

Lewes District Council

Annual Audit and Inspection Plan

2007/08

May 2007

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1 Executive summary

Work scope

- 1.1 The scope of the audit is determined by the Audit Commission's "Code of Audit Practice", which covers two key areas – Accounts and "Use of Resources". The detailed Code audit approach is unchanged from 2006/07, although Use of Resources assessments will now be better matched to financial years, this period being to 31 March 2007.

Key audit risk areas

- 1.2 These are set out in detail in Appendix A, and include:
- compliance of the Accounts with the 2007 Statement of Recommended Practice (SORP), which is likely to include some significant changes
 - implementation of upgrades to some of the Council's financial systems
 - development of the Newhaven Business Centre, a significant project.

Fees

- 1.3 The fee noted below for 2007/08 includes an amount in respect of work on the 2007 Use of resources assessment, which is being completed by the outgoing auditor in light of the impact on the 2006/07 opinion on the Statement of Accounts. The audit fee is 20% below the midpoint of the Audit Commission's fee guidance (2006/07 20%) before including a Whole of Government Accounts (WGA) element of £3,000.

	2006/07	2007/08
Audit	82,616 *	89,400
Inspection	6,262	6,490
Total audit and inspection	88,878	95,890

* Does not include WGA fee.

Key outputs

- 1.4 The key audit and inspection reports will be:

Output	Financial year covered	Expected timing of final report	Completed by
Audit and Inspection Plan	2007/08	May 2007	PKF
Report on use of resources and Use of Resources assessment scores	2006/07	December 2007*	Audit Commission
ISA 260 Report on the 2007/08 Accounts	2007/08	September 2008	PKF
Auditor's Opinion, covering: <ul style="list-style-type: none"> • Statement of Accounts • Use of Resources conclusion • BVPP 	2007/08	September 2008	PKF
Direction of Travel statement	2007/08	December 2008	Audit Commission
Annual Audit and Inspection Letter	2007/08	December 2008	Audit Commission

* To be confirmed

2 Introduction

- 2.1 This joint audit and inspection plan sets out the audit and inspection work proposed to be undertaken in 2007/08 by PKF (UK) LLP (“PKF”) and the Audit Commission.
- 2.2 This Plan has been drawn up from our risk based approach to audit planning and planning meetings held with you. It reflects the Audit Commission’s elements of the co-ordinated and proportionate audit and inspection programme.
- 2.3 As the Accounts audit for 2006/07 has not yet been completed, 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. Any significant changes to the Plan will be reported to the Audit Committee.
- 2.4 Darren Wells, as the Audit Commission’s Relationship Manager, will be responsible for overseeing the inspection work and liaison with other inspectorates.

Work of the Auditors

- 2.5 The work of the auditors that is covered by this 2007/08 plan can be summarised as follows:
- review of the core financial systems used in preparing the Accounts to 31 March 2008 (to be carried out in February / March 2008)
 - audit of the Statement of Accounts prepared for the year ending 31 March 2008 (to be carried out in July / August 2008)
 - review of the BVPP, and supporting BVPIs, as published in June 2007 (to be carried out in July / August 2007)
 - work on the 2007 use of resources issues, including the scored judgements (to be undertaken by the Audit Commission as outgoing auditors from July – September 2007, and focusing on the year to 31 March 2007), and data quality (to be carried out by PKF from July – September 2007).
- 2.6 Our principal objective as your appointed auditor is to carry out an audit that is tailored to focus on the specific financial and operational risks you face and meets the requirements of the Code.

Inspection work – Audit Commission

- 2.7 This Plan also sets out in Section 5 the inspection work that is proposed in 2007/08. Discussions have been, and will continue to be, held between auditors and the Relationship Manager to ensure that the audit and inspection work in this Plan continues to be co-ordinated and targeted at your key areas for improvement.

Assessing risks

- 2.8 We are committed to targeting our 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 inspectors and other regulators, and that our work helps you to improve.
- 2.9 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to our knowledge of the Council acquired from handover meetings and our initial knowledge gathering, planning guidance issued by the Audit Commission, the specific results of previous and ongoing audit work, discussions with Council officers, liaison with Internal Audit and the results of other review agencies’ work where relevant. For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.

3 Accounts

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

3.2 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; and
- the robustness of your Accounts preparation processes.

3.3 We also undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your Accounts.

Internal controls and key financial systems

3.4 International Standards in 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.

3.5 This requires additional work to be undertaken to identify and understand the internal controls, evaluate the design of the control and determine whether it has been implemented. The evaluation of the design of a control involves considering whether it, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements.

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

Working with Internal Audit

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

3.8 We have planned the 2007/08 audit on the basis that we will be able to place full reliance on the work of Internal Audit, the relevant areas of this coverage are set out in our fee assumptions in Section 6. This assumption is based upon the preliminary discussions with your current auditors in respect of arrangements for 2006/07, our consideration of your Statement on Internal Control in your 2005/06 accounts and liaison with your Internal Auditors.

Fraud risk assessment

3.9 Under ISA240, we have a responsibility to consider specifically the potential risk of material misstatement of your Statement of Accounts as a result of fraud and error, including the risk of fraudulent financial reporting.

3.10 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and ‘those charged with governance’.

- 3.11 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, we will:
- discuss your anti fraud and corruption arrangements with officers and 'those charged with governance'
 - consider the extent to which the work of Internal Audit is designed to detect material misstatements in the Accounts arising through fraud
 - make inquiries regarding instances of actual fraud you have identified
 - consider any material unusual or unexpected relationships that have been identified in performing analytical procedures.

- 3.12 For all residual 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.

Accounts preparation

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

Statement on Internal Control /Annual Governance Statement

- 3.14 We will review your Statement on Internal Control or Annual Governance Statement to assess whether it has been presented in accordance with guidance, is adequately supported by an assurance framework, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

Whole of Government Accounts

- 3.15 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 and for Band 2 Authorities, of which you are one, focuses on ensuring consistency between the audited accounts and the consolidation pack, and the agreement of balances with other bodies.

Key accounts risks

- 3.16 We have not included a detailed risk assessment for our audit of the Accounts as the specific risks may not become apparent until after completion of the 2006/07 audit. If necessary we will issue a separate update to this audit plan for issues in respect of our audit of the financial statements in November 2007. However, at this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
- compliance with the SORP 2007 including changing the Fixed Asset Restatement Reserve into a UK GAAP compliant Revaluation Reserve, new accounting treatment for Local Area Agreements and accounting for charities as group accounts
 - the Newhaven Business Centre is a significant discretionary capital investment in conjunction with external bodies, which will be accounted for within the Accounts of the Council and a joint bank account will operate
 - upgrades to existing financial systems as documented in Appendix A which may cause changes in working practices or impact on the internal control environment.

- 3.17 In addition there are some emerging issues that we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although they may become so as changes in circumstances arise. They include:
- Implementation of International Financial Reporting Standards (IFRS), following the announcement by the Chancellor in the recent Budget Speech that the annual financial statements of public sector bodies from 2008/09 will need to be prepared in accordance with IFRS adapted for the public sector. Where this results in material changes to accounting policies, a restatement of 2007/08 comparatives will be required.

4 Use of Resources

4.1 The Code requires us to:

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

Value for money conclusion

4.2 In reaching the value for money conclusion the Code requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission.

4.3 In meeting this responsibility for the year 1 April 2007 to March 2008, 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.

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

Use of Resources assessment

4.5 The Audit Commission has specified that auditors will complete a use of resources assessment for the year ended 31 March 2007. 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.

4.6 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the Audit Commission's value for money conclusion for the year ended 31 March 2007.

4.7 A score of 1 to 4 will be given, based on underlying key lines of enquiry (KLOE), for each of the following themes:

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

4.8 This assessment will focus on the progress made since the last assessment as well as changes to specific criteria. Due to a change in the timetable for completion of this work, and its direct relevance to the value for money conclusion that relates to the 2006/07 financial year, the outgoing auditors will perform and report on this work.

- 4.9 There are a number of modifications to the KLOE, with several of the non-bold criteria now becoming bold (and assuming “must have” status), and these changes may have an impact on the scores for each of the themes above, as well as the overall assessment score for the Authority.
- 4.10 Details of the scores and judgements will be reported to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services. The auditor’s scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.

Best Value Performance Information – Data Quality

- 4.11 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- Stage 1 – review of overall management arrangements to secure data quality
 - Stage 2 – completeness check of reported performance information
 - Stage 3 – data quality spot check and in-depth review of specified performance indicators.
- 4.12 The work at stage 1 will link to our review of the Council’s arrangements to secure data quality as required for the 2006/07 value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will inform the Commission’s CPA assessment. It is expected that between 1 and 4 indicators will be subject to in-depth review for a District Council.

Best Value Performance Plans (BVPPs)

- 4.13 We will consider and report on whether you have complied with statutory requirements in respect of the preparation and publication of your BVPP, including specified performance information and associated targets.

Key use of resources risks

- 4.14 We have included in Appendix A our assessment of the risks relevant to our Use of Resources audit work and our planned response to those risks. The key risks are:
- effective partnership working and management arrangements in respect of the new East Sussex Local Area Agreement
 - procurement processes and financial management in respect of the Newhaven Enterprise Scheme.
- 4.15 In addition there are some developments that we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although there is the potential for this if circumstances change. They include:
- the Secretary of State’s planning decision in respect of the proposed football stadium in Falmer
 - major redevelopment in the district, such as the Newhaven port land and the brownfield site at the ‘Phoenix quarter’, which due to the size and complexity of the projects and public interest, will be a challenge for the Council to ensure that good use of resources is achieved.

5 Audit Commission CPA and Inspection

- 5.1 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 5.2 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. For CPA 2006 the Council was assessed as "Good".
- 5.3 We have applied the principles set out in the CPA framework, *CPA – the Harder Test*, recognising the key strengths and areas for improvement in the Council's performance.
- 5.4 On the basis of our planning process we have identified where our inspection activity will be focused for 2007/08 as follows.

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 the 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.

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

6 Fees and Audit Arrangements

Fees

- 6.1 As for previous years, the guideline for fee levels applicable to audited bodies remains a formula-based calculation that is adjusted to reflect the agreed scope of work applicable to local circumstances and risk profile. For audit, the calculation is based on the minimum amount of work required under the risk based audit approach outlined in the Code.

Audit

- 6.2 The audit fee, excluding grants and challenge work, for the period from April 2007 to March 2008 will be £89,400 plus VAT. This fee is 20% below the midpoint of the Audit Commission's fee guidance (2006/07 20%) before including a Whole of Government Accounts (WGA) element of £3,000. The fee is based on our understanding of audit requirements at the time of drafting this Plan. We may, by agreement with you, carry out additional risk based work for an additional fee. Any such work, and the fee, would be agreed with you before carrying out the work.

Inspection

- 6.3 The fee payable for the 2007/08 programme of inspection work, net of any central government grant, is £6,490

Analysis

- 6.4 An analysis of the fee by audit area is shown below.

Work area	Work by	2006/07 Planned Fee £	2007/08 Fee £
Code of Audit Practice			
Accounts – core audit	(PKF)	N/A*	58,800
Accounts – WGA	(PKF)	N/A*	3,000
Accounts – specific risks	(PKF)	N/A*	5,000
Subtotal accounts		62,343	67,800
Use of Resources – KLOE	(AC)	N/A*	13,567
Use of Resources – Data quality	(PKF)	N/A*	5,033
Use of Resources – BVPP	(PKF)	N/A*	1,000
Use of Resources – specific risks	(PKF)	N/A*	2,000
Subtotal Use of Resources		20,273	21,600
Subtotal Audit		82,616	89,400
Inspection	(AC)	6,262	6,490
Total audit and inspection		88,878	95,890

N/A* : not available.

Note: WGA not included in 2006/07 fee (paid directly by Audit Commission).

- 6.5 As noted in paragraphs 4.8 above, the work on the update to the KLOE scores will be completed by your previous auditor, and as such subject to a separate billing arrangement with them. We have included the fee for this work here to allow for a comparison to the prior year of both the overall fee and its component parts.

- 6.6 The detailed sub-analysis above is provisional and based on our current estimations of the risks and the impact of changes to requirements in 2007/08.
- 6.7 As incoming auditors we have based our fee on the original 2006/07 fee proposal of the outgoing auditors. Should the 2006/07 fee base change we may need to reflect that change in 2007/08 if a reason for the change is of continuing relevance. If it becomes appropriate we would use the procedure set out in paragraph 6.13.

Grants

- 6.8 The fee for the review of grant claims will be billed separately, based on the Audit Commission's grade related rates as set out in their publications "Work Programme and Fee Scales 2007/08".
- 6.9 We have discussed the arrangements for completing the work on the 2007 claims with your outgoing auditor. In line with the guidance from the Audit Commission, this work will be completed by your outgoing auditor.
- 6.10 It is anticipated that the fee for the 2008 claims will be approximately £28,500. This level of fee assumes that Internal Audit will continue to undertake much of the detailed testing work.

Questions and Objections

- 6.11 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.

Assumptions

- 6.12 The fees detailed above are based on the following assumptions:
- Internal Audit will have completed their systems testing in accordance with their plans and to an adequate standard.
 - you will keep us informed of any significant changes to your main financial systems or procedures.
 - you will provide a comprehensive, good quality set of working papers and records to support the accounts, performance indicators and grant claims prior to the commencement of the audit and there will be no fundamental problems with them.
 - you will ensure that action plans are completed 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.
 - you will prepare your grant claims in accordance with the Audit Commission's "Statement of responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns".

Process for agreeing changes to fees

- 6.13 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 Executive and Director of Finance & Community Services. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit committee.

Billing Arrangements

6.14 Your audit fee will be billed in 4 instalments as follows:

Month	£
June 2007	18,958
September 2007	18,958
December 2007	18,958
March 2008	18,959
Total	75,833

6.15 The above fee excludes that payable to your previous auditor in respect of the work on the use of resources assessments that they are completing and the inspection fee, which will be billed separately by the Audit Commission.

6.16 The above billing schedule ensures that the fee is billed in full within the financial year under audit, although much of the work will be completed after the year ended 31 March 2008 and will be held as advance income in our firm.

6.17 All grants work will be billed on the basis of the hours incurred and necessary staff grades used as the work progresses.

Staffing

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

Audit Staff		
Partner	Richard Bint	Email: Richard.bint@uk.pkf.com Tel: 020 7065 0497
Senior Manager	Janine Combrinck	Email: Janine.combrinck@uk.pkf.com Tel: 020 7065 0440
Supervisor	Stephen Aynsley-Smith	Email: Stephen.aynsley-smith@uk.pkf.com Tel: 020 7065 0187

Inspection Staff		
Relationship Manager	Darren Wells	Email: d-wells@audit-commission.gov.uk Tel: 01732 591350

Timetable

6.19 The following outline audit timetable shows the main dates planned for audit visits for the period covered by this Plan:

Audit Timetable	Month
Accounts – core financial systems	February / March 2008
Accounts – Statements of Account and Statement on Internal Control / Annual Governance Statement	July / August 2008
Use of Resources – KLOE review *	July - September 2007
Use of Resources – Data Quality	July - September 2007
Use of Resources – BVPP	August / September 2007

* - To be completed by the outgoing auditor

- 6.20 We will agree specific dates for our visits with officers, in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers, to discuss progress on the audit and obtain an update on relevant issues.

Independence

- 6.21 International Standard on Auditing 260 (“ISA260”) requires 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.
- 6.22 We have included in Appendix B 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.
- 6.23 Following our audit of the Statement of Accounts we will report to the Audit Committee on the findings from our audit.

Quality of Service

- 6.24 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Richard Bint in the first instance. Alternatively, you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).
- 6.25 In respect of Inspection and other work carried out by the Audit Commission, you should initially take the matter up with Darren Wells, the Relationship Manager.
- 6.26 In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain. What to do if you wish to complain about the Audit Commission or one of its Appointed Auditors” that is available on request.

Appendix A Risk Assessment Matrix

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
Accounts				
1	<p>There will be a new SORP in operation for the 2007/08 Statement of Accounts, which may bring in a number of changes:</p> <ul style="list-style-type: none"> the Fixed Asset Restatement Account to be replaced by a UK GAAP compliant Revaluation Reserve new accounting treatment for funding from Local Area Agreements group accounting for charities changes to the accounting treatment and disclosure requirements for Government grants. 	<p>Management will review the implications of the finalised SORP 2007 and we will agree an appropriate way forward to comply with the new accounting requirements.</p>	<p>In view of the number of significant changes there remains a risk that the Council may not have prepared the Statement of Accounts fully in compliance with the 2007 SORP requirements.</p> <p style="text-align: right;">Significance – High</p>	<p>We will agree with management the necessary amendments to the accounts preparation processes and reporting format, and undertake detailed audit procedures on those transactions and balances subject to amendment as a result of the SORP 2007.</p>
2	<p>In 2007/08 the Council is rolling out Document Image Processing System and Purchase Order System across the Council.</p> <p>The Council is also upgrading its financial ledger system, Agresso.</p>	<p>Management has plans in place to mitigate inherent risks in the implementation of the new systems and system upgrades.</p>	<p>Any significant weaknesses in systems or the control environment could impact adversely on our audit opinion.</p> <p style="text-align: right;">Significance – High</p>	<p>We will review any work carried out by Internal Audit in respect of the new systems and upgrades to existing systems, and decide an audit approach depending upon their findings.</p>
3	<p>The Council has committed £4.2m of capital expenditure to the Newhaven Business Centre. The Council will take ownership of the project upon completion and the revenue implications of the project.</p> <p>There is a risk that the accounting for the service not be in line with the SORP requirements.</p>	<p>The Council will formally review the accounting treatments required.</p>	<p>There remains a risk of inappropriate accounting for the project.</p> <p style="text-align: right;">Significance – High</p>	<p>We will discuss the accounting treatment of the project with officers and ensure that it is in compliance with the SORP.</p>

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
Use of Resources				
4	<p>The Newhaven Business Centre represents a significant discretionary capital expenditure and future financial commitment by the Council (albeit ameliorated for three years by the SEEDA revenue underwriting).</p> <p>It is important that value for money is obtained in the use of resources.</p>	<p>The Council has done a risk assessment and has arrangements in place to protect its financial position. A detailed procurement plan is in place which should ensure that value for money is achieved in any contracts awarded.</p>	<p>There is still a residual risk that the project does not achieve its stated aims and that value for money is not obtained in procurement or in terms of achievement of longer term objectives.</p> <p style="text-align: center;">Significance – High UoR assessment criteria – 5.1</p>	<p>As part of our use of resources work we will review the procurement process for the project and future financial projections.</p>
5	<p>The Local Area Agreement has been in place for over a year. Substantial public funds are channelled through it and significant resources of the Council and partner bodies are utilised through pooling or alignment to pursue LAA objectives. The additional complexity arising from joint working increases the risk of good use of resources not being achieved.</p>	<p>As part of the LAA, arrangements for governance processes, performance management and financial management controls have been put in place.</p>	<p>Due to the significance of the LAA, any weaknesses in the governance control environment and management arrangements could potentially lead to a material impact on use of resources.</p> <p style="text-align: center;">Significance – High UoR assessment criteria – 5.2</p>	<p>We will obtain an understanding of how the LAA works in practice and review the financial and performance management arrangements that the Council has in place to ensure that value for money is achieved.</p> <p>In doing so, we will review any work done by Internal Audit in this area.</p>

Appendix B

Disclosure under ISA 260 (Communication of audit matters to those charged with governance)

To: Audit Committee, Lewes District Council

Auditors appointed by the Audit Commission are subject to the *Code of Audit Practice* (the Code) which includes the requirement to comply with International Standards on Auditing (ISA) when auditing the financial statements. ISA 260 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In the case of Lewes District Council it has been agreed that the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the board/authority on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest;
- resist any improper attempt to influence their judgement in the conduct of the audit.

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

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The *Standing Guidance for Auditors* includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director;
- audit staff are expected not to accept appointments as lay school inspectors;
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;

- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;
- auditors are expected to comply with the Commission's policy for both the Partner and the second in command (Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner in respect of each audited body; and
- 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 Lewes District Council for the financial year ending 31 March 2007, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

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

Statement by the Relationship Manager

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