

Audit Opinion Plan

Merseyside Pension Fund

2009/10

Date **December 2009**

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Status of our reports

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

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

- 1 This plan sets out the audit work we propose to undertake in relation to the audit of financial statements 2009/10 for Merseyside Pension Fund. The plan is based on the Audit Commission's risk-based approach to audit planning which assesses:
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 I will discuss and agree this plan, and any reports arising from the audit, with the Pensions Committee as those charged with the governance of the Pension Fund. However, as the pension fund accounts remain part of the financial statements of Wirral Council as a whole, the Audit and Risk Management Committee will retain ultimate responsibility for receiving, considering and agreeing the audit plan, as well as receiving and considering any reports arising from the audit.
- 3 The audit planning process for 2009/10, including the risk assessment, will continue as the year progresses and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 4 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 5 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.
- 6 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.
- 7 Specifically, the work of auditors on pension fund accounts is defined by the Auditing Practices Board practice note 15 on the audit of pension fund accounts.

Fee for the audit of financial statements

- 8 The indicative fee for the audit is £70,900. The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales for 2009/10. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 9 The annual audit fee was approved on 23 April 2009 and presented to the Audit and Risk Management Committee on 30 June 2009 (see Appendix 1). The basis for the fee is explained in more detail at Appendix 2.
- 10 The Audit Commission scale fee for a multi employer Pension Fund is £70,900. The fee proposed for 2009/10 is therefore at the scale fee.
- 11 In setting the fee, we have assumed that:
 - no significant audit risks are identified
 - the Pension Fund has a sound control environment
 - the auditor is provided with complete and materially accurate financial statements
 - with supporting working papers, and
 - within agreed timeframes
- 12 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Finance and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

Specific actions Merseyside Pension Fund could take to reduce its audit fees

- 13 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to maintain its audit fees at scale. As in previous years, we will work with staff to identify any specific actions that the Pension Fund could take and to provide ongoing audit support.

Auditors report on the financial statements

- 14 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) - ISA (UK&I) - issued by the Auditing Practices Board (APB).
- 15 I am required to issue an audit report giving my opinion on whether the pension fund accounts give a true and fair view of the financial position of the Authority as at 31 March 2010.
- 16 I am also required to review the pension fund annual report in accordance with the LGPS regulations 1997.

Identifying opinion audit risks

- 17 As part of our audit risk identification process we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
 - identifying the business risks facing the Pension Fund, including assessing your own risk management arrangements;
 - considering the financial performance of the Pension Fund;
 - assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
 - assessing the risk of material misstatement arising from the activities and controls within the Pension Fund information systems.

Audit Commission FRS17 protocol

- 18 To avoid unnecessary duplication of work required to provide opinion assurance in respect of FRS17 entries in the accounts of admitted body authorities for which the Audit Commission nominates the appointed auditor, the Audit Commission requires the auditors of Pension Funds to undertake a programme of work provided for in a protocol and report to those admitted body auditors on their findings.
- 19 The specified programme of work includes:
 - Reviewing the actuary's analysis of the Fund's assets to establish whether the asset value attributed to the admitted bodies concerned are consistent with the total scheme assets considered in the audit of the Fund's accounts, and

Auditors report on the financial statements

- Making enquiries of the actuary in relation to their work in calculating FRS17 assets and liabilities.

Assertions

When considering the risk of material misstatement we consider what the Director of Finance is stating when he signs the financial statements. An audited body's management is responsible for the preparation and presentation of financial statements which give a true and fair view of the nature and activity of the Pension Fund for the period. In doing so, management is making statements regarding the recognition, measurement, presentation and disclosures of various elements of the financial statements and related disclosures.

20 These representations from management are referred to as assertions about financial statements in ISA (UK&I) 500. The ISA states that we have to ascertain that the financial statements are free from material misstatement at the assertion level. The ISA splits out the assertions and considers their applicability in respect of:

- Fund Account items;
- Net Assets Statement items; and
- Disclosures and presentational elements of the financial statements.

21 Table 1 below details the relevant assertions for these three categorisations, showing which assertions we need to consider by area of the financial statements.

Table 1 Assertions

We are required to test whether the financial statements are free from material misstatement at the assertion level

Assertion	What does it mean	Fund Account	Net Assets Statement	Disclosure
Accuracy	Is it recorded at the right amount and are the details right? Has it been coded correctly?	✓		✓
Classification	Is it in the right place, under the right headings in the accounts?	✓		✓
Completeness	Is everything that should be in the statements all there?	✓	✓	✓
Cut-off	Is it in the right year?	✓		
Existence	Does the asset or liability exist and is it still owed or owing at		✓	

Assertion	What does it mean	Fund Account	Net Assets Statement	Disclosure
	the end of the year?			
Occurrence	Has it happened and does it relate to the Pension Fund?	✓		✓
Rights and obligations	Does it belong to the Pension Fund?		✓	✓
Valuation and allocation	Is it included at an appropriate amount and properly recorded in the right place?		✓	✓

ISA (UK&I) 500

- 22** As appointed auditors we calculate materiality to set a tolerance level around the accuracy of the opinion that we issue. A material item within the financial statements is one which would affect the reader's view of the accounts.
- 23** In considering the risk of material misstatement we are required to report all errors that are not clearly trivial, which in common with other auditing firms is set at 1% of materiality.
- 24** Table 2 below sets out the materiality and triviality levels used last year and although these will change for 2009/10 they are shown here to provide a general indication of likely levels.

Table 2 Materiality and triviality thresholds

Indicative materiality and triviality values based on 2008/09 accounts

Thresholds	Investment Assets within Net Assets Statement and change in market value of investments in Fund Account	Fund Account and Current Assets and Liabilities in Net assets Statement
Materiality	£35.242 m	£2.46 m
Triviality	£352 k	£24 k

ISA (UK&I) 320

Identification of specific risks

- 25 We have considered the specific risks that are appropriate to the current opinion audit and have set these out below. During our audit we will assess the impact of these risks on our fee and agree any changes with the Director of Finance.

Table 3 Specific risks

Specific opinion risks identified

Risk Area	Assertions	Audit response
<p>New General Ledger</p> <p>A new general ledger accounting system was implemented at Merseyside Pension Fund with effect from 1st October 2009.</p> <p>Risk that the balances are not accurately transferred between systems</p> <p>Risk that effective controls will not be in place in the new system</p>	<p>Accuracy</p> <p>Completeness</p> <p>Classification</p> <p>Valuation and Allocation</p>	<p>We will review:</p> <ul style="list-style-type: none"> the arrangements put in place by the Fund to ensure that balances are correctly transferred from the outgoing AXISe system to the new Oracle system and, the adequacy of controls in place in the new system and testing of the effectiveness of those controls as necessary.
<p>Investment Ledgers</p> <p>A new investments ledger maintained by the State Street Bank, the Fund's global custodian, was introduced with effect from 1st April 2008. However, for the preparation of the 2008/09 accounts the Fund's officers relied on a combination of the SSB Investment Ledger and data from the former Shareholder Investment Ledger system.</p> <p>Risk that sourcing the accounts from two investment ledger systems operating in parallel will lead to inaccuracy, duplication or omission from the financial statements.</p>	<p>Completeness</p> <p>Valuation and Allocation</p>	<p>We will review the arrangements in place for the operation of the investment ledger and monitor the progress made by the Fund in resolving the issues which necessitated the use of two systems.</p>

Risk Area	Assertions	Audit response
<p>Internally Managed Investments</p> <p>The system used to monitor and control internally managed investments (Shareholder) was replaced by the OpenAir.system with effect from 1 October 2009.</p> <p>Risk that the balances were not accurately transferred between systems, and</p> <p>Risk that effective controls are not in place in the new system</p>	<p>Accuracy</p> <p>Completeness</p> <p>Classification</p> <p>Valuation and Allocation</p>	<p>We will review:</p> <ul style="list-style-type: none"> the arrangements put in place by the Fund to ensure that balances were correctly transferred from the outgoing Shareholder system to the new Openair system and, the adequacy of controls in place in the new system and testing of the effectiveness of those controls as necessary
<p>Triennial Review</p> <p>The Fund will complete a Triennial Actuarial Valuation Review reflecting the position of the Fund at 31 March 2010.</p> <p>Whilst this is not a direct audit opinion risk, it is a key issue as regards the ongoing governance of the Fund.</p>	<p>Governance</p>	<p>We will review the arrangements in place to gather data provided to the actuary to facilitate the Triennial Review and test its accuracy as necessary.</p> <p>We will review the actuarial assumptions agreed with the actuary for use in the review.</p>
<p>2008/09 errors</p> <p>A total of 16 (non trivial) errors and adjustments were identified and corrected during the 2008/09 audit, including 5 material errors arising from the misclassification of cash held by investment managers and sums due to and from stockbrokers. We also identified 4 errors in the disclosure notes, one of which was a material adjustment.</p> <p>The material corrections related to errors in the application of the new Statement of Recommended Practice for Pension Fund accounts introduced for the 2008/09 accounts which was not properly applied by the Fund.</p>	<p>All</p>	<p>The errors identified in 2008/09 will be specifically considered in 2009/10</p> <p>We will review the arrangements for verifying the accounts are SORP compliant.</p>
<p>Related party transactions</p> <p>The 2008/09 audit identified a failure by a member to provide the necessary related party disclosure declaration.</p>	<p>Completeness</p>	<p>Audit procedures will be put in place for a timely review the required declarations.</p>

Identification of specific risks

Risk Area	Assertions	Audit response
Risk of non disclosure of politically sensitive related party relationships or transactions.		
Economic climate Increased risk of fraudulent financial reporting due to the current economic climate and increased financial pressures	All	Ongoing discussion with senior Pension Fund officers regarding controls that mitigate the risk of fraud. Letters of Assurance to be obtained from those charged with governance. Ongoing monitoring of the Pension Fund's investment management and performance arrangements. Completion of a fraud Risk Assessment Review of the Letter of representation
Closedown and audit timetable The Pension Fund and Council must produce its accounts by the end of June and we have planned for most of our work to be completed during July 2010. Consequently, a delay in producing either the accounts or necessary supporting working papers will impact on our ability to complete the audit by the deadline and report to members.	All	Key milestones and timetable detailed in Table 4 of this report.

Testing strategy

- 26 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 27 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 28 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early.
- Review of accounting policies.
 - Bank reconciliation.
 - Contributions.
 - Investments – ownership, existence and valuation.
 - Year end feeder system reconciliations.
- 29 Where other early testing is identified as being possible this will be discussed with officers. We will also discuss areas where we may be able to rely on Internal Audit testing of financial systems.

Key milestones and deadlines

- 30 The Pension Fund and Council are required to prepare their financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 4 below.
- 31 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 32 During the post statements audit we will meet with the key contact fortnightly and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

Table 4 Proposed timetable

The following timetable will be kept up to date during the audit

Task	Deadline
Agreement of Opinion Plan with officers	Draft by early December 2009 Final by end December 2009
Progress meetings - pre statements	quarterly
Presentation of Opinion Plan to members Finance to present covering report including explanation of the final accounts process and the respective roles of Pensions and Audit and Risk Management Committees	Pensions Committee 13 January 2010 (papers by 21 December 2009) ARMC 18 January 2010 (papers by 29 December 2009)
ISA+315 work - understanding the entity	January 2010
Pre statements control and early substantive testing	February/March 2010
Planning of and arrangements for FRS17 assurance work	March 2010
Pre statements testing of Investment Valuation and initial FRS17 assurance work	Late May/early June 2010
Working papers provided to auditors	By 16 June 2010
Receipt of pre audit accounts by auditor	By 16 June 2010
Pensions Committee to challenge accounts and make recommendations to ARMC	Before ARMC meeting (by 30 June 2010)
ARMC to challenge and approve Council	By 30 June 2010

Key milestones and deadlines

Task	Deadline
accounts, including Annual Governance Statement and Pension Fund Statements.	(papers out by 16 June)
Start of detailed post statements testing	late June 2010
Progress meetings	fortnightly
Completion of fieldwork on statements	mid August 2010
Agreement of Errors and Uncertainties	20 August 2010
Draft MPF Annual Report provided to auditors	20 August 2010
Draft Annual Governance Report from Audit Commission to officers	3 September 2010
Meeting with officers to agree final AGR (AGR will highlight any outstanding issues that will be updated at meetings with members)	Meetings by 8 September 2010 Final AGRs by 13 September 2010
Final version of Annual Report available for audit agreement	17 September 2010
Pensions Committee - to consider the Pension Fund AGR and any action plan, any amendments to statements and the Letter of Representation - to make recommendations to ARMC	Before ARMC meeting below (by 30 September 2010) Papers out by 13 September
ARMC to receive Annual Governance Report, including any verbal update on outstanding issues	By 30 September 2010 Papers out by 13 September 2010
Final check of post-audit statements and annual report	By 30 September 2010
Issue of opinion by District Auditor	By 30 September 2010
Annual Report published	by 1 December 2010

The audit team and key contacts

33 The key members of the audit team for the 2009/10 audit are shown in the table below.

Table 5 **Audit team**

Name	Contact details	Responsibilities
Mike Thomas District Auditor	m-thomas@audit-commission.gov.uk 0844 7987043 or 07879 667712	Overall delivery and reporting of the audits of the Wirral Council and Merseyside Pension Fund including quality and outputs. Signing the opinion, conclusion and certificate. Liaison with the Director of Finance and Chief Executive.
Liz Temple Murray Audit Manager	l-temple-murray@audit-commission.gov.uk 0151 666 3483	Manages, quality assures and coordinates the different elements of the audit work on Wirral Council (including liaison with the Pension Fund Audit Manager). Key point of contact for the Director of Finance, Head of Finance, Head of Pensions and Chair of the Audit and Risk Management Committee. Annual Governance Report for Wirral Council.
Caroline Davies Audit Manager (from January 2010)	caroline-davies@audit-commission.gov.uk 0151 666 3481	Supports the Audit Manager on Wirral Council. Manages, quality assures and coordinates the different elements of the audit work on Merseyside Pension Fund, including FRS17. Key point of contact for the Head of Pensions, the Financial Controller and the Chair of the Pensions Committee. Annual Governance Report for Merseyside Pension Fund.
Danny Baxter Audit Team Leader	d-baxter@audit-commission.gov.uk 0151 666 3486	Leads fieldwork and audit team on opinion and FRS17 work. Key point of contact for and liaison with the Head of Pensions and the Financial Controller.

Independence and objectivity

- 34 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 35 I 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 2.
- 36 Wirral Council and Merseyside Pension Fund key officer contacts for the opinion audit are set out in the table below.

Table 6 Wirral Council and Merseyside Pension Fund key officer contacts

Key officers of the Wirral Council and Merseyside Pension Fund team

Name	Contact details	Responsibilities
Stephen Maddox Chief Executive	stephenmaddox@wirral.gov.uk 0151 691 8589	Accountable Officer Governance framework and signing the Annual Governance Statement.
Ian Coleman Director of Finance	iancoleman@wirral.gov.uk 0151 666 3056	Section 151 Officer Preparation and certification of accounts that present a true and fair view of the financial position of the Council and Merseyside Pension Fund at 31 March 2010. Agreement of final AGR.
Bill Norman Director of Law, Asset Management and HR	billnorman@wirral.gov.uk 0151 691 8498	Monitoring Officer Considering the legality of transactions.
Peter Wallach Head of Pensions	peterwallach@wirral.gov.uk 0151 242 1309	Preparation and quality assurance of accounts that present a true and fair view of the financial position of Merseyside Pension Fund at 31 March 2010. Agreement of draft AGR for Merseyside Pension Fund.
Gerard Moore Financial Controller	gerardmoore@wirral.gov.uk 0151 242 1307	Preparation of accounts and coordination and liaison during the audit.
Dave Garry Chief Internal Auditor		Review of and assurance on risk management, corporate governance and financial control.

The audit team and key contacts

Wirral Council

37 Wirral Council and Merseyside Pension Fund key member contacts for the opinion audit are set out below:

Table 7 Wirral Council and Merseyside Pension Fund key member contacts

Key members involved in the financial statements

Name	Contact details	Responsibilities
Councillor Steve Foulkes Leader of the Council	stevefoulkes@wirral.gov.uk	Governance framework and signing the Annual Governance Statement.
Paula Southwood Chair of the Audit & Risk Management Committee	paulasouthwood@wirral.gov.uk	Approves and signs the accounts on behalf of the Council.
Councillor A McLachlan Chair of Pensions Committee	annmclachlan@wirral.gov.uk	Makes recommendations for the Chair of ARMC to approve and sign the accounts and the Letter of representation.

Wirral Council

38 In addition, all members of the Pensions Committee are responsible for:

- challenging the pre-audit Pension Fund accounts
- putting forward recommendations for the Chair of ARMC to approve and sign the accounts
- considering the post audit Annual Governance Report and the Letter of representation

39 All members of the Audit & Risk Management Committee are responsible for

- The approval of the Council's accounts, including the Pension Fund's statements of account
- The responsibilities of the Council under section 151 of the Local Government Act 1972 to make proper provision for its financial affairs.

Quality of service

40 We are committed to providing you with a high quality service. The quality of our service is monitored by the Audit Commission which has recently published the [Audit Practice annual quality report \(November 2009\)](#) . This report summarises the results of

the quality review of the work of the Commission's own staff as auditors to local government and NHS bodies, including the views of the Audit Inspection Unit that carried out an independent review of our work.

- 41 The publication of the Audit Commission's audit practice annual quality report is one of a range of measures aimed at demonstrating our commitment to delivering audit quality. It assures audited bodies and stakeholders about the arrangements in place and the underlying strength of the Commission's audit practice and compares our audit practice with the firms and the other audit agencies.
- 42 If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the North West Head of Operations, Terry Carter: t-carter@audit-commission.gov.uk.
- 43 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.

Planned outputs

- 44 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Risk Management Committee and/or Pensions Committee.

Table 8 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	31 December 2009
Update to opinion audit plan and feedback on interim audits (if required)	March 2010
Annual governance report	30 September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Final accounts memorandum (if required)	30 November 2010

- 45 We will agree final dates with you as the audit progresses.

Sustainability

- 46 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
- reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.

Appendix 1 – Fees Letter

26 April 2009

Direct line 0844 798 7043

Ian Coleman
Director of Finance
Merseyside Pension Fund
Treasury Building
Cleveland Street
Birkenhead
CH41 6BU

[m-
thomas@auditcommis-
sion.gov.uk](mailto:m-thomas@auditcommission.gov.uk)

Dear Ian

Annual audit fee 2009/10

Further to our previous discussions about the form of the audit fee letter, I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at Merseyside Pension Fund. The fee is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10.

As I have not yet completed my audit for 2008/09, the audit planning process for 2009/10, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2009/10 is for £70,900 (excluding VAT), which compares to the planned fee of £61,750 for 2008/09 (15% increase).

The Audit Commission has published its work programme and scales of fees 2009/10. The Audit Commission scale fee for Merseyside Pension Fund is £70,900. The fee proposed for 2009/10 is at the scale fee and will be billed in monthly instalments.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2008/09. A separate plan for the audit of the financial statements will be issued in November 2009. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report outlining the reasons why the fee needs to change for discussion with the Pensions Committee.

Appendix 1 – Fees Letter

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2009/10 are:

Audit Manager – Liz Temple-Murray 0151 666 3483

Team Leader – Danny Baxter 0151 666 3486

I am 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 me in the first instance. Alternatively you may wish to contact the Terry Carter, the North West Region Head of Operations: t-carter@audit-commission.gov.uk.

Yours sincerely

Mike Thomas
District Auditor

cc Peter Wallach, Head of Pensions

cc Gerard Moore, Financial Controller

cc Ann McLachlan, Chair of the Pensions Committee

Appendix 2 – Basis for fee

- 1 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 work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying to the Pension Fund with reference to:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers; and
 - liaison with Internal Audit.

Assumptions

- 3 In setting the fee, I have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09; however, we still need to assess any impact of the risks at Table 3 above and agree any changes to the fee with the Director of Finance;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - good quality working papers and records will be provided to support the financial statements by 16 June 2010;
 - 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.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

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 the 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 Pension Fund Committee and the Audit and Risk Management Committee. The auditor reserves the right, however, to communicate directly with the Council 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 and Inspection 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.
 - The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.