

Audit and Inspection Plan

May 2007



Audit and Inspection Plan

Sunderland City Council

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

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Introduction

- 1 This plan has been developed by the Relationship Manager and appointed auditor. It sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2007/08;
 - relevant national risks ; and
 - local improvement priorities.
- 2 Lynne Snowball, as the Council's Relationship Manager, will continue to help ensure further integration and co-ordination with the work of other inspectorates.
- 3 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. Therefore, the information and fees in this plan will also be kept under review and updated as necessary.

Responsibilities

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

CPA and Inspection

- 8 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.
- 9 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. For CPA 2006, Sunderland City Council was categorised as 4 star and, on this basis, we are not expected to undertake significant amounts of risk-based inspection or performance work.
- 10 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.
- 11 Strengths in current performance include:
 - arrangements for use of resources - Sunderland's level 4 score is the highest rating attainable and achieved by less than 10 per cent of councils nationally;
 - financial capacity - the Council is well placed in terms of accumulated balances and reserves, and has a corporate value for money framework to help identify and secure financial savings. During 2006 it delivered efficiency savings in excess of £10 million, significantly higher than government requirements; and
 - partnership working - a Code of Practice is in place to ensure good governance arrangements for all partnerships. Notably, as part of the Sunderland Strategy, the Council has contributed to wider community outcomes on health, and employment and training.
- 12 Two key issues remain, which are being tackled in partnership with others:
 - reducing health inequalities; and
 - regenerating key strategic sites within the city.

- 13 Our inspection activity for 2007/8 will be focused as follows.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT label will be reported in the CPA scorecard alongside the CPA category. The DoT assessment summary will be published on the Commission's website.

Work under the Code of Audit Practice

Financial statements

- 14 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).
- 15 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 Council as at 31 March 2008 and its income and expenditure for the year.
- 16 We are also required to review whether the Statement of Internal Control (SIC) or annual governance statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if it is misleading or inconsistent with our knowledge of the Council.

Use of resources

Value for money conclusion

- 17 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. 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.
- 18 In meeting this responsibility, we will review evidence that is relevant to the Council's 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.
- 19 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 20 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.

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

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

- 22 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services.
- 23 The auditor’s scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.

Data quality and Best Value Performance Plan

- 24 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.
- 25 The Audit Commission has also specified that auditors will be required to undertake audit work in relation to data quality and published BVPIs. This is based on a three-stage approach covering:
- stage 1 - management arrangements;
 - stage 2 - completeness check; and
 - stage 3 - risk-based data quality spot checks of a sample of performance indicators.

- 26** The work at stage 1 will link to our review of the Council's 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.
- 27** Our fee estimate reflects an assessment of risk in relation to the Council's performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Assessing risks

- 28 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.
- 29 Our risk assessment process starts with the identification of significant financial and operational risks with reference to:
- our cumulative knowledge of the Council;
 - planning and technical guidance issued by the Audit Commission;
 - results of previous and ongoing audit and inspection work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.

Opinion risks

- 30 At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements.

Table 2 Summary of opinion risks

Risk	Response
A number of changes are being proposed to the Statement of Recommended Practice for 2007/08 accounts. Specific issues include the introduction of new accounting arrangements for the revaluation reserve. and the need to comply with new reporting standards on financial instruments	We will liaise with officers to ensure the Council follows correct accounting practice, and undertake specific testing as necessary on the 2007/08 financial statements.
Liabilities in relation to equal pay and single status continue to represent a significant financial risk to the Council.	We will assess whether potential liabilities have been properly assessed and accounted for in line with relevant reporting standards and guidance.

Risk	Response
The switch in education funding from revenue support grant to dedicated schools grant (DSG) has brought about additional disclosure and governance requirements and prompted a wider review of accounting treatment for government grants.	We will continue to liaise with officers to ensure that accounting and disclosure requirements for DSG and other government grants are met.

- 31 However, many specific opinion risks may not become apparent until after we have completed our 2006/07 audit. We will revisit this risk assessment and prepare a separate opinion audit plan before we start our audit of the 2007/08 financial statements.

Use of resources risks

- 32 For each of the significant risks identified in relation to our use of resources work, we consider:

- mandatory Audit Commission requirements; and
- the arrangements put in place by the Council to mitigate the risk.

We then plan our work accordingly.

- 33 Our initial risk assessment for use of resources work is provided in Appendix 1. Following discussions with officers we have agreed that our use of resources work in 2007/08 will be focused on the Council's key priorities of:

- equality and diversity; and
- performance management.

We will also complete our cross cutting work on health inequalities and regeneration which commenced in 2006/07.

- 34 This assessment will be updated through our continuous planning process as the year progresses.

Work specified by the Audit Commission

Whole of government accounts (WGA)

- 35 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 which is proportionate to risk.

National Fraud Initiative

- 36 The Council 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 Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

Certification of grant claims and returns

- 37 We will continue to certify the Council's claims and returns on the following basis:
- claims below £100,000 will not be subject to certification;
 - claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
 - claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

Fee information

2007/08 audit and inspection fee

- 38 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.
- 39 The total indicative fee for audit and inspection work included in this audit and inspection plan for 2007/08 is £310,000 which compares with the fee of £385,000 for 2006/07 (excluding VAT).
- 40 Further details are provided in Appendix 2 which includes a breakdown of the fee; 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 the Council could take to reduce its audit and inspection fees; and the process for agreeing any changes to the fee. The fee includes all work identified in this plan unless specifically stated.
- 41 In addition we estimate that we will charge approximately £80,000 for the certification of claims and returns.
- 42 As indicated above, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted above. Any changes to the fee will be discussed in the first instance with the City Treasurer.

Voluntary improvement work

- 43 Under section 35 of the Audit Commission Act, the Commission may undertake voluntary improvement work at the request of the audited body, up to 20 per cent of the annual audit fee. We will continue to discuss potential areas for voluntary improvement work with officers where we have identified that we can offer particular expertise.
- 44 Once a potential piece of s35 work has been identified, we will agree a detailed specification with officers and calculate a fee based on Audit Commission fee scales and guidance. Acceptance of such work would of course be subject to the Council's usual processes for tendering and awarding contracts.

Other information

The audit and inspection team

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

Table 3 Audit team

Name	Contact details	Responsibilities
Lynne Snowball Relationship Manager and District Auditor	l-snowball@audit-commission.gov.uk 0191 4602022	The primary point of contact with the Authority and the interface at the local level between the Commission and other inspectorates, government offices 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 Chief Executive and Audit Committee.
Lynn Hunt Audit Manager	l-hunt@audit-commission.gov.uk 0191 4602022	Manages and co-ordinates the different elements of the audit work.
Janet Gauld Area Performance Lead	j-gauld@audit-commission.gov.uk 0191 4602022	Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment.
Ian Rutter	ian-rutter@audit-commission.gov.uk 0191 5531917	Responsible for the delivery of elements of the opinion audit, data quality and BVPP compliance work.

Independence and objectivity

- 46 We are only aware of one relationship that may affect the independence and objectivity of the team and which is required to be disclosed under auditing and ethical standards, namely that one member of the audit team is married to a Library Information Assistant employed by Sunderland City Council. We have taken the following safeguards to ensure our independence and objectivity:
- his work is closely supervised by the Audit Manager; and
 - he is not given any assignments directly related to the Council's libraries service.
- 47 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 and planned outputs

- 48 Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee. Expected outputs are summarised below.

Table 4 Planned outputs

Planned output	Indicative date
Data quality report	October/ November 2007
BVPP report	December 2007
Interim audit report	May/ June 2008
Annual governance report	September 2008
Opinion on the financial statements and value for money conclusion	September 2008
Final accounts report	October/ November 2008
Use of resources report	December 2008
Specific performance work	To be agreed
Annual audit and inspection letter	March 2009

- 49 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 Relationship Manager and District Auditor in the first instance. Alternatively you may wish to contact the North East Head of Operations, David Jennings.
- 50 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.

Planning update and future audit plans

2006/07 planning update

- 51 Our initial plan for 2006/07 audit and inspection work was agreed in April 2006. Key risks identified at that time were:
- ICT security*;
 - ethical governance;
 - equal pay and Single Status*;
 - change management, specifically the business improvement programme*;
 - health inequalities;
 - Building Schools for the Future*; and
 - new financial systems.
- (* represent ongoing risks first identified in 2005/06).
- 52 Having recently reviewed and updated our risk assessment we are satisfied that work in these areas, and the overall fee previously agreed, remains appropriate. Work on the first four areas has now been completed, and the remainder are now underway.
- 53 Following discussions with officers, our work on change management and the business improvement programme has been focused more specifically on helping the Council to undertake an IT gap analysis ('ITIL') which highlights:
- current areas of strength and weakness in the IT function; and
 - priorities for future investment.

Future audit plans

- 54 As part of our planning process, we have taken the opportunity to look at potential issues for future years' work, including:
- issues highlighted in the Council's risk register and corporate improvement programme; and
 - outcomes from the recent CA/JAR.
- 55 Many audit risks identified for 2006/07 and 2007/08 are ongoing, and include:
- Building Schools for the Future;
 - change management; and
 - equal pay and Single Status.
- 56 As part of our 2008/09 audit we also intend to follow up reports issued in previous years on strategic procurement and civil contingency arrangements.

Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Arrangements put in place by audited body	Residual audit risk	Local work required in response to residual audit risk	Link to auditor’s statutory responsibilities
Delivery of the Sunderland Strategy	The Sunderland Strategy sets out eight shared Strategic Priorities - the priority areas for action over the next three years for the development of the City where improvements are most needed in order to move towards the Vision for Sunderland and turn it into a reality.	Yes	The Council's Direction of Travel assessment will review progress in this area. We will also update our assessment of corporate performance management arrangements and their success in supporting delivery of Council and partnership objectives.	Use of Resources criteria, including value for money. Also considered in the VFM conclusion.
Regeneration of the area	Arrangements are in place to regenerate the City Centre with work being undertaken in partnership with Sunderland ARC. Progress is regularly monitored but the Council acknowledges that progress is not as rapid as desired.	Yes	The annual DoT assessment will assess performance in this area. We will also complete our cross cutting work on regeneration which commenced in 2006.	Use of Resources criteria, including value for money. Also considered in the VFM conclusion.

Significant risks identified	Arrangements put in place by audited body	Residual audit risk	Local work required in response to residual audit risk	Link to auditor's statutory responsibilities
Planning performance	Additional resources have been made available to increase the number of Development Control staff. Investment has been made in upgrading IT equipment and processes have been challenged with a view to ensuring consistency of approach and improving efficiency.	Yes	The annual DoT assessment will assess performance in this area. Data Quality work will confirm the accuracy of reported key performance indicators.	Use of Resources criteria, including value for money. Also considered in the VFM conclusion.
Corporate Improvement Programme	IT investment and process reconfiguration are underway to help the Council's services become increasingly customer focused, offering choice, flexibility, efficiency and value for money.	Yes	Project included in 2006/7 audit plan to undertake IT gap analysis - may require follow up in 2007/8 if significant risks are identified or major change takes place.	Use of Resources criteria, including value for money. Also considered in the VFM conclusion.

Significant risks identified	Arrangements put in place by audited body	Residual audit risk	Local work required in response to residual audit risk	Link to auditor’s statutory responsibilities
<p>Community Cohesion Strategy Disability and gender equality duties</p>	<p>The Sunderland Partnership is undertaking a baseline audit of community cohesion in early 2007, which will inform the development of a dedicated Community Cohesion Strategy and Action Plan. This will pick up a range of issues, including the findings of the BME survey.</p>	<p>Yes</p>	<p>Local project work planned for 2007/8 to complement the launch of the Council's updated strategy and action plan.</p>	<p>Use of Resources criteria, including value for money. Also considered in the VFM conclusion.</p>
<p>Building Schools for the Future</p>	<p>Building Schools for the Future (BSF) is a new, strategic approach to capital investment in schools, heralding a major transformation in secondary school education nationwide. Following a successful bidding process,, the Council is receiving £116.1million of investment to replace, modernise and refurbish 7 secondary schools whilst minimising the revenue consequences for the Council and council tax payers.</p>	<p>Yes</p>	<p>Work is ongoing and follow up will be included in 2007/08 if necessary We will also consider IA work.</p>	<p>Use of Resources criteria, including value for money. Also considered in the VFM conclusion.</p>

Significant risks identified	Arrangements put in place by audited body	Residual audit risk	Local work required in response to residual audit risk	Link to auditor’s statutory responsibilities
Addressing significant health inequalities in the area	The Council is working with its partners, in particular the TPCT to reduce health inequalities	Yes	We will carry out the final phase of a cross-cutting review across the north-east.	Use of Resources criteria, including value for money. Also considered in the VFM conclusion.
Target Setting and Data Quality	Following our workshop in 2006, the Council improved QA arrangements to ensure accuracy reported performance information and is undertaking a review of target setting processes.	Yes	Progress will be followed up in 2007/8 as part of local project work on performance management.	Use of Resources criteria, including value for money. Also considered in the VFM conclusion.

Appendix 2 – Audit and inspection fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the actual fee for 2006/07 (all fees shown exclusive of VAT).

Table 5 Planned fees

Audit area	Planned fee 2007/08	Planned fee 2006/07
Audit		
Financial statements	191,000	198,000
Use of resources (including BVPP)	73,000	50,000
Data quality	20,000	20,000
Whole of government accounts	3,000	3,000 *
National fraud initiative	1,200	0
Total audit fee	<i>288,200</i>	<i>268,000</i>
Inspection		
Relationship management and Direction of Travel assessment	21,800	17,000
Service inspections	0	0
Corporate inspection	0	99,000
Total inspection fee	<i>21,800</i>	<i>116,000</i>
Total audit and inspection fee	310,000	385,000
Certification of claims and returns	80,000	80,000
Voluntary improvement work	0	0

* The fee for WGA work was not reflected in the 2006/07 plan. The Audit Commission are consulting on the fees for this work, and £3,000 is our best current estimate of the fee that will be charged. We will notify the Council of the actual fee when this has been determined.

- 2 The Audit Commission scale fee for Sunderland City Council is £322,000. The audit fee of £288,200 proposed for 2007/08 is 11 per cent below the scale fee and is within the normal level of variation specified by the Commission (see below).

- 3 The major variations between 2007/08 and 2006/07 fees are as follows:
 - CA/JAR inspection undertaken in 2006/07. Following the Audit Commission's principle of strategic regulation, local risk-based use of resources work was reduced to a minimum and for 2007/08 has returned to previous levels of coverage;
 - additional opinion work in 2006/07 following the Council's implementation of new financial systems for revenues, benefits and payroll; and
 - new national fee structure for relationship manager input and direction of travel assessment in 2007/08
- 4 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.
- 5 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 Council. 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.
- 6 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

Assumptions

- 7 In setting the fee, we have assumed :
 - an overall materiality level of £11m;
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
 - we will be kept informed of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - good quality working papers and records will be provided to support the financial statements by 30 June 2008;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 8 Where these assumptions are not met, we will 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.

Specific actions Sunderland City Council could take to reduce its audit and inspection fees

- 9 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. We have identified the following actions Sunderland Council could take:
- improve the quality of performance information; and
 - improve the quality assurance process on grant claims.

Process for agreeing any changes in audit fees

- 10 Changes to the plan may be required if:
- new residual audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; or
 - additional work is required as a result of changes in legislation, professional standards, or as a result of changes in financial reporting.
- 11 If we need to amend the audit or inspection fees during the course of this plan we will firstly discuss this with the City Treasurer. We will then prepare a report outlining the reasons why the fee needs to change for discussion with Members.

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 and Governance 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.