as the Strategic Housing Service) where improvement is being reported
- ensuring risks identified in the 'Gateway' procurement process are kept under review.



## 4 Fees and billing arrangements

### Fees

- 4.1 The audit fee for the year is £335,000, which has increased by £6,000 since we issued our Audit Fee Letter to you. The reasons for the increase in fee are summarised at paragraph 1.4 to 1.7. Information about the fees payable by the Council in 2008/09 and 2009/10 is shown below.

Audit Area	2008/09	2009/10		
	Outturn fee	Fee Letter March 2009	Revised fee	Change
	£	£	£	£
Financial Statements	208,000	216,000	216,000	-
Use of resources and VFM Conclusion	88,000	93,000	93,000	-
Risk based Use of resources work	-	20,000	20,000	-
Report to those charged with Governance on Grant Claims	21,000	-	6,000	6,000
<b>Total</b>	<b>317,000</b>	<b>329,000</b>	<b>335,000</b>	<b>£6,000</b>

- 4.2 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 Chief Finance Officer and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee. As well as the audit fee of £329,000 identified above, 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	£77,000	Fees billed are 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. Grant fees for claims and returns for the year ended 31 March 2009 have been completed and the outturn fee is expected to be about £75,000.  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 to be approximately £77,000 taking account of grade rate changes outlined in the Audit Commission's Work Programme and Fees document for 2010/11.

- 4.3 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 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.

4.4 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

4.5 Your audit fee is being billed as follows.

Month	£
June 2009	82,250
September 2009	82,250
December 2009	82,250
March 2010	88,250
<b>Total</b>	<b>£335,000</b>

## 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 Robert Grant Email: robert.grant@uk.pkf.com Tel: 020 7065 0170	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 the Audit Committee.
Manager Stuart Frith Email: stuart.frith@uk.pkf.com Tel: 020 7065 0000	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.

### 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	January - March 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)	July 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 1.8.

## 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 Robert Grant 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](http://www.audit-commission.gov.uk/complaints)

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## Appendix A: Risk assessment matrix

	Audit risk identified from planning	Assertions	Audit response
<b>Accounts</b>			
1	Implementing the proposed changes to CIPFA's Statement of Recommended Practice 2009 effectively to mitigate the audit risk of producing accounts which do not fully comply with professional guidance	<i>Completeness</i> <i>Existence/Occurrence</i> <i>Accuracy</i> <i>Cut-Off</i> <i>Valuation</i> <i>Rights and Obligations</i>	As in previous years, we will work with the finance section to ensure the smooth completion of our audit work.

December 2009

## Appendix B: Developing issues

	Developing issue identified from planning	Relevant UoR KLOE	Audit response
<b>Accounts</b>			
2	Maintaining progress towards implementing International Financial Reporting Standards (IFRS) to ensure the Council manages the risks involved in the transition, such as updating financial systems, effectively.	1.3	As in previous years, we will work with the finance section to ensure the smooth completion of our audit work.
<b>Use of Resources</b>			
3	<p><i>The Council is facing a difficult financial outlook. While strong leadership is being shown to achieve the 2009/10 budget, there are financial risks across the Council's demand-led services and income streams. The Council will also need to deal with emerging risks about the financial performance of its significant contractors and private sector partners.</i></p> <p>The Council will need to ensure the medium term financial strategy remains sustainable while planning for reduced growth in its resource base. The Council need to deliver efficiencies identified through the 'star chamber' process and manage the risks involved systematically.</p>	1.1, 1.2, 2.2	<p>We will review achievement of the Council's 2009/10 expenditure plans.</p> <p>We will review the implementation of the medium term financial strategy and the achievement of efficiency plans.</p>
4	<i>The Council needs to embed the approach to Risk Management.</i>	2.3	<i>Our use of resources assessment completed in 2009 confirmed the Council has taken action to further improve the approach to risk management.</i>
5	<i>The Council will need to ensure the risk of inconsistent understanding about its Whistleblowing procedures is addressed.</i>	2.3	<i>Our use of resources assessment completed in 2009 confirmed the Council has taken action to improve Whistleblowing arrangements.</i>

	Developing issue identified from planning	Relevant UoR KLOE	Audit response
<b>Use of resources continued</b>			
6	The Council will need to sustain performance in those services where improvement is being reported (such as the Strategic Housing Service).	2.1, 2.2	In 2009, there is evidence the Council's performance improved in reducing homelessness and towards achieving the decent homes standard. Because of the difficult economic outlook, there are risks to delivering affordable homes targets which we will keep under review through our use of resources assessment.
7	Delivery of the ambitious regeneration agenda and finding more innovative ways of working with strategic partners in the challenging economic climate present risks to achievement of Council priorities such as increasing affordable housing units.	2.1, 2.2	We will review progress toward Thames Gateway outcomes through our use of resources assessment.
8	Implementing the new Performance Management System ('Covalent') successfully to enable the more systematic use of data and information presents a risk to meeting the Council's core value of securing value for money.	2.1, 2.2, 2.3	We will review progress in embedding the approach to performance management through our use of resources assessment.
9	The Council and its partners will need to manage the risks involved in achieving the targets set in the local area agreement. The Council itself will need to review its progress towards targets where it has a lead role in delivering outcomes and take action where performance is behind target..	2.3, 2.4	We will review progress toward LAA outcomes through our use of resources assessment
10	The Council will need to ensure risks involved in the 'Gateway' procurement process are kept under review..	2.1	We will work with the Council to review the 'Gateway' process and the value for money outcomes achieved. .
11	There is a risk the Council's value for money framework is not fully implemented or the expected benefits realised.	All	We will review progress in implementing the new VFM strategy through our use of resources assessment

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

Non-italics = new risk

## Appendix C: 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
- Information technology
- Council tax
- Housing and council tax benefits
- Housing rents
- Housing repairs and maintenance
- Payments and creditors
- National Non-Domestic Rates
- 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 powers put 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 focus areas for 2009/10 are set out in Appendix A and Appendix B.

## ***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 D: Communication to those charged with governance

To: Audit Committee, Medway 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 Medway 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 Medway 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.