

# **Annual Audit and Inspection Plan**

**Tyne and Wear Fire and Rescue Authority**

**Audit 2007/2008**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

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

### **Status of our reports**

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

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

### **Copies of this report**

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## Introduction

- 1 This plan sets out the audit and inspection work we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of the fire and rescue performance assessment framework which reflects:
  - audit and inspection work specified by the Audit Commission for 2007/08;
  - current national risks relevant to your local circumstances; and
  - your local risks and improvement priorities.
- 2 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

## Responsibilities

- 3 We comply with the statutory requirements governing our audit and inspection work, in particular:
  - the Audit Commission Act 1998;
  - the Local Government Act 1999;
  - the Fire and Rescue Services Act 2004; and
  - the Code of Audit Practice (the Code).
- 4 The Code defines auditors' responsibilities in relation to:
  - the financial statements (including the statement on internal control (SIC)); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 5 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Authority. The Audit Commission has issued a copy of the Statement to every audited and inspected body.
- 6 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our work is undertaken in the context of these responsibilities.

## Fire and rescue performance assessment framework

- 7 The Audit Commission's fire and rescue performance assessment framework is underpinned by the principle of targeting our work where it will have the greatest effect.
- 8 Our inspection activity at Tyne and Wear Fire and Rescue Authority for 2007/08 will consist of the following.

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Authority and the interface at the local level between the Commission, Communities and Local Government and other key stakeholders.
Direction of Travel (DoT) assessment	An annual scored assessment, carried out by the RM, of improvement or deterioration in performance. The assessment will be outcome-focused and will draw together other assessments of the Authority. The DoT label will be reported in the performance assessment framework scorecard early in 2008.
Service assessment	A scored assessment which has an emphasis on service delivery. It includes a performance information element, and an operational assessment of service delivery provided by Communities and Local Government. The service assessment will be reported in the performance assessment framework scorecard published early in 2008.

- 9 The Authority may also apply for their 2005 CPA score of 'fair' to be reassessed during 2007/08 through a corporate assessment. However, the Audit Commission will consider all applications and give priority to those authorities that can demonstrate significant and sustainable improvement since 2005 CPA and those with low scores awarded at the last assessment. The only cost to the Authority would be the time that officers and members spend preparing for and facilitating the assessment. Applications to be considered for re-categorisation will be sought in the summer of 2007 and the Relationship Manager will help the Authority consider an application and provide advice on the process if necessary. The Authority may consider that resources are better invested at sustaining a positive direction of travel assessment than preparing for a new corporate assessment, given that the Audit Commission is planning to replace CPA with an area-based assessment framework in two years time.

## Work under the Code of Audit Practice

### Financial statements

- 10 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 11 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year.
- 12 We are also required to review whether the Statement of Internal Control (SIC) has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Authority.

### Use of resources - Value for money conclusion

- 13 The Code requires us to issue a conclusion on whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 14 In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, for example CLG, we will normally place reliance on their reported results to inform our work.
- 15 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

### Use of resources assessment

- 16 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08 based on an update of the 2006/07 assessment. The use of resources assessment evaluates how well the Authority manages and uses its financial resources. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Authority's priorities and improve services.
- 17 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.

- 18 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes.

**Table 1**

Theme	Description
Financial reporting	<ul style="list-style-type: none"> <li>• Preparation of financial statements.</li> <li>• External reporting.</li> </ul>
Financial management	<ul style="list-style-type: none"> <li>• Medium-term financial strategy.</li> <li>• Budget monitoring.</li> <li>• Asset management.</li> </ul>
Financial standing	<ul style="list-style-type: none"> <li>• Managing spending within available resources.</li> </ul>
Internal control	<ul style="list-style-type: none"> <li>• Risk management.</li> <li>• System of internal control.</li> <li>• Probity and propriety.</li> </ul>
Value for money	<ul style="list-style-type: none"> <li>• Achieving value for money.</li> <li>• Managing and improving value for money.</li> </ul>

- 19 We will report details of the scores and the judgements made to the Authority. The scores will be accompanied, where appropriate, by recommendations of what the Authority needs to do to improve its performance.
- 20 The auditor's scores and judgements are reported to the Audit Commission to feed into the fire and rescue performance assessment framework. The use of resources assessment will be reported in the performance assessment framework scorecard published early in 2008.

## Best Value Performance Plan

- 21 We are required to carry out an audit of your Best Value Performance Plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance. We no longer have a specific Audit Code of Practice responsibility in respect of performance indicators but we do have a duty to ensure that the Authority has adequate arrangements for ensuring data quality, which we meet through our work on the VFM Conclusion.

## Assessing risks

- 22 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 23 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Authority with reference to:
- our cumulative knowledge of the Authority;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with relevant officers;
  - liaison with internal audit; and
  - the results of other review agencies' work where relevant.
- 24 We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the financial statements in November 2007. At this stage, we are aware of the following risks that are likely to impact on our audit of the financial statements:
- capital accounting - the 2005/06 accounts contained minor errors arising from the valuation of fixed assets and CIPFA has established new accounting arrangements for capital in 2006/07; and
  - classification of costs - new arrangements for allocating costs of operational staff between fire-fighting and community fire safety.
- 25 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Authority to mitigate the risk, and plan our work accordingly.
- 26 Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.



## Work specified by the Audit Commission

### Data quality

- 27 The Audit Commission is considering whether to specify work on data quality at Fire and Rescue Authorities. This would be in addition to the high-level review of management arrangements for ensuring data quality that is already undertaken to inform the value for money conclusion. The Commission will consult with authorities before confirming the approach and it is expected that any change would apply to 2007/08 performance indicators and be covered by the 2008/09 Audit and Inspection Plan.

### Whole of government accounts (WGA)

- 28 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

### National Fraud Initiative

- 29 The Authority participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Authority's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

## Voluntary improvement work

- 30 We are not proposing to do any voluntary improvement work at Tyne and Wear Fire and Rescue Authority during 2007/08. However, some of our auditors and inspectors have developed considerable expertise of the fire and rescue sector through the delivery of local project work and high profile work such as pay verification, CPA and direction of travel and we would be happy to discuss with you any further ways in which we could help. We would need to assess whether or not we would be best placed to deliver the work and prepare a specification setting out what we would do and how much it would cost. The Authority would need to separately commission the work in accordance with its financial procedure rules.

## Refresh of 2006/07 Plan

- 31 Our initial plan and fee for the 2006-2007 audit were agreed in April 2006. Since that date we have identified additional emerging risks in respect of ethical governance, as highlighted by the Use of Resources report. Conversely, work initially planned in respect of the 'Your Business at Risk' survey is no longer required as we have been able to rely on an equivalent survey performed at the lead authority and recent internal audit work on ICT security. We propose to redeploy resources to address these changing circumstances but to leave the 2006/07 fee unchanged.

## The audit fee

- 32 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 33 The total indicative net fee for the audit work included in this audit plan for 2007/08 is £66,500 plus VAT (planned fee of £56,200 for 2006/07).
- 34 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions that Tyne and Wear Fire and Rescue Authority could take to reduce its audit fees; and the process for agreeing any changes to the fee. The audit fee includes all work identified in this plan unless specifically excluded.
- 35 As indicated in paragraphs 2 and 26, the audit planning process will continue as the year progresses and it is possible that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 32 above. Any changes to the fee will be agreed with you.

## Other information

### The audit team

- 36 The key members of the audit team for the 2007/08 audit are shown in the table below.

**Table 2**

Name	Contact details	Responsibilities
Lynne Snowball Relationship Manager and District Auditor	<a href="mailto:l-snowball@audit-commission.gov.uk">l-snowball@audit-commission.gov.uk</a> 0191 401 1670	The primary point of contact with the Authority and the interface at the local level between the Commission and other key stakeholders.  Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the audit committee and senior officers including as appropriate the Chief Fire Officer and Treasurer to the Authority.
Lynn Hunt Audit Manager	<a href="mailto:l-hunt@audit-commission.gov.uk">l-hunt@audit-commission.gov.uk</a> 0191 5531917	Takes responsibility for those aspects of the audit, which can not be delegated below Audit Manager by the Commission's scheme of delegation.
Ross Woodley Principal Auditor and National Fire Audit Lead	<a href="mailto:r-woodley@audit-commission.gov.uk">r-woodley@audit-commission.gov.uk</a> 01642 345 601	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Treasurer to the Authority.
John McCann Performance Specialist and Regional Service Lead for Fire	<a href="mailto:j-mccann@audit-commission.gov.uk">j-mccann@audit-commission.gov.uk</a> 01642 345 601	Responsible for the delivery of elements of the use of resources work, including the value for money theme of the use of resources assessment, and elements of the direction of travel assessment.

## Independence and objectivity

- 37 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you. We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

## Quality of service

- 38 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the District Auditor in the first instance. Alternatively you may wish to contact the Acting North-East Head of Operations, David Jennings.
- 39 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *Something to Complain About* which is available from the Commission's website or on request.

- 40 Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

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**Table 3**

<b>Planned output</b>	<b>Indicative date</b>
Opinion Audit plan	30 November 2007
Fire and Rescue Performance Assessment framework scorecard	31 March 2008
Interim Audit report	30 June 2008
Annual Governance report	30 September 2008
Opinion on the financial statements and Value for Money conclusion	30 September 2008
WGA audit report	30 September 2008
Final Accounts report (to the Treasurer to the Authority)	30 November 2008
BVPP report	31 December 2008
Annual Audit and Inspection Letter	31 March 2009

## Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
<p>Equality and diversity The work-force is not representative of the community and progress against the Equality Standard has been slow. This increases the risk of non-compliance with equality legislation and an adverse direction of travel assessment.</p>	<p>The Authority participates in regional equality and diversity provision as well as employing its own diversity officer. Various initiatives to target hard to reach groups are ongoing.</p>	<p>Yes</p>	<p>We will hold a workshop to identify the barriers to improving equality and diversity and how these might be addressed.</p>	<p>UOR KLOE 4.2.8 and VFM Conclusion (internal control).</p>
<p>Regional Control Room A regional control room is due to go live on 1 April 2008 and operate as a local authority company, controlled by the four fire and rescue authorities in the north-east.</p>	<p>The Monitoring Officer has reviewed the RCC's governance arrangements and the company has been established.</p>	<p>Yes</p>	<p>We will assess project delivery risks such as:</p> <ul style="list-style-type: none"> <li>• TUPE, early retirements, severance and voluntary redundancies;</li> <li>• legality, governance and accounting implications of the relationship between the RCC, RMB and the Authority; and</li> <li>• allocation of net costs between authorities.</li> </ul>	<p>UOR KLOE 1.1.1, 3.1.8, 4.2.8 and 5.2.2 plus VFM Conclusion (financial standing, internal control and VFM).</p>



Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
<p>Data Quality and Performance Management</p> <p>The Authority's performance on key BVPIs was mixed in 2005/06. Two of the seven BVPIs used in the service assessment were still relatively poor after adjusting for deprivation. However, in one case (BVPI 149 - automatic fire alarms) this was due to a miscalculation.</p>	<p>Internal review of data quality.</p>	<p>Yes</p>	<p>We will conduct a regional review of 2006/07 fire BVPIs to consider if significant differences are the result of miscalculations.</p> <p>If any of the fire BVPIs remain relatively poor after the regional review we will review the arrangements that the Authority is taking to improve performance.</p>	<p>UOR 5.1.2 and 5.2.3 and VFM Conclusion (data quality and VFM).</p>
<p>Risk Management</p> <p>Arrangements to identify, record and address corporate risks are improving but are not yet embedded.</p>	<p>The Authority has appointed a new risk manager and arrangements are being embedded.</p>	<p>No</p>	<p>No specific work. Mandatory work on use of resources and the VFM Conclusion will suffice.</p>	<p>N/A</p>

## Appendix 2 – Audit fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the planned fee for 2006/07.

**Table 4**

<b>Audit area</b>	<b>Planned fee 2007/08 £</b>	<b>Planned fee 2006/07 £</b>
Audit		
Opinion	36,400	37,200
Use of resources (including BVPP and VFM Conclusion)	28,800	27,700
Whole of government accounts	900	-
National Fraud Initiative	400	-
<b>Total audit fee</b>	<b>66,500</b>	<b>64,900</b>
Inspection		
Direction of Travel assessment and Relationship Manager time	19,700	20,200
<b>Total inspection fee</b>	<b>19,700</b>	<b>20,200</b>
<b>Total audit and inspection fee</b>	<b>86,200</b>	<b>85,100</b>
Less CLG Grant	(19,700)	(28,900)
<b>Net Audit and Inspection Fee</b>	<b>66,500</b>	<b>56,200</b>

- 2 The Audit Commission scale fee (mid-point) for Tyne and Wear Fire and Rescue Authority is £59,700. The fee proposed for 2007/08 is 12 per cent above the mid-point (14 per cent above in 2006/07) and is within the normal level of variation specified by the Commission. The gross fee is very similar to the 2006/07 fee but there has been a significant fall in grant from Communities and Local Government, reflecting the end of the transitional arrangement to fund use of resources work through the new burdens grant in the first year of the new performance framework.
- 3 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.

- 4 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Authority. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 5 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

## Specific audit risk factors

- 6 In setting the audit fee we have taken into account the following specific risk factors:
  - the ongoing complexity associated with accounting for the recently completed PFI scheme; and
  - the level of uncertainty surrounding the implications of the regional control room.

## Assumptions

- 7 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
  - you will inform us of significant developments impacting on our audit;
  - internal audit meets the appropriate professional standards;
  - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements by 12 July 2008;
  - a materiality level for the financial statements of £1.25m;
  - requested information will be provided within agreed timescales; and
  - prompt responses will be provided to draft reports.
- 8 Where these assumptions are not met, we may be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 9 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
  - additional work is required of us by the Audit Commission or other regulators; and
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## **Specific actions Tyne and Wear Fire and Rescue Authority could take to reduce its audit fees**

- 10 The Audit Commission requires its auditors to inform the Authority of specific actions it could take to reduce its audit fees. We have identified the following actions Tyne and Wear Fire and Rescue Authority could take:
- ensure that final accounts working papers are exemplary. We will discuss the improvements required to achieve this with relevant staff following our audit of the 2006/07 accounts.

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

- 11 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 Chief Fire Officer and Treasurer to the Authority. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

## Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
  - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the [audit] committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee;
- auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- the District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- the District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- the District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.