

Report to: **Cabinet**

Date: **26 January 2010**

By: **Chief Executive and Deputy Chief Executive and Director of Corporate Resources**

Title of report: **External Audit Plan 2009/10**

Purpose of report: **To seek Cabinet's approval of the external audit plan for 2009/10.**

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## **RECOMMENDATIONS**

**Cabinet is recommended to approve the External Audit Plan for 2009/10.**

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### **1. Financial Appraisal**

1.1 The Plan confirms the core external audit fee as £184,200 charged by PKF (an increase of 3% on 2008/09). This is unchanged from the figure reported in the external audit fee letter in July 2009 and is within current budget provision. The risk discount included in the audit fee has reduced from 22% last year to 17% this year and reflects the additional risk relating to Audit Standards and International Financial Reporting Standards (IFRS). The level of the risk discount reflects favourably on the control environment, the work of internal audit and the quality of the final accounts. The anticipated level of fees for grant claim certification has reduced slightly to £18,500 for 2008/09 grants and is expected to fall to £15,000 for 2009/10 grants. PKF will also make additional charges for dealing with complaints or objections to the 2009/10 accounts.

### **2. Supporting Information**

2.1 The Plan sets out in more detail the work the external auditors will conduct in order to audit the Council's 2009/10 accounts. The Plan now reflects any relevant issues that have arisen as a result of the audit of the 2008/09 accounts and other work carried out by PKF e.g. the Use of Resources assessment for 2009. The main risks identified by PKF have not changed since the fee letter was issued and in summary are:

- demonstrating value for money in relation to the Agewell PFI scheme;
- failing to use resources to adequately address health inequalities;
- accounting for existing PFI arrangements correctly under IFRS / IFRIC 12;
- changes in accounting treatment of Council tax income under the 2009 SORP (Statement of Recommended Practice).

2.2 Other matters highlighted by PKF in the Plan which will be explored in more detail with officers as the accounts are prepared include:

- increased requirements for disclosure of remuneration for senior officers;
- a recommendation to increase the transparency of payments to Members in the accounts;
- the impact of the current economic climate on the value of the Council's land and buildings and the potential requirement for an impairment charge.

2.3 Officers will continue to liaise with PKF to ensure that their work is delivered as efficiently and effectively as possible, that changes to accounting requirements under IFRS are appropriately implemented and that internal and external audit plans are complementary and make best use of audit resources.

2.4 External audit arrangements for the Pension Fund are now dealt with separately and the detailed external audit plan for the Pension Fund will be reported to the Governance Committee in due course.

SEAN NOLAN - Deputy Chief Executive and Director of Corporate Resources  
Contact Officers Duncan Savage, 01273 482330



Accountants &  
business advisers

# East Sussex County Council

## Annual Audit Plan 2009/10

December 2009



Local Public Services

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# 1 Executive summary

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

## Key audit risk areas

- 1.2 These are set out in detail in Appendix A, and cover:
- accounting for the Waste Management Contract and the Peacehaven schools PFI projects under International Financial Reporting Standards in the 2009/10 accounts as required by the 2009 *Local Authority Accounting in the United Kingdom – Statement of Recommended Practice* (SORP)
  - Changes in accounting for Council Tax introduced by the 2009 SORP will require that the Council has appropriate arrangements to obtain information from the district councils on a timely basis to enable it to include accrued Council Tax income and appropriate shares of Council Tax debtor and creditor balances, and associated impairment allowances, in its Balance Sheet.
  - procurement processes for the Age well PFI scheme, which has a projected financial completion date of March 2010 and which represents a significant investment in the Adult Social Care service plan
  - arrangements to address health inequalities in the area.

## Fees

- 1.3 The audit fee for the year is £184,200. It has not been necessary to make any amendments to the main Code audit fee since we issued our Audit Fee Letter to you in July 2009. The assumptions we have made in setting the audit fee are set out in section 4.
- 1.4 Grant fees for claims and returns for the year ended 31 March 2009 are in the process of being completed and the estimated outturn fee is £18,500. The Audit Commission has recently mandated that, on an annual basis, an overall assessment of every authority's grants control environment be carried out and a report issued to "those charged with governance" covering the grants work undertaken. The fee for this additional work, which was not included in the Fees and Work Programme document, is estimated as £2,000 and is included in the £18,500 estimate.
- 1.5 Based upon our experience of this most recent set of reviews of claims and returns, we anticipate fees for claims and returns for the year ended 31 March 2010 to be approximately £15,000, including a fee for the mandated grants report. The Audit Commission's Work Programme and Fees document for 2010/11 does not include any changes in grade rates for certification of claims and returns compared to 2009/10.

## Key outputs

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

Output	Expected timing
<b>Accounts</b>	
<ul style="list-style-type: none"> <li>Annual governance report</li> <li>Audit opinion covering the financial statements</li> </ul>	September 2010
<b>Use of resources</b>	
Value for money conclusion	September 2010
Use of resources report to those charged with governance, including the use of resources assessment and risk based work on Age Well PFI and health inequalities	November 2010
<b>Annual audit letter</b>	November 2010
<b>Grants</b>	
Grants report to Those Charged With Governance	February 2010

## 2 Introduction

- 2.1 This Annual Audit Plan sets out the audit work that we propose to undertake for the 2009/10 financial year. It has been drawn up from our risk based approach to audit planning and planning meetings held. The information and fees in this Plan will be kept under review and any significant changes will be reported to the Audit and Best Value Scrutiny Committee and the Governance Committee.
- 2.2 The context in which we deliver our audit is set out in Appendix B.

### Assessing risks

- 2.3 We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means ensuring that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 2.4 Our risk assessment process focuses on the identification of significant financial and operational risks. For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

## 3 Risk assessment

### Significant accounts risks

- 3.1 Summarised below are the significant accounts audit risks that are likely to impact on our audit of which we are currently aware. More detail on these risks can be found in Appendix A.
- The 2009 *Local Authority Accounting in the United Kingdom – Statement of Recommended Practice* (SORP) requires that PFI projects are now accounted for under International Financial Reporting Standards rather than the UK accounting standards previously applied. This means that the Council's PFI projects for the Waste Management Contract and the Peacehaven schools scheme, which are currently 'off Balance Sheet', are likely to be required to be recognised in the Council's Balance Sheet, with a liability for the financing provided by the PFI operator. There is a risk that the Council may not appropriately account for its PFI projects under IFRIC 12, which could impact on the valuation of the associated assets and liabilities.
  - Changes in accounting for Council Tax introduced by the 2009 SORP require that Council Tax income included in the Income and Expenditure Accounts of preceptors and billing authorities should be the accrued income for the year, and appropriate shares of Council Tax debtor and creditor balances and associated impairment allowances should be included in the major preceptors' balance sheets. As a preceptor, the Council will need to ensure that there are appropriate arrangements in place to obtain the necessary information from the district councils on a timely basis during the accounts closedown period.
- 3.2 We have set a triviality level of £400,000 for the 2009/10 accounts audit and will not report to you any matters arising below this level.

### Other emerging issues and matters of emphasis - accounts

- 3.3 There are some issues that we intend to maintain an ongoing review of during the course of the year. These are currently not significant risks, although they may become so as changes in circumstances arise. They include:
- The adoption of International Financial Reporting Standards (IFRS) in local government from 2010/11, which requires transitional arrangements to be put in place by the Council to restate the 2009/10 comparatives.
  - In addition to its PFI projects, the Council is currently in the process of reviewing its contractual arrangements for other services to assess whether any may fall within the remit of IFRIC 12 for adoption in 2009/10.
  - The impact of the current economic climate on the value of the Council's land and buildings, which may necessitate an impairment charge at 31 March 2010. We understand that the Council has plans to obtain a desktop impairment review from independent valuers to assess the need for an impairment charge at year end, as was done in the prior year.
  - The need for greater transparency of disclosures of members allowances in light of the recent publicity surrounding Members of Parliament expenses. In prior years the Council included a note to the financial statements to disclose the total amounts paid to members during the year, in accordance with the SORP, and published more detailed disclosures by member on its website. Going forward we have recommended that the Council also disclose amounts paid by member in the financial statements.

- A new legislative requirement for all local authorities to include a Remuneration Report within their annual financial statements disclosing remuneration details for all senior officers, as defined, earning over £50,000 per year. Senior officers comprise chief executive officers and their direct senior employees who can be considered to be equivalent to 'board' level. Disclosure is required by name for senior officers earning over £150,000 per year, and by post title for senior officers earning over £50,000. The Council will need to ensure that it has arrangements in place to obtain the necessary information.

## Use of resources risk assessment

- 3.4 The following significant use of resources risks were identified in our 2009/10 fee letter issued in July 2009:
- The Council is in the process of completing the procurement of the Age well PFI scheme, which has a projected financial completion date of March 2010. The scheme is part of the Adult Social Care service plan and represents a significant investment in the service. There is a risk that the Council may not be able to demonstrate that value for money is obtained by the scheme.
  - Over the area of the County as a whole there are likely to be areas of health inequality and therefore risks that the Council may not use its resources adequately to address these inequalities.
- 3.5 We have updated our use of resources risk assessment for 2009/10 to take into account:
- matters arising from the completion of the 2008/09 audit
  - additional audit knowledge gained since our initial risk assessment which was included in our 2009/10 Audit Fee Letter presented to the Audit and Best Value Scrutiny Committee in July 2009.
- 3.6 No additional significant use of resources risks have been identified during our updated risk assessment.

## Other emerging issues and matters of emphasis – use of resources

- 3.7 There are some issues that we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although they may become so as changes in circumstances arise. They include:
- Our use of resources work in 2008/09 found that there is scope for the Council to further improve its use of resources in a few areas. This includes more formally considering diversity and equalities considerations; linking changes to fees and charges to policy considerations; improved linking of consultation outcomes to service changes; building on Reconciling Policy and Resources (RPR) process to identify specific measures to improve value for money; developing the systematic analysis of unit costs; building on partnership reviews to produce agreed action plans; and further consideration of non carbon aspects of natural resources.
  - Whilst we concluded in the prior year that the Council's treasury management arrangements are satisfactory, we will continue to review this area as part of our use of resources work as the results of an Audit Commission study, *Risk and Return* published in March 2009, requested that auditors follow up the lessons from the report.
- 3.8 We will be producing a 2010/11 fee letter in February 2010, which will identify use of resources risks and issues for that year.

## 4 Fees and billing arrangements

### Fees

- 4.1 As reported to you in our Audit Fee Letter in July 2009, the audit fee for the period April 2009 to March 2010 is £184,200 plus VAT.
- 4.2 The fee is based on our understanding of audit requirements and risks at the time of drafting this Plan. If we need to make significant amendments to the audit fee during the course of the audit, we will first discuss this with the Director of Corporate Resources and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Best Value Scrutiny Committee.
- 4.3 Grant fees for claims and returns for the year ended 31 March 2009 are in the process of being completed and the estimated outturn fee is 18,500. The Audit Commission has recently mandated that, on an annual basis, an overall assessment of every authority's grants control environment be carried out and a report issued to "those charged with governance" covering the grants work undertaken. The fee for this additional work, which was not included in the Fees and Work Programme document, is estimated as £2,000 and is included in the £18,500 estimate for our grants certification work for the year ended 31 March 2009.
- 4.4 Based upon our experience of this most recent set of reviews of claims and returns, we anticipate fees for claims and returns for the year ended 31 March 2010 to be approximately £15,000, including a fee for the mandated grants report. The Audit Commission's Work Programme and Fees document for 2010/11 does not include any changes in grade rates for certification of claims and returns compared to 2009/10.

Audit area	2009/10 Indicative fee per fee letter	2009/10 Revised fee
Financial statements, including WGA and risk based work	77,650	77,650
Use of Resources/VFM Conclusion, including risk-based work	58,350	58,350
Planning and reporting	48,200	48,200
<b>Total Code audit fee</b>	<b>184,200</b>	<b>184,200</b>
Certification of claims and returns *	20,000	18,500

\* Indicative and revised fees relate to the audit of the 2008/09 claims and returns

- 4.5 If we need to make further significant amendments to the audit fee during the course of the audit, we will first discuss this with the Director of Corporate Resources and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Best Value Scrutiny Committee.

4.6 As well as the audit fees identified above, the following fees are separately billable:

Work	Estimate £	Billing arrangement
Questions and objections	TBA	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.

4.7 The fees detailed above are based on the following assumptions:

- Internal Audit will have completed its systems testing in accordance with the plans and agreed timetable, and to an adequate standard
- We will, after re-performing a sample of Internal Audit's work, be able to place full reliance on the work of Internal Audit
- you will keep us informed of any significant changes to your main financial systems or procedures
- you will provide a comprehensive, good quality set of working papers and records to support the accounts, performance indicators and grant claims prior to the commencement of the audit and there will be no fundamental problems with them
- you will prepare a timely self assessment to support the use of resources assessment and this will be fully supported by relevant evidence for any new areas not previously assessed
- you will ensure that audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored
- there are no major changes to the content of government department grant instructions.

4.8 The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit. This assumption is based upon arrangements for 2009/10 and our consideration of your annual governance statement in your 2008/09 accounts.

## Billing arrangements

4.9 Your audit fee is being billed in 4 equal instalments as follows:

Month	£
June 2009	46,050
September 2009	46,050
December 2009	46,050
March 2010	46,050
<b>Total</b>	<b>184,200</b>

## 5 Audit arrangements

### Staffing

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

	Role and responsibility
Partner Richard Bint Email: Richard.bint@uk.pkf.com Tel: 020 7065 0497	Responsible for delivering the audit in line with the Audit Commission Code of Audit Practice, including agreeing the Audit Plan, Annual Governance Report and Annual Audit Letter. Also responsible for signing opinions and conclusions, and for liaison with the Chief Executive and Audit Committee.
Senior Manager Janine Combrinck Email: Janine.combrinck@uk.pkf.com Tel: 020 7065 0440	Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for managing our accounts and use of resources work and for completion of the Audit Plan, Annual Governance Report and Annual Audit Letter.
Supervisor Emma Liddell Email: emma.liddell@uk.pkf.com Tel: 020 7065 0211	Responsible for managing our audit fieldwork on site for accounts and use of resources.
Other Team Members Louise Sims Katherine Needham Richard Crisp	

### Timetable

5.2 The following outline timetable shows the expected dates planned for key fieldwork elements of the audit to be carried out:

Audit Timetable	Timing
Accounts – core financial systems	March – May 2010
Accounts – financial statements	June – July 2010
Accounts – audit opinion	September 2010
Use of resources assessment	January – May 2010
Use of resources – specific risks	January – March 2010
Use of resources – value for money conclusion	September 2010
Grants reviews	July – December 2010

5.3 We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues. The expected timing of key outputs from the audit is set out in paragraph 1.6.

## Independence

- 5.4 Auditing Standards require auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.
- 5.5 We have included in Appendix C to this Plan a statement to the Audit and Best Value Scrutiny Committee and the Governance Committee setting out the Audit Commission’s objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.
- 5.6 Following our audit of the financial statements we will report to the Audit and Best Value Scrutiny Committee and the Governance Committee on the findings from our audit.

## Quality of service

- 5.7 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact 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.
- 5.8 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).
- 5.9 In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors”, which is available on their website [http://www.audit – commission.gov.uk/complaints/](http://www.audit-commission.gov.uk/complaints/)

## Appendix A: Risk assessment matrix

	Audit risk identified from planning	Relevant UoR KLOE	Audit response
<b>Use of Resources</b>			
1	<i>The Council is in the process of completing the procurement of the <b>Age well PFI scheme</b>, with a projected financial completion date of March 2010. The scheme is part of the Adult Social Care service plan and represents a significant investment in the service. There is a risk that the Council may not be able to demonstrate that value for money is obtained by the scheme.</i>	KLOE 2.1	<i>As part of our Use of Resources assessment we will continue to review the procurement process for the PFI scheme through attendance at regular progress meetings and review of supporting documentation.</i>
2	<i>Over the area of the County as a whole there are likely to be areas of <b>health inequality</b> and therefore risks that the Council may not use its resources adequately to address these inequalities.</i>	KLOE 2.1	<i>We plan to perform a piece of work drawing on information obtained from district county and health bodies to identify the extent of such inequalities and how they are being addressed to ensure adequate actions are being taken.</i>
<b>Accounts</b>			
4	The 2009 SORP requires that <b>PFI projects</b> are now accounted for under International Financial Reporting Standards rather than the UK accounting standards previously applied. This means that the Council's PFI projects for the Waste Management Contract and the Peacehaven schools scheme, which are currently 'off Balance Sheet', are likely to be required to be recognised in the Council's Balance Sheet, with a liability for the financing provided by the PFI operator. There is a risk that the Council may not appropriately account for its PFI projects under IFRIC 12, which could impact on the valuation of the associated assets and liabilities.	KLOE 1.3	We will evaluate the arrangements that the Council has put in place to ensure that PFI assets and liabilities in the accounts are correctly stated, including advice obtained from independent financial advisors. We will also review the Council's working papers supporting PFI assets and liabilities in the accounts, and associated prior period adjustments, and carry out substantive testing on these balances.

	Audit risk identified from planning	Relevant UoR KLOE	Audit response
5	<p>Changes in accounting for Council Tax introduced by the 2009 SORP require that Council Tax income included in the Income and Expenditure Accounts of preceptors and billing authorities should be the accrued income for the year, and appropriate shares of Council Tax debtor and creditor balances and associated impairment allowances should be included in the preceptors' Balance Sheets. This change has been brought about to recognise that billing authorities that collect Council Tax act as agents for the preceptors. As a major preceptor, there is a risk that the Council may not have appropriate arrangements in place to obtain the necessary information from the district councils during the accounts closedown period, which may impact on the accuracy and timeliness of the financial statements.</p>	KLOE 1.3	<p>We will evaluate the arrangements that the Council puts in place to obtain information on accrued Council Tax income and Council Tax debtor/creditor balances and associated impairment allowances. We will also assess whether the Council has sufficient assurance over the accuracy of the notified Council Tax income and balances.</p>

*Italics* = reported in fee letter presented to the Audit and Best Value Committee in July 2009

Non-italics = new risk

## Appendix B: Audit requirements

### Accounts

The Code requires us to provide an opinion on whether your financial statements “present fairly” your financial position and have been prepared properly, in accordance with relevant legislation and applicable accounting standards.

In carrying out this work we:

- consider the extent to which your accounting and internal control systems are a reliable basis from which to prepare the accounts
- consider the robustness of your accounts preparation processes
- undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your financial statements.

### Internal controls and key financial systems

International Standards on Auditing (UK and Ireland) require auditors to obtain a detailed understanding of an organisation, its environment, risk assessment processes, the information systems, internal controls and monitoring activities. This must be sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error and be sufficiently well documented to enable the auditor to design and perform further audit procedures based on identified risks.

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

Your key financial systems are:

- Main accounting system
- Cash and bank
- Payments and creditors
- Income and debtors
- Payroll and employment costs
- Information technology
- ABACUS (social services transactions)
- Carepay (social services transactions)
- Trapeze (transport transactions)
- Xor (transport transactions)

### Working with Internal Audit

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

### Fraud risk assessment

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting.

The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and “those charged with governance” (the Audit and Best Value Scrutiny Committee and the Governance Committee).

We will make appropriate enquiries and review the counter fraud arrangements in place in order to identify the fraud risks, and the controls you have put in place on which we will seek to place reliance to mitigate those risks.

For all fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your accounts and our audit programme.

## National Fraud Initiative

The NFI aims to help prevent and detect fraud and is one of the key ways in which the Audit Commission fulfils its responsibility to promote economy, efficiency and effectiveness in the use of public money. The Audit Commission processes data under its statutory powers, which are set out in Part 2A of the Audit Commission Act (1998), and powers put data matching on a statutory footing for local government and NHS bodies.

The NFI compares different sets of data, like payroll or benefit records, against other records held by the same, or another organisation, bringing to light potentially fraudulent claims and payments by highlighting inconsistencies for further investigation.

The use of data for NFI purposes continues to be controlled to ensure compliance with data protection and human rights legislation. A revised Code of data matching practice was published and laid before Parliament on 21 July 2008 and governs how the data provided can be used.

## Financial statements

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

We will review the appropriateness and consistency of application of the accounting policies adopted by the Council and ensure that these are consistent with the *Local Authority Accounting in the United Kingdom – Statement of Recommended Practice (SORP)*.

We will read the other information included in the financial statements and, if appropriate the annual report, to ensure this is consistent, complete and not misleading based on our overall knowledge. We will review your annual governance statement to assess whether it has been presented in accordance with relevant guidance, is adequately supported, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

## Whole of government accounts (WGA)

As part of the WGA process we are required to review and report on the consolidation pack you have prepared for submission. The actual procedures to be performed have been developed by the Audit Commission in discussion with the National Audit Office. Our work involves ensuring consistency between the audited accounts and the consolidation pack, and the agreement of balances with other bodies.

## Use of resources

The Code requires us to conclude whether or not proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This draws primarily upon the mandated Use of Resources assessment (which maps directly to the “Value for Money conclusion” criteria set by the Audit Commission), and may also be informed by targeted, local risk-based work.

## ***Use of resources assessment***

Our use of resources assessments undertaken as part of our 2009/10 audit were completed during the summer of 2009 and final scores announced on 11 September 2009. Our preliminary conclusions supporting our value for money conclusion were reported in our Annual Governance Report issued in August 2009. The final scores were reported in our Use of Resources Report for 2008/09 and our Annual Audit Letter for 2008/09 issued in December 2009.

The fee for the forthcoming use of resources assessment, the majority of which will be undertaken within the 2009/10 financial year, will be included within our 2010/11 Fee Letter. The results of that assessment will inform our 2009/10 Value for Money conclusion. Our review will consider the progress made since our previous use of resources assessment, will assess workforce for the first time and will also again include specific work on data quality.

We will again provide separate scores on the three key themes: managing finances, governing the business and managing resources. As for the 2008/09 assessments undertaken as part of our 2009/10 audit, there will be a single judgement on use of resources, which is scored and published for each organisation following a consistency review of the professional judgements reached by the local auditor.

## ***Local risk-based work***

Local risk-based work is proposed to address audit risks relating to the accounts opinion or Value for Money Conclusion where normal levels of work are considered insufficient to fully address risk exposures. Specific pieces of work in respect of 2009/10 are set out in Appendix A.

## ***Value for money conclusion***

We will issue an overall conclusion on whether or not proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (the "value for money (or VFM) conclusion"). The Audit Commission has developed relevant criteria for auditors to apply in reaching this conclusion, as required by the Code.

As stated above, for 2009/10 our VFM conclusion will be based on our use of resources assessment to be included in your audit fee for 2010/11. For financial reporting and performance issues, we will take account of our audit of the 2009/10 Statement of Accounts that we will be undertaking during the summer of 2010.

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

## ***Comprehensive Area Assessment (CAA)***

Our input to the CAA process is agreed and funded separately by the Audit Commission, and falls outside the work we are required to do by the Code.

## Appendix C: Communication to those charged with governance

To: Audit and Best Value Scrutiny Committee and the Governance Committee, East Sussex County 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 East Sussex County Council it has been agreed that the appropriate addressee of communications from the auditor to those charged with governance is the and Best Value Scrutiny Committee and the Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

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

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

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

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

- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission
- auditors are expected to comply with the Commission's policy for both the Partner and the second in command (Manager) to be changed on each audit at least once every five years
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner in respect of each audited body
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

### Statement by the appointed auditor

In relation to the audit of the financial statements for East Sussex County Council for the financial year ending 31 March 2010, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

We wish to disclose the following to those charged with governance:

- We may be involved in providing financial advice or financial model auditing services to one of the potential bidders for the Age Well PFI contract.

Officers and the Audit Commission are aware of PKF's involvement in the above. The Commission's Standing Guidance for auditors acknowledges that firms appointed as auditors by the Commission may be involved with PFI bidders in such ways and subject to meeting certain criteria (which have been met in those instances) it accepts these do not impair independence. We do not believe our objectivity is impaired by these professional assignments.

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