Standing guidance for local government auditors

1. Introduction

1.1 The Standing Guidance (the Guidance) serves as the terms of appointment for auditors appointed by the Audit Commission (the Commission). It is issued under the powers set out in Section 3(8) of the Audit Commission Act 1998 (the 1998 Act) and paragraph 7 of Schedule 1 to the 1998 Act to appoint auditors and to determine their terms of appointment.

1.2 The Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature. It is updated as changes are required following consultation with the firms. The structure of the Guidance reflects that of the Code and references to the Code are included where necessary.

1.3 Throughout the Guidance, the term auditor covers engagement leads nominated by a firm to discharge its statutory obligations under section 3 of the 1998 Act. The term auditor also covers engagement leads in the Commission’s in-house Audit Practice during the period to 31 October 2012. Auditors must comply with the requirements set out in the Code, in statute and in the contracts each firm has with the Commission. These requirements are not duplicated in this Guidance.

1.4 Auditors must ensure they are familiar with the Statement of Responsibilities of Auditors and of Audited Bodies as this statement serves as the formal terms of engagement between auditors and audited bodies. The Commission produces separate statements for the audit of: local government bodies, NHS bodies and small bodies, and for the certification of claims and returns.

1.5 The Commission issues additional guidance to auditors through its Weekly Auditor Communications (WAC), Special Auditor Communications (SAC) and Auditor Policy Briefings (APB). Auditors should have regard to this guidance where applicable. Contact Partners must also have regard to any additional requirements specified in Contact Partner Letters (CPL) which are issued from time to time.

1.6 The Commission publishes annually its Work Programme and Fee Scales which prescribe the work that it plans to require auditors to undertake in a specified year, with the associated scales of fees.

1.7 The Guidance applies to all work undertaken relating to Commission audits. In the event of any conflict, the 1998 Act, the Code and the audit contracts, where
1.8 The Guidance is applicable to auditors of small bodies except in those areas where the guidance specifically states otherwise. There are some requirements which are unique to the limited assurance regime, and these are noted at the start of each section for reference.

1.9 The diagram below shows how the Guidance interacts with legislation, the Code, the audit contracts and other guidance produced by the Commission.

1.10 Contact details are listed throughout the document and a list is provided at the end. Any queries or comments about the Guidance should be sent to ACTS@audit-commission.gov.uk.

1.11 Throughout this guidance, there are a number of references to the submission of information to the Audit Issues and Sensitive Issues systems using the electronic data collection (EDC) system and to the Audit Regulation mailbox (auditregulation@audit-commission.gov.uk). The EDC systems should not be used to seek comments or technical guidance and reports should be submitted via EDC for information only. If comments or technical guidance are needed, requests should be sent to Audit Commission Technical Support (ACTS) in line with the protocol in Appendix 1.
2. Reporting to the Commission

This section highlights issues that require a report to the Commission and refers to the section of the Guidance where more detail can be found.

*Items to report regularly to the Commission*

<table>
<thead>
<tr>
<th>Reporting the results of audit work</th>
<th>Standing Guidance Reference</th>
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<tr>
<td>(This section does not apply to auditors of small bodies)</td>
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<tr>
<td>✓ Submit annual audit letters within the target dates set by the Commission as notified in the rolling calendar of deadlines. If you cannot meet the deadline, advise the Commission of your expected submission date.</td>
<td>5.10</td>
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<tr>
<td>✓ Submit an auditing the accounts data return for each audit.</td>
<td>5.12</td>
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<tr>
<td>✓ Issue a planning letter to all audited bodies and submit copies to the Commission by the target date set out in the rolling calendar of deadlines.</td>
<td>8.2</td>
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<tr>
<th>Certification of claims and returns</th>
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<tr>
<td>(This section does not apply to auditors of small bodies)</td>
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<tr>
<td>✓ Submit an annual certification work data return (for 2011/12 only) and copies of the annual report to those charged with governance, summarising the certification work undertaken.</td>
<td>7.8</td>
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<table>
<thead>
<tr>
<th>Any other matters</th>
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<tr>
<td>✓ Firms must complete work in progress returns each quarter (or bi-annually for auditors of small bodies) and submit them before the year-end.</td>
<td>8.8</td>
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<td>✓ Report information about complaints received on a quarterly basis.</td>
<td>8.28</td>
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</table>
**Items to be reported to the Commission should they occur**

### General principles

| ✓ | Tell the Commission immediately of any change in circumstances that could affect your ability to comply with the requirements of the Code or this Guidance. | 3.2 |
| ✓ | Tell the Commission about independence issues where the firm has had to put in place safeguards and reported them to those charged with governance under ISA 260, or where it has identified an independence issue for which appropriate safeguards cannot be put in place. | 3.6 |
| ✓ | Confirm in writing to the Associate Controller of Audit (Compliance), before the start of the sixth year of appointment, that there are no independence issues at particular principal engagements that would preclude an extension of the relevant appointments for an additional period of up to no more than two years. | 3.10 |
| ✓ | If you believe rotation would have an adverse impact on audit quality, apply in writing to the Associate Controller of Audit (Compliance) for special arrangements to be made. | 3.20 |
| ✓ | If the value of additional work individually or in total for an audited body in any financial year would exceed the de minimis amount, the auditor should obtain approval from the Associate Controller of Audit (Compliance) before agreeing to carry out the work. | 3.23 |

### Auditing the financial statements and reporting the results of audit work

<p>| ✓ | Tell the Commission where you expect delays to occur to: | 5.3 |
| ✓ | • the audit opinion; | |
| ✓ | • the value for money conclusion; or | |
| ✓ | • the WGA assurance report. | |</p>
<table>
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<th></th>
<th>Auditors must notify the Commission if they intend to issue a non-standard report using the Audit Issues system on EDC. All final non-standard reports should be provided to the Commission using the Audit Issues system. This requirement does not apply to auditors of small bodies.</th>
<th>5.5</th>
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|   | Auditors must notify the Commission if they intend to issue an audit report that includes, by exception, any of the items set out below:  
  - Non-standard comments on the Annual Governance Statement (this requirement does not apply to auditors of small bodies).  
  - Any matters reported in the public interest during, or at the end of, the audit.  
  - Any recommendations under Section 11(3) of the 1998 Act.  
  - The exercise of any other special powers of the auditor under the 1998 Act.  
Copies of the draft and final reports should be provided to the Commission. | 5.6 |
|   | Send your draft and final Section 8 reports to the Commission as soon as local consultation allows and when you issue them. | 5.7 |
|   | Comply with Commission requests for further data returns or information. | 5.8 |
|   | If it is not possible to meet the target date for issuing the annual audit letter, auditors must notify the Commission of the expected submission date via the Audit Issues system on EDC. Auditors should update the system when the letter has been issued. This requirement does not apply to auditors of small bodies. | 5.11 |
|   | Report sensitive issues to the Commission when they first arise and give updates on any developments. | 5.15 |
Auditors are required to report details of sensitive issues which, in the opinion of the auditor, should be brought to the attention of the Commission.

**Principles relating to the exercise of specific powers and duties of local government auditors**

| ✔ | Auditors should inform the Commission when they receive a notice of objection that meets statutory requirements and provide updates when the nine month target has passed and at least every three months thereafter. | 6.2 |
| ✔ | Contact the Commission before issuing a statement of reasons to a person aggrieved by the auditor’s decision (in accordance with Section 17(4) of the 1998 Act) and send a draft copy. | 6.6 |
| ✔ | Contact the Commission before issuing an advisory notice (in accordance with Section 19A (6) of the 1998 Act) and send a draft copy. | 6.7 |

**Certification of claims and returns**

*(This requirement does not apply to auditors of small bodies)*

| ✔ | Send copies of qualification letters to the Commission, following the procedure set out in CI A01. | 7.9 |

**Any other matters**

<p>| ✔ | Notify the Commission promptly of any circumstances that are reasonably likely to result in a claim under the Commission’s professional indemnity insurance. | 8.15 |
| ✔ | Submit requests for approval of new auditors. | 8.18 |
| ✔ | Notify the Commission of all proposed new auditor appointments. | 8.19 |
| ✔ | Report any differences of opinion between an outgoing and incoming auditor that may result in a qualified audit | 8.22 |</p>
<table>
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<tr>
<th>Requirement</th>
<th>Section</th>
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<td>opinion or issuing of a public interest report.</td>
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<td>✓ Send information on all frauds of £10,000 or more and all instances of corruption.</td>
<td>8.33</td>
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<td>✓ Report any requests under the Freedom of Information Act relating to their work as agents of the Commission.</td>
<td>8.38</td>
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### 3. General principles

With the exception of paragraph 3.20, this section applies in full to auditors of small bodies. Auditors of small bodies should pay particular attention to paragraphs 3.46 – 3.50 which set out general principles specific to the limited assurance regime.

<table>
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<tr>
<th>Reference to Code</th>
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#### Scope

| 3.2 | Auditors must notify the Commission immediately of any change in circumstances that could affect their ability to comply with the requirements of the Code or this Guidance. |
| 3.3 | The Commission issues additional guidance to auditors as and when necessary. **Auditors must** |

2 5
have regard to extant guidance in carrying out their audit work.

### Co-operation with other external auditors

**3.4** Auditors should cooperate with other external auditors. Auditors should refer to the protocol for using the work of other auditors at Appendix 2.

### Integrity, objectivity and independence

**3.5** The Code requires auditors to comply with the requirements set out in the Auditing Practice Board’s Ethical Standards. In addition, the Commission has put in place specific rules over and above the requirements of the Ethical Standards to guard against particular threats to its independence and that of its appointed auditors. These rules cover:

- rotation of key staff;
- acceptance of additional work;
- membership of audited bodies;
- other links with audited bodies;
- secondments;
- political activity; and
- gifts and hospitality.

**3.6** Auditors must ensure that all staff who are directly involved in Commission work are familiar with the rules set out in this section of the guidance and are not aware of any interest or relationship which is in breach of these rules or which may otherwise compromise, or reasonably be perceived to compromise, their independence. The firm should tell the Commission via auditregulation@audit-commission.gov.uk about independence issues where the firm has had to put in place safeguards and reported them to those charged
with governance under ISA 260, or where it has identified an independence issue for which appropriate safeguards cannot be put in place

### Rotation of key staff

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<th>3.7</th>
<th>It is the Commission's policy that auditors at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years.</th>
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<td>3.8</td>
<td>The Commission’s view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level.</td>
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<td>3.9</td>
<td>Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently appoint auditors for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor’s independence or objectivity.</td>
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<td>3.10</td>
<td>Auditors should, before the start of the sixth year of appointment, confirm in writing to the Associate Controller of Audit (Compliance), via <a href="mailto:auditregulation@audit-commission.gov.uk">auditregulation@audit-commission.gov.uk</a>, that there are no independence issues at particular engagements that would preclude an extension of the relevant appointments. Subject to this confirmation, the Associate Controller of Audit (Compliance) will recommend to the Commission Board the extension of the appointments for a further two years.</td>
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<td>3.11</td>
<td>Other than in exceptional circumstances, the Associate Controller of Audit (Compliance) will not recommend any further extensions and therefore <strong>an auditor should act for no longer than seven years</strong>. The individual concerned should then have no further direct relationship with or involvement in work relating to the body concerned until a further period of five years has elapsed.</td>
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3.12 It is the Commission’s policy that **auditors of small bodies should act for a maximum period of ten years.**

3.13 The Commission does not specify at which appointments an engagement quality control reviewer (EQCR) should be appointed. This is a matter for the professional judgement of the auditor in applying the criteria in professional standards.

3.14 **No individual should act as an EQCR at an audited body for a period longer than seven years.** An individual who has acted as an EQCR at an audited body for a period of seven years, whether continuously or in aggregate, should then have no further direct relationship with or involvement in work relating to the body concerned until a further period of five years has elapsed.

3.15 It is the Commission's policy that, other than in exceptional circumstances, **the audit manager at an audited body should be changed at least once every ten years.** The individual concerned should then have no further direct relationship with or involvement in work relating to the body concerned until a further period of five years has elapsed.

   This paragraph **does not** apply to audit managers in the limited assurance regime.

3.16 It is important to note that it is the individual's relationship with the audited body that is the deciding factor. The start date stays the same if the audited body is reconfigured, but largely retains the same key officers or members.

3.17 **Where an EQCR becomes the auditor (or vice versa) at the body concerned the combined period of service in these positions shall not exceed seven years.**

3.18 **Where an audit manager at an audited body becomes the auditor, the individual concerned may act as auditor for up to seven years** (subject to confirmation after five years that there are no
independence issues that would preclude this), provided that the combined period of service as audit manager and auditor does not exceed ten years.

This paragraph does apply to audit managers in the limited assurance regime.

| 3.19 | The individual concerned should then have no further direct relationship with or involvement in work relating to the body concerned until a further period of five years has elapsed. |
| 3.20 | Where auditors believe rotation would have an adverse impact on audit quality, they should apply in writing to the Associate Controller of Audit (Compliance) for special arrangements to be made via auditregulation@audit-commission.gov.uk. They should demonstrate how audit quality will be adversely affected by rotation and what additional safeguards will be applied, in accordance with paragraph 16 of APB Ethical Standard 3. |

### Acceptance of additional (non-Code) work

| 3.21 | It is recognised that the auditor may be well placed to carry out certain types of additional work for the audited body cost effectively. |
| 3.22 | Additional work can be undertaken, without prior approval from the Associate Controller of Audit (Compliance), if an auditor is satisfied that:

- performance of such additional work will not compromise his/her, or the firm's, independence nor be reasonably perceived by members of the public to do so; and

- the value of the work in total, in any audit year, does not exceed a de minimis amount. |

| 3.23 | The Commission has set the de minimis amount as the higher of £18,000 or 20 per cent of the scale audit fee (excluding fees for the certification of claims and returns) payable by the audited body. If the value of the work, individually or in total, for |
an audited body in any financial year would exceed the de minimis amount, the auditor should obtain approval from the Associate Controller of Audit (Compliance) before agreeing to carry out the work.

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<tr>
<th>3.24</th>
<th>Where the auditor of a group proposes to undertake additional work at an affiliate whose auditor is appointed by the Commission, <strong>if the value of the work, individually or in total, in any financial year would exceed the de minimis amount applicable to the audited body, the auditor should obtain approval from the Associate Controller of Audit (Compliance) before agreeing to carry out the work.</strong></th>
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<th>3.25</th>
<th>The de minimis amount for audits in the limited assurance regime is set at the higher of £250 or 20 per cent of the total audit fee.</th>
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<th>3.26</th>
<th>It must be emphasised that the de minimis specified by the Commission is a threshold for reporting purposes only. Whether the value of the proposed work is below or exceeds the de minimis threshold should not affect the auditor's judgement as to whether carrying out the proposed work would, or could reasonably be perceived to, compromise the independence of the auditor or the Commission.</th>
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| 3.27 | Each case will be considered on its merits, however the Commission will not normally approve additional work where the total value of such work exceeds 50 per cent of the audited body’s scale audit fee (excluding fees for the certification of claims and returns) in any one financial year.  

This limit is also applicable to additional work carried out by the auditor of a group at an affiliate. |
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<tr>
<th>3.28</th>
<th>Firms are required to establish procedures to identify and address promptly any potential breaches of these requirements.</th>
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</table>
3.29 Applications for approval should be made in writing by the auditor at least ten working days before the start of the work, setting out:

- the nature of the work, including the detailed terms of reference;
- the reasoning for concluding that the work would not compromise the auditor's or the Commission's independence, specifically addressing each of the six main threats to independence recognised by Ethical Standard 1: self-interest; self-review; management; advocacy; familiarity; and intimidation;
- the justification for the auditor doing the work; and
- the estimated timescale and fee.

3.30 In considering whether to approve the carrying out of additional work at an audited body, the Associate Controller of Audit (Compliance) will consider whether:

- the work involves the design or implementation of systems or processes that an auditor might subsequently be required to review;
- the subject matter may be subject to review as part of future audit work or may be the subject of public challenge; and
- performance of the work by the auditor, as opposed to another provider, would secure better economy, efficiency or effectiveness in the use of the audited body's resources.

Membership of audited bodies

3.31 No member of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
3.32 This exclusion includes the appointment as councillor at local government bodies or as non-executive director at health bodies.

3.33 Auditors of local authorities, and their staff, should not serve as a governor of a:

- community school; or
- voluntary controlled school; or
- voluntary aided school; or
- foundation school

within the area of the local authority.

Other links with audited bodies

3.34 Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.

3.35 Certain staff changes or appointments require positive action to be taken. These events and the action required are detailed in Table 1 below.

<table>
<thead>
<tr>
<th>Event</th>
<th>Action required</th>
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<tbody>
<tr>
<td>1. Where a senior member of the audit team (auditor/manager) leaves the firm and, within two years of ceasing to hold that position, is appointed to:</td>
<td>Other senior members of the audit team to be replaced by individuals who had not worked directly with the individual concerned in the last three years.</td>
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<td>the post of Chief Executive, Director of Finance/Chief Finance (s151) Officer or Monitoring Officer in the</td>
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<td>audited body; or</td>
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<td>• any other post,</td>
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<td>including as elected</td>
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<td>member, in which</td>
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<td>the individual</td>
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<td>whether actual or</td>
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<td>influence the nature</td>
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<td>and extent, and</td>
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<td>reporting of audit</td>
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<td>work at the body.</td>
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2. Where a firm employs an individual who is currently employed, or has been employed within the last three years, by an audited body or an organisation that has directly provided services to an audited body.

The individuals concerned should have no direct relationship with, or involvement in, audit work relating to that body where they had previously been employed for a period of at least three years.

3. Where the spouse, partner or other close family member of a member of the audit team is:

- employed as Chief Executive, Director of Finance/Chief Finance (s151) Officer or Monitoring Officer; or
- appointed to any other post, including as elected member, in which that individual will have the capacity - whether actual or perceived - to

The individual concerned should be rotated away from the audited body and should have no direct relationship with, or involvement in, work relating to the body concerned until a period of at least three years has elapsed since the spouse, partner or other close family member of the individual concerned has ceased to be employed by the audited body.
<table>
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<tr>
<th>3.36</th>
<th>Firms may enter into other business relationships with audited bodies or members of those bodies, or with third parties providing services to those bodies. In such circumstances firms of appointed auditors are expected to comply with the requirements of the Commission's protocols on:</th>
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<tr>
<td>• provision of personal financial or tax advice to certain senior individuals at audited bodies</td>
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<tr>
<th>4.</th>
<th>Where a senior member of a firm’s staff, who is, or has within the last two years been, directly involved in the management, supervision or delivery of Commission work, is appointed to:</th>
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<tr>
<td>• the post of Chief Executive, Director of Finance/Chief Finance (s151) Officer or Monitoring Officer at a body where the auditor is from the same firm; or</td>
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<tr>
<td>• to any other post, including as elected member, in which the individual concerned will have the capacity - whether actual or perceived - to influence the nature and extent, and reporting of audit work at the body.</td>
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| If the former member of staff was in the chain of auditor management command, the firm should resign as auditor. |
| If the former member of staff was not in the chain of command, the Contact Partner or equivalent, must satisfy him/herself that appropriate arrangements are being put in place locally to mitigate any actual or perceived threats to the independence of the auditor and/or firm. |
• independence considerations in relation to procurement of services at audited bodies (Appendix 4); and
• area wide internal audit work (Appendix 5).

3.37 **Firms should not accept engagements which involve, or could be perceived to involve, commenting on the opinions or performance of other Commission appointed auditors involved in Commission work.**

**Secondments**

3.38 The rules applying to secondments of staff to and from audited bodies and other organisations providing services to audited bodies and members of staff returning from secondment to audited bodies and other organisations providing services to audited bodies are the same as for staff being employed by and joining from audited bodies, as described in paragraph 3.35 above.

**Political activity**

3.39 **Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity**, such as canvassing or standing for office or acting as a spokesperson, 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.

**Gifts and hospitality**

3.40 **Auditors and their staff should not accept any gift or hospitality offered, if it may compromise or reasonably be perceived to compromise their independence and objectivity.** Examples of acceptable gifts are low value items (less than £20),
such as pens, diaries, coffee mugs or other small items that have been offered as a token of appreciation. Examples of acceptable hospitality are:

- working meals provided to allow parties to discuss or to continue to discuss business;
- an invitation to attend a dinner or function of a non-commercial body (Society, Institute, or similar) where the member of staff represents the firm;
- hospitality through attendance at a relevant conference or course, where it is clear the hospitality is corporate rather than personal; and
- a modest degree of hospitality relating to celebratory functions (such as Christmas or the retirement of a senior officer).

### Confidentiality

| 3.41 | All staff involved in Commission statutory audit work must sign a declaration stating that they understand the provisions of Section 49 of the 1998 Act regarding the restrictions on the disclosure of information. A model form of declaration is included as Appendix 6. |
| 3.42 | The Audit Commission requires that specified auditors and their staff are vetted in accordance with the Baseline Personnel Security Standard (BPSS). The BPSS is a central government employment vetting standard. It allows for access to non-protectively marked information, to information marked as ‘Restricted’ and ‘Confidential’, and to the Government Secure Intranet (GSI). BPSS requires verification of: identity; employment history; nationality/immigration status; and unspent criminal records. The Commission requires auditors and their staff involved in the audit of police authorities, and those undertaking work on housing benefits who require access to the DWP’s Customer Information System (CIS), information held on CIS, or information obtained from CIS, to be vetted in accordance with BPSS. Local authority benefits |
systems routinely hold information from CIS.

| 3.43 | **Firms must ensure that arrangements are in place for the checks required by the BPSS, including verification of unspent criminal convictions, for relevant new and existing staff.** Checks of unspent criminal convictions involve obtaining a ‘Basic Disclosure’ certificate, on provision of address details for the past five years and evidence of identity, from an agency such as Disclosure Scotland. Where a firm’s existing employment practices do not cover the required checks on identity, employment history and nationality/immigration status, these requirements must be applied to audit team members in the specified groups. |
| 3.44 | **Pending these checks, audit team members should complete the required character declaration.** The declaration is to be signed by appointed auditors and members of their teams who have access to CIS, information held on CIS, or information obtained from CIS. This is available as a temporary measure only, pending completion of BPSS checks. The Character and Confidentiality Declaration Form is included at Appendix 16. |
| 3.45 | **Firms must ensure that those audit staff who require direct access to the DWP’s CIS system also complete the DWP’s Employee Authentication Service (EAS) registration process.** Registration is completed by the EAS agent at one of the local authorities where the auditor will be undertaking housing benefits work. The process requires the auditor to produce three forms of identification from an approved list and allocation of a personal electronic security token for access to the CIS system. |

**General principles specific to the limited assurance regime**

| 3.46 | The approach to be adopted for the audit of small bodies is set out in Schedule 1 of the Code and Appendix 17. The definition of a small body, referred to in legislation as a ‘smaller relevant body’, is set out in Regulation 2(1) of the Accounts and Audit |
3.47 Auditors of small bodies must comply with Appendix 17 of this Guidance.

3.48 Guidance for auditors on communications with non-responding small bodies is included at Appendix 18. Auditors must follow this guidance before contacting the Commission about such issues.

3.49 Where, for the first time, a small body has annual income or expenditure of £6.5 million or above, auditors must identify why the threshold has been met. If this is due to a one-off event, such as a large capital project, no further action is required. If this level of income and expenditure is expected to continue, auditors should discuss with the small body the changes to accounting practices and in audit approach which will be required.

3.50 Where a body has exceeded the £6.5 million threshold for two years and its budget forecast shows that a limited assurance audit may no longer be required in the following year or thereafter, auditors must notify the Commission via lcauditissues@audit-commission.gov.uk and also advise the body to inform the Commission in writing.
4. Auditors' responsibilities in relation to the use of resources

The requirements of this section do not apply to auditors of small bodies, who should refer to paragraph 4 and Schedule 1 of the Code.

### 4.1
This section covers requirements relating to how auditors satisfy themselves that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources. This includes:

- auditors' responsibilities under the Code;
- assessing risk under the Code;
- reliance on the results of inspection work; and
- work specified by the Commission.

### Auditors responsibilities under the code

#### 4.2
The Code requires auditors to issue an audit report which includes a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the ‘VFM conclusion’). **Auditors should determine their programme of value for money (VFM) audit work based on the guidance issued by the Commission.**

#### 4.3
The standards of evidence required on the audit files in relation to the VFM conclusion are:

- there should be appropriate documentation of the work performed and of the conclusion reached; and
- the audit documentation should enable an experienced auditor, having no previous connection with the audit, to understand: the nature, timing and extent of audit procedures performed; the results of the audit procedures and evidence obtained; the significant matters arising; and the conclusions reached.
## Assessing risk under the Code

### 4.4
Auditors should assess audit risk when planning VFM work. They should only undertake such work as they consider necessary to enable them to deliver a safe conclusion on the audited body’s arrangements to secure economy, efficiency and effectiveness under the Code.

### 4.5
Where such local risk-based work has been identified as necessary to support the VFM conclusion, **auditors should complete and report the work in time to inform their VFM conclusion.**

## Reliance on the results of inspection work

### 4.6
In giving their conclusions, auditors should normally place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. Circumstances in which auditors may conclude it would not be reasonable to place such reliance include:

- a major change in strategic policy/strategic direction;
- significant changes in the senior management team;
- a significant change in management arrangements;
- the issue of a public interest report;
- a fundamental breakdown in financial management/financial control;
- a breakdown in governance; and
- the breakdown of a major partnership arrangement.

## Work specified by the Commission

### 4.7
Under the Code, the Commission has the power to mandate work to address risks faced by all bodies or all bodies of a particular type or within a locality. In
accordance with paragraph 3.4 of this Standing Guidance, the Commission expects auditors to cooperate when delivering such cross-cutting work. These mandatory reviews will be notified to auditors through the Work Programme and Fee Scales.

4.8 The Commission will issue guidance to auditors for these specific pieces of VFM work. In undertaking such work auditors must follow the methodology in that guidance, but may tailor their approach to reflect the needs of the audited body and the auditor's risk assessment. The guidance may include further requirements in respect of staff training, liaison with the Commission, reporting to audited bodies or other matters.
5. Auditing the financial statements and reporting the results of audit work

<table>
<thead>
<tr>
<th>Reference to Code</th>
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<tr>
<td>5.1</td>
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This section covers audit target dates and how auditors are required to report the results of audit work. This includes:
- audit target dates;
- the audit report;
- reports in the public interest;
- reporting to the Commission;
- annual audit letter;
- auditing the accounts return;
- mandated audit work; and
- reporting sensitive issues.

5.2 The Commission has issued guidance on reporting under the Code. This guidance is available through the Weekly Auditor Communications.

### Audit target dates

5.3 Auditors of local government bodies should meet the audit target dates, as advised in the rolling calendar of deadlines. This requirement covers:
- the audit opinion (including the pension fund opinion where applicable);
- the value for money conclusion;
- the WGA assurance report; and
- the audit opinion for limited assurance audits.

Where delays are expected to occur, auditors must notify the Commission as soon as possible by recording the delay in the Audit Issues system on 15.
EDC, including an explanation for the delay (for example, late production of draft accounts). Auditors must update EDC when the matter has been resolved.

Auditors in the limited assurance regime should notify the Commission of delays to the opinion via lcauditissues@audit-commission.gov.uk

### The audit report

**5.4** The audit opinion, value for money conclusion, audit certificate and any statutory reports must be signed in the name of the auditor, as defined in paragraph 1.3 of this guidance. This includes the auditor’s assurance report on the whole of government accounts return.

**5.5** Auditors must notify the Commission, via the Audit Issues system on EDC, if they intend to issue a non-standard report. All final non-standard reports should be submitted to the Commission using the Audit Issues system.

This requirement does not apply to auditors of small bodies. However, auditors of small bodies must keep records of all qualified audit opinions including the reason for the qualification and reports noting other matters for attention.

**5.6** Auditors must notify the Commission if they intend to issue an audit report that includes, by exception, any of the items set out below:

- non-standard comments on the Annual Governance Statement (this requirement does not apply to auditors of small bodies);
- any matters reported in the public interest in the course of, or at the conclusion of, the audit;
- any recommendations under Section 11(3) of the 1998 Act; and
- the exercise of any other special powers of the auditor under the 1998 Act.

Copies of the draft and final reports should be
submitted to the Commission using the Audit Issues system on EDC for principal audits, or via lcauditissues@audit-commission.gov.uk for small body audits.

<table>
<thead>
<tr>
<th>Reports in the public interest</th>
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<tbody>
<tr>
<td><strong>5.7</strong> Draft section 8 reports must be submitted to the Commission as soon as local consultation allows. Final section 8 reports must be submitted at the same time as they are issued. Auditors should log these documents on the Audit Issues system on EDC for principal audits, or via <a href="mailto:lcauditissues@audit-commission.gov.uk">lcauditissues@audit-commission.gov.uk</a> for audits in the limited assurance regime. The Commission will respond with any comments on the draft report, including those of its legal advisor, within two weeks. A protocol for issuing PIRs is included at Appendix 7.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reporting to the Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5.8</strong> The Commission requires a number of regular data returns and other information to be provided by auditors each year as set out in the rolling calendar. The Commission may require further information from time to time and auditors must comply with requests received.</td>
</tr>
<tr>
<td><strong>5.9</strong> Such additional requests will be kept to a minimum, and a protocol for information requests is included in Appendix 8. A protocol for liaison between the Commission and appointed auditors is included in Appendix 9.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual audit letter</th>
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<tbody>
<tr>
<td><strong>5.10</strong> Auditors should submit annual audit letters in accordance with relevant target dates notified in the rolling calendar. The final annual audit letter should be submitted to <a href="mailto:annualaudit-letters@audit-commission.gov.uk">annualaudit-letters@audit-commission.gov.uk</a>. This requirement does not apply to audits in the limited assurance regime.</td>
</tr>
</tbody>
</table>
### 5.11 If it is not possible to meet the target date, auditors must notify the Commission of the expected submission date via the Audit Issues system on EDC. Auditors should update the system when the letter has been issued.

**Auditing the accounts return**

#### 5.12 An auditing the accounts data return must be completed for each audit on EDC in line with the target date notified in the rolling calendar. Queries on the auditing the accounts return should be sent to ACTS@audit-commission.gov.uk

This requirement does not apply to audits in the limited assurance regime.

**Mandated audit work**

#### 5.13 The Commission may mandate other work through the Work Programme and Fee Scales. Where necessary, arrangements for data collection will be made.

This requirement does not apply to audits in the limited assurance regime.

**Reporting sensitive issues**

#### 5.14 Auditors are required to report details of sensitive issues which, in the opinion of the auditor, should be brought to the attention of the Commission. A sensitive issue is one which, because of its nature, is likely to have a high media profile or result in the making of any report or the exercise of the auditor’s specific powers and duties under the Audit Commission Act or otherwise present a risk that the Commission should be aware of.

#### 5.15 All sensitive issues that come to the attention of the auditor should be reported using the sensitive issues system on EDC and auditors must indicate whether the issue is one that potentially they will consider as part of their statutory duties.
For small bodies, auditors must report on investigations where costs may exceed the de minimis amount and on other sensitive issues via lcauditissues@audit-commission.gov.uk

### 5.16
If the issue is one that the auditor will be considering as part of their statutory duties, auditors must:

- provide a comprehensive description of the issue and outline the actions that are being undertaken, or which the auditor proposes to undertake. Updates must be provided at least every three months, or as the auditor's work progresses;
- categorise the issue as relating to either finance, governance and/or performance (more than one category can be selected); and
- rate their concern about the issue as either red, amber or green.

Guidance on these ratings is outlined below.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
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<tbody>
<tr>
<td>Green</td>
<td>The auditor is maintaining a watching brief</td>
</tr>
<tr>
<td>Amber</td>
<td>The auditor is undertaking activity</td>
</tr>
<tr>
<td>Red</td>
<td>The auditor is considering exercising, or has exercised, specific powers and duties under the Audit Commission Act 1998.</td>
</tr>
</tbody>
</table>

### 5.17
If the auditor considers that the issue is outside of the scope of their statutory responsibilities, they should enter the details of the issue and indicate that the issue has been brought to the attention of the Commission for information only. If appropriate, auditors should notify the Commission if the issue has been referred to another organisation to consider. Examples of such issues could be: a major health and safety breach; clinical failure or child protection concerns.

### 5.18
The Commission recognises that there will be circumstances where auditors are unable to report issues where there is a risk of either 'tipping off' or 'prejudicing an investigation', for example under the
anti-money laundering legislation. Firms should reconsider the position for such cases each quarter and report any older cases which can now be included.

<table>
<thead>
<tr>
<th>5.19</th>
<th>Auditors are encouraged to investigate sensitive issues promptly and, where appropriate, put issues in the public domain.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.20</td>
<td>The Controller of Audit may report issues raised by auditors at her discretion to the Commission Board and management team. The Commission may share information provided by auditors with external stakeholders, on a confidential basis, and may publish information where it is already in the public domain.</td>
</tr>
<tr>
<td>5.21</td>
<td>Firms must put in place arrangements to ensure that relevant issues are being reported appropriately and are updated as the issues progress.</td>
</tr>
<tr>
<td>5.22</td>
<td>The operation of the systems put in place by firms to comply with the Commission’s reporting requirements will be reviewed as part of the annual Regulatory Compliance and Quality Review Programme.</td>
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</table>
6. Principles relating to the exercise of specific powers and duties of local government auditors

<table>
<thead>
<tr>
<th>Section</th>
<th>Text</th>
<th>Reference to Code</th>
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<tbody>
<tr>
<td>6.1</td>
<td>This section covers additional requirements relating to how auditors fulfil their functions relating to electors’ questions and objections. This includes:</td>
<td>54-55</td>
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<tr>
<td></td>
<td>• challenge work;</td>
<td></td>
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<tr>
<td></td>
<td>• statements of reasons; and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• cost of challenge work.</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Challenge work</strong></td>
<td></td>
</tr>
<tr>
<td>6.2</td>
<td>Auditors should deal with objections within nine months from the date of receipt of a notice of objection that meets statutory requirements. Auditors should inform the Commission as soon as they have received a notice of objection made in accordance with section 16 of the Audit Commission Act and provide updates on the progress in dealing with it, including the outcome. <strong>Updates should be provided when the nine month target date has passed and at least every three months thereafter.</strong> The initial notification, updates and the outcome should be logged using the Sensitive Issues EDC system for principal audits, or via <a href="mailto:lcauditissues@audit-commission.gov.uk">lcauditissues@audit-commission.gov.uk</a> for limited assurance audits.</td>
<td></td>
</tr>
<tr>
<td>6.3</td>
<td>All firms are required to have systems and processes in place to provide support to auditors dealing with objections.</td>
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<tr>
<td>6.4</td>
<td>Auditors should have regard to the Challenge Toolkit when dealing with objections. The Challenge Toolkit can be found at: <a href="http://www.audit-commission.gov.uk/ctk/index.htm">http://www.audit-commission.gov.uk/ctk/index.htm</a></td>
<td></td>
</tr>
<tr>
<td><strong>Cost of challenge work</strong></td>
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<td></td>
</tr>
<tr>
<td>6.5</td>
<td>Fees for the auditor’s consideration of objections, from the point at which they accept an objection that meets</td>
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</tbody>
</table>
statutory requirements, will be charged in addition to any variation to the scale fee for risk and complexity. Auditors should notify audited bodies of related fees as soon as practicable. A contribution is due to the Commission from this additional fee. This may be waived in exceptional circumstances.

**Statement of reasons**

### 6.6 Auditors must issue a statement of reasons to a person aggrieved by the auditor's decision upon request (in accordance with Section 17(4) of the 1998 Act). However, it is good practice that where an objector has asked the auditor to apply to the court for a declaration that the item is contrary to law and the auditor decides not to do so, or there is no issue on which the auditor would consider making a report in the public interest, a statement of reasons is automatically provided with that decision. In all cases auditors should submit a copy of the draft statement of reasons to the Commission.

### 6.7 Auditors must notify the Commission before issuing an advisory notice (in accordance with Section 19A(6) of the 1998 Act) and submit a draft copy.

### 6.8 Before either of the above documents is issued, a copy of the draft should be submitted to the Commission via the Audit Issues System on EDC for principal audits, or via lcauditissues@audit-commission.gov.uk for small body audits. The Commission will respond with any comments, including those of its legal advisor, within two weeks.
7. Certification of claims and returns

The requirements of section 7 are not generally applicable to auditors of small bodies. In the event that auditors are requested to certify a claim or return by a small body they must seek guidance from lcauditissues@audit-commission.gov.uk

<table>
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<tr>
<th>Reference to Code</th>
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<tr>
<td>7.1</td>
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This section covers additional requirements relating to how auditors certify claims and returns under Section 28 of the 1998 Act.

Certification of claims and returns

| 7.2               |

The Commission makes arrangements for the certification of claims and returns. In certifying claims and returns, auditors act as agents of the Commission and are therefore **required to comply with the arrangements made by the Commission**.

| 7.3               |

Auditors certify claims and returns in accordance with the arrangements set out in paragraphs 4 to 8 of the 'Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in relation to Claims and Returns', which is available on the Commission's website. **Auditors may only certify claims outside these arrangements where the Commission has not formally declined to make arrangements.**

| 7.4               |

Auditors presented with any claim or return that is not covered by a certification instruction should refer the matter to the Commission for advice. If the Commission has formally declined to make certification arrangements for a scheme, an auditor cannot act in any capacity. However, if the Commission has not formally declined to make arrangements, the auditor can decide to act as a reporting accountant. In deciding whether or not to undertake work as a reporting accountant the normal requirements about accepting non-audit work apply and it must be made clear to the authority and the grant-paying body that the work is done as a reporting accountant not as an Audit Commission appointed
auditor acting as the Commission’s agent under section 28 of the Audit Commission Act 1998. When acting as a reporting accountant, the reporting accountant determines the procedures to apply: the Commission’s certification work approach, forms and fee arrangements do not apply.

7.5 General certification instructions are given in Certification Instruction (CI) A01. **Auditors undertaking certification work must be familiar with CI A01** which sets out the background, approach and administrative arrangements for certification work and underpins the individual CIs provided for each scheme.

7.6 CI A01 and scheme specific CIs are updated as necessary. The Commission produces an Index to CIs and a monthly CI covering note, which provides details of the CIs published in the month and current issues relating to certification work. The Grants Team aims, wherever possible, to publish CIs for individual schemes no later than three months before auditor certification deadlines. Any technical queries, including suggestions for amendments to CIs, should be addressed to the Grants Team in accordance with the ACTS protocol in Appendix 1.

7.7 Charges for certification work at a principal authority should be in line with the published composite indicative fee for certification work for each body for the relevant year. The indicative fee is set out on the Commission’s website. The Commission will monitor certification fees through auditors’ work-in-progress (WIP) returns and will determine the final fee after auditors have completed the certification work programme for the year.

The Commission has the power to determine the fee for certification work above or below the composite indicative fee where it considers that substantially more or less work was required than envisaged by the composite indicative fee. The Commission may therefore charge a fee which is larger or smaller than the composite indicative fee to reflect the actual work that auditors need to do to meet the certification requirements. The Commission will do this on the basis of the complexity of the certification
requirements at a particular body.

| 7.8 | It is a matter for the auditor to decide the work necessary to complete certification and, subject to approval by the Commission, to seek to agree a variation to the composite indicative fee with the audited body. The Commission will normally expect to approve a proposed variation to the composite indicative fee where this is agreed by the auditor and the audited body.

The composite indicative fee already reflects the auditor’s assessment of risk and complexity. Therefore, we expect variations from the composite indicative fee to occur only where these factors are significantly different from those identified and reflected in the previous year’s certification fees. |

| 7.8 | Auditors are required to submit to the Commission:

- copies of qualification letters, in accordance with the arrangements set out in CI A01;

- an annual certification work data return (for 2011/12 only); and

- copies of the annual report to those charged with governance, summarising the certification work undertaken. |
8. Any other matters

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<th>Reference to Code</th>
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8.1 This section covers any other requirements that are relevant to the Commission’s auditors, including:

- audit fee information;
- work in progress and fee information;
- indemnities;
- appointment of engagement leads;
- consultation on appointment of auditors;
- cooperation on rotation;
- delegation of functions;
- complaints;
- responding to letters from MPs;
- regulatory compliance and quality review process;
- technical queries;
- reporting fraud;
- National Fraud Initiative;
- responding to information requests; and
- public interest whistleblowing.

Audit fee information

8.2 For principal bodies, auditors are required to issue a planning letter to all audited bodies by the date set out in the rolling calendar of deadlines for the audit of accounts for the year ending the following 31 March. The letter must indicate any proposed variations to the published scale fee and composite indicative certification fee, and outline the proposed work programme including any planned
pieces of risk-based value for money work. The letter should be issued to the audited body, and submitted to the Commission by the target date set out in the rolling calendar. The planning letter should be submitted to the Commission via feeletter@audit-commission.gov.uk.

8.3 Detailed project planning documents for particular pieces of value for money work should be issued during the year and a detailed planning document for the audit of the financial statements should be issued in the autumn following completion of the previous year's financial statements audit.

8.4 Auditors must formally report the fee to audited bodies at two stages during the audit cycle:
   - the point at which the initial audit plan is presented to those charged with governance; and
   - on completion of the audit.

At both of these stages, the reported fee must be broken down into three headings:
   - Code audit work;
   - certification of claims and returns; and
   - any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body).

Both communications should give comparative fee information. At the planning stage, the auditor should compare the proposed fee with the prior year actual fee and the published scale fee. At the completion stage, the auditor should compare the proposed final fee with the fee proposed at the planning stage and the original scale fee. Auditors must provide an explanation for all variances.

8.5 When reporting the proposed fee for the audit, auditors must make clear to those charged with governance:
   - what the specific factors are which the auditor
has taken into account in proposing the fee (particularly the risk assessment);

- the assumptions upon which the fee is based in terms of, for example, the standard of the body’s control environment, coverage of internal audit, quality of working papers, etc;

- what is included in the fee and what is not included;

- what specific actions the audited body could take to reduce the level of its audit fee in the future (or confirm that there are no specific actions); and

- the processes for agreeing additional fees if circumstances change or the assumptions upon which the fee is based are not met.

8.6 The Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. The Commission may therefore charge a fee which is larger or smaller than the scale fee to reflect the actual work that auditors need to do to meet their statutory responsibilities. The Commission will do this on the basis of the auditor’s assessment of risk and the scale and complexity of the audit at a particular body.

8.7 It is a matter for the auditor to decide the work necessary to complete the audit and, subject to approval by the Commission, to seek to agree a variation to the scale fee with the audited body. The Commission will normally expect to approve a proposed variation to the scale fee where this is agreed by the auditor and the audited body.

The scale fee already reflects the auditor’s assessment of audit risk and complexity. Therefore, we expect variations from the scale fee to occur only where these factors are significantly different from those identified and reflected in the previous year’s fee.
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<th>Section</th>
<th>Text</th>
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<tbody>
<tr>
<td>8.8</td>
<td><strong>For principal bodies, firms must complete work in progress (WIP) returns each quarter and at the Commission’s year end.</strong> The deadlines for submitting WIP returns will be communicated via the rolling calendar of deadlines, which is sent as an appendix to the first Weekly Auditor Communication of each month. For small bodies, each firm must complete a bi-annual WIP return in April and October each year.</td>
</tr>
<tr>
<td>8.9</td>
<td>The Commission will use the published scales of fees and indicative composite certification fees to calculate the amount payable to the Commission or payable to the firm in accordance with the remuneration rates within each firm’s contract(s). The amounts to be paid to or by the Commission will be made in four equal instalments, updated for the final position per the October WIP return for NHS and the January WIP return for local government. The remuneration is based on all work carried out under the Code. The WIP information will also be used to consider the reasonableness of the explanations for any variances to the prescribed scale fee (see paragraph 8.11, below).</td>
</tr>
<tr>
<td>8.10</td>
<td>The estimated contribution projected to the end of March in the fourth quarter is expected to vary by no more than 1 per cent from the figure provided in the WIP return at the end of the second quarter. Explanations are required for all variances to this performance target.</td>
</tr>
<tr>
<td>8.11</td>
<td>Fee variation templates will be required to be submitted with the WIP returns for any proposed variations to scale fees or composite indicative certification fees. In charging for additional work (i.e. in excess of the scale fee), firms should apply hourly rates not exceeding the following maxima for specified grades of staff:</td>
</tr>
<tr>
<td>Staff grade</td>
<td>Standard SE England</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Partner</td>
<td>325</td>
</tr>
<tr>
<td>Senior Manager/Manager</td>
<td>180</td>
</tr>
<tr>
<td>Senior Auditor</td>
<td>115</td>
</tr>
<tr>
<td>Other staff</td>
<td>85</td>
</tr>
</tbody>
</table>

The Commission will review the explanations for the proposed fee variations and inform the firm whether or not they are acceptable. Only proposed fee variations for which the Commission has accepted the explanation can be invoiced or refunded to the audited bodies and included in a subsequent WIP return. The Commission will review and respond to any proposed variations within 15 working days of submission of the WIP return.

When invoicing audited bodies for the costs of additional work accepted by the Commission, firms should discount the total additional fees by 40 per cent. The balance will be reimbursed to the firm by the Commission through the agreed supplementary remuneration rate, specified in the relevant contract.

Other WIP returns are used for determining the final fee on completion of the audit and for financial management purposes. Performance against expectations on both fees and delivery of work is reported through the contract monitoring process. Delivery of work includes all VFM work agreed with audited bodies. A flowchart outlining the process for submitting proposed fee variations is at Appendix 10.

8.12 From 2012/13, quarterly WIP returns will be modified to allow firms to submit details of composite indicative fees and other information relating to claims and returns certification work as well as any proposed variations to the composite indicative fee.
It may occasionally be necessary for the Commission or its external auditor to visit firms’ offices to examine billing records. Auditors should ensure adequate accounting records are maintained and that they comply with any requests from the Commission or its external auditor.

### Indemnities

8.14 The Commission will indemnify auditors against charges, losses, expenses and liabilities properly incurred and not otherwise recoverable, arising out of the exercise by the auditor of certain of their statutory functions. Further details are included in Appendix 11.

8.15 Auditors must notify the Commission promptly via auditregulation@audit-commission.gov.uk as soon as they are aware of any circumstances which are reasonably likely to give rise to a claim as this is a condition of the insurance cover.

### Appointment of auditors

8.16 Where an engagement lead appointed as an ‘officer of the Commission’ ceases to be an employee of the Commission, their status as an appointed auditor comes to an end.

8.17 Firms must ensure auditors appointed to Commission audits have appropriate technical skills and experience and must put in place appropriate support arrangements to deliver audits to an acceptable standard.

8.18 Where a firm proposes a new auditor, they must be approved by the Commission. Requests for approval should set out the new auditor’s relevant experience and the quality control and mentoring arrangements that the firm proposes to put in place to support the new auditor.

The request should be sent to the Associate Controller of Audit (Compliance) via [auditregulation@audit-commission.gov.uk](mailto:auditregulation@audit-commission.gov.uk).
**Consultation on appointment of auditors**

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
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</table>
| 8.19 | Firms are not required to consult on individual partner or director appointments as auditors but are encouraged to do so at principal bodies.  
**Firms should notify details of proposed partners and directors for new auditor appointments to the Associate Controller of Audit (Compliance) via auditregulation@audit-commission.gov.uk.** |
| 8.20 | Administrative arrangements for a joint committee vary widely. Auditors should assess each according to its particular circumstances. It is important to distinguish between:  
- the administrative arrangements, including the level of intended independence in managing finances, some joint committees are responsible for; and  
- the functions that correctly are reserved to the participating authorities.  
Auditors should review the joint committee agreement as well as following the flowchart included within Appendix 12. This will establish whether a separate auditor appointment is necessary before the ‘lead/host’ authority asks the Commission to make an appointment. It will also ensure the Commission consults the participating authorities through the correct ‘lead/host’ audited body. Any request for clarification on whether a joint committee requires a separate auditor appointment should be sent to the Associate Controller of Audit (Compliance) via auditregulation@audit-commission.gov.uk. |
| 8.21 | The Commission is required to consent to the appointment of an auditor to a local authority or passenger transport executive controlled company. Appendix 12 details the process for consent.  
Auditors should remind audited bodies about the requirement for any new controlled company to |
obtain the Commission’s consent before the company appoints its auditor.

**Cooperation on rotation**

| 8.22 | **Outgoing auditors should cooperate with incoming auditors.** Guidance on the handover process is included as Appendix 13. |
| 8.23 | **Should a difference of opinion arise between the outgoing and incoming auditor, and this is likely to result in a qualification of the auditor's opinion or the issuing of a public interest report, the auditors should meet to discuss the issues arising. This matter should also be reported to the Associate Controller of Audit (Compliance) via auditregulation@audit-commission.gov.uk.** |

**Delegation of functions**

| 8.24 | **Auditors are required to ensure an appropriate allocation of senior audit staff on Commission audits,** although it is acknowledged that staff mix may vary according to audit risks at each audited body. |

**Complaints**

| 8.25 | **Complaints about auditors should be dealt with,** in the first instance, under the firms' complaints procedures. The Commission will only consider a complaint if it has been considered by the relevant firm, and has been through all appropriate complaint handling stages. Only if the complaint remained unresolved will it be passed to the Commission. |
| 8.26 | **The Commission will not investigate complaints about an auditor's professional judgements.** |
| 8.27 | **Where a complaint is referred to the Commission,** the complaint will be dealt with in the first instance by the Head of the Controller of Audit's office, in accordance with the Commission's complaints procedure included at Appendix 14., As a second and final |
stage, if the complaint remains unresolved, it will be referred to the Controller of Audit for review.

### 8.28 Firms are required to report any complaints received to the Commission on a quarterly basis.

The Commission will actively monitor the progress of firms’ in resolving complaints and will note any upheld complaints against auditors in the quarterly monitoring reports.

### Responding to letters from MPs

| 8.29 | Where a letter is received from an MP relating to an auditor’s statutory functions, the auditor should reply directly to the MP and copy the response via public-enquiries@audit-commission.gov.uk to the Head of the Controller of Audit’s office for information. |
| 8.30 | If a letter is received from an MP about any other issue, the letter must be forwarded via public-enquiries@audit-commission.gov.uk to the Head of the Controller of Audit’s office who will arrange for a response to be drafted on behalf of the Commission. |

### Regulatory Compliance and Quality Review Process

| 8.31 | Auditors must cooperate with the Commission’s annual Regulatory Compliance and Quality Review programme. The programme is the principal means by which the Commission obtains assurance on the quality of the work of the firms. It also allows the Commission to provide assurance to stakeholders about the quality of work delivered by its regime.  

We define audit quality as compliance with both professional standards and our regulatory requirements. Compliance with any of the requirements set out in this document and supporting appendices may be reviewed and reported in our annual Regulatory Compliance and Quality Review reports |
As part of our Regulatory Compliance and Quality Review programme we:

- commission inspections from the FRC’s Audit Quality Review (AQR) team;
- assess the systems put in place by firms to ensure compliance with the terms of the contract; and
- rely upon the results of the firms’ internal quality monitoring reviews.

### Technical queries

**8.32** Technical queries may be referred to Audit Commission Technical Support (ACTS). Auditors who wish to use ACTS must follow the protocol at Appendix 1.

### Reporting fraud

**8.33** Auditors should submit information on all frauds at bodies to which they are the appointed auditor of £10,000 or more (all tenancy fraud is viewed to be over £10,000), and all instances of corruption, using the AF70 survey on EDC.

Auditors of small bodies should submit this information using the electronic form available on the Commission’s website via [http://www.audit-commission.gov.uk/af70](http://www.audit-commission.gov.uk/af70). This should be emailed to lcauditissues@audit-commission.gov.uk.

**8.34** In order to help auditors, only one submission needs to be made when there are large numbers of:

- housing benefit and council tax benefit frauds that involve a failure to declare correct income or a failure to notify a change of circumstance; or
- tenancy frauds.

Auditors should follow the instructions in the survey to ensure that the appropriate information is submitted.

### National Fraud Initiative (NFI)
### Responding to information requests

#### 8.35 Auditors should consider the results of the National Fraud Initiative and may make reference to it in reporting to audited bodies. However, small bodies do not participate in the National Fraud Initiative and therefore this requirement does not apply to small body audits.

| 8.36 | **Freedom of Information Act 2000 (FoIA), Environmental Information Regulations 2004 (EIR) and section 49 of the Audit Commission Act 1998**  
Auditors are not subject to the FoIA in relation to information held for audit purposes but are subject to the EIR in relation to this information. The EIR are very widely cast and apply to any information that has some connection with environmental matters. The EIR covers for example development agreements, waste contracts, administrative measures such as plans, programmes and policies related to environmental matters, and cost-benefit analyses and assumptions used within them. Any emails, reports, briefings, contracts, legal advice, notes of telephone conversations, meeting minutes or other documents containing or relating to environmental matters could be covered by the EIR. |
| 8.37 | **Information covered by the EIR must be disclosed unless an exception applies.** Section 49 of the 1998 Act applies to information that is environmental, but the EIR overrides all other statutory restrictions on disclosure. If the information is not environmental information, then section 49 of the 1998 Act imposes restrictions on its disclosure. Information may only be disclosed:  
- in specified circumstances (see Appendix 15); or  
- in any other case where you are satisfied that disclosure would not or would not be likely to prejudice the effective performance of your functions.  
If disclosure is not permitted by section 49 of the 1998 Act and where it would be likely to cause prejudice to audit functions, it is a criminal offence to disclose the information. Auditors should seek legal |
advice if they are unsure whether it is appropriate to disclose or withhold information in response to an information request.

| 8.38 | The FoIA and EIR apply to auditors when they are acting as agents of the Commission and therefore holding information on its behalf, for example when certifying claims and returns. Mandated work is carried out under auditors’ own statutory powers and therefore is not covered by the FoIA. **Auditors who receive requests under the FoIA relating to their work as agents of the Commission should follow the reporting process set out at Appendix 15.** Where an auditor’s support to the Commission regarding a request involves significant resources, reasonable requests for reimbursement will be considered. Requests should be sent to the Public Enquiries Team via [foi@audit-commission.gov.uk](mailto:foi@audit-commission.gov.uk) |
| 8.39 | **Data Protection Act 1998 (DPA)**
The DPA defines personal data as any information that relates to an identifiable, living individual. Where auditors obtain personal information in their capacity as appointed auditor they are considered to be a ‘data controller’ for the data. It is the data controller who is personally responsible for ensuring compliance with the DPA and for deciding whether or not to disclose data. The DPA applies to every disclosure of information, even when the disclosure is sought under the FoIA or EIR. |
| 8.40 | Fees for responding to requests for information under the EIR and DPA, which relate to auditors’ statutory functions, will be charged in addition to any variation to the scale fee for risk and complexity. Auditors should notify audited bodies of related fees as soon as practicable. |

### Public interest whistleblowing

| 8.41 | The Commission and its auditors are prescribed bodies under the Public Interest Disclosure Act (PIDA) and have a duty to receive and consider referrals. Where the Commission receives a whistleblowing disclosure concerning an audited body, it may refer the matter to the auditor for further consideration. If so, it is a matter for the auditor to |
| 8.42 | The Commission has set up procedures for receiving and processing disclosures. Help and advice can be sought from the Commission’s Public Enquiries Team, via public-enquiries@audit-commission.gov.uk. |  |
## Contacts

<table>
<thead>
<tr>
<th>Contact</th>
<th>Email address</th>
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<tbody>
<tr>
<td>Audit Commission Technical Support</td>
<td><a href="mailto:ACTS@audit-commission.gov.uk">ACTS@audit-commission.gov.uk</a></td>
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<tr>
<td>Public Enquiries Team</td>
<td><a href="mailto:public-enquiries@audit-commission.gov.uk">public-enquiries@audit-commission.gov.uk</a></td>
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Appendices

1. Audit Commission Technical Support protocol
2. Protocol for using the work of other auditors
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4. Statement on auditors' independence considerations in relation to procurement of services, including PFI
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Appendix 1: Audit Commission technical support protocol

Protocol between Audit Commission Technical Support (ACTS) and auditors for dealing with technical and legal queries.

Purpose

1. Audit firms appointed by the Commission have demonstrated that they have the necessary professional and technical expertise to perform their functions. This protocol sets out the respective responsibilities for dealing with technical and legal queries of auditors appointed by the Commission and ACTS, the Audit Commission's technical support service. This protocol aims to use the professional resources of both the firms and the Commission cost-effectively.

Scope

2. This protocol covers all auditors' queries relating to work under the Code of Audit Practice and certification instructions.

Responsibilities of the auditor

3. Where an auditor has an issue that they cannot answer, they should try to resolve it by working through a staged process:

1. Consult the relevant standards and guidance e.g. Audit Policy Briefings, the local authority Code, NHS manuals for accounts, statutory instruments, and certification instructions. Other useful sources include: published guidance on the application of UK accounting and auditing standards, and the Commission’s VFM guidance and Challenge Toolkit.

2. Seek to resolve the issue with advice from their firm’s support service.

3. The firm’s support service should refer unresolved issues to ACTS by e-mailing ACTS@audit-commission.gov.uk using the current template.

4. Specify the query as closely as possible, stating:
   - the information sought;
   - any background information; and
   - the steps already taken;
   - a deadline for a response.

4. Sending queries to ACTS by e-mail ensures: that all parties have a clear record of the query, that ACTS can refer it to the most appropriate expert to answer it and that it is logged in the enquiry database for analysis and reference.
Responsibilities of ACTS

5. On receipt of a technical query, ACTS will respond within three working days, or within ten working days where we need to undertake further research or contact third parties to provide a substantive reply.
Appendix 2: Protocol for using the work of other auditors

Introduction

1. This paper sets out the approach to be followed by appointed auditors in using the work of other auditors at Audit Commission appointments. It covers a variety of different situations that have been identified where auditors may seek to use the work of other auditors. These relate to the use of the work of both internal auditors and appointed auditors to other audited bodies.

Use of the work of internal audit by appointed auditors

2. The Code of Audit Practice requires auditors to establish ‘effective co-ordination arrangements with internal audit’. It also requires them to ‘seek to place maximum reliance on the work of internal audit whenever possible’. In doing so they should comply with ISA (UK&I) 610, ‘Using the work of internal auditors’.

Use of the work of other appointed auditors

3. This protocol sets out the most common situations where appointed auditors may seek to make use of the work of auditors appointed to other audited bodies and the agreed process that auditors should follow:
   - where audited bodies outsource or share systems or functions;
   - where audited bodies rely on information generated by other audited bodies;
   - where an auditor succeeds another at an audited body; and
   - where services are transferred from one audited body to another.

For local authorities, guidance on liaison between auditors of admitted bodies and auditors of pension fund administering authorities is set out in section 3572 of the Commission’s Local Government Technical Directory.

Where audited bodies outsource or share systems or functions

1. This includes situations where an auditor seeks:
   - a letter of assurance/comfort from another auditor; and/or
   - access to the reports and working papers of another auditor.
2. Appointed auditors should not give opinions or make reports to parties other than the audited body to which they are appointed. Accordingly letters of assurance from one auditor to another should only be required in exceptional circumstances.
3. However, where an auditor is seeking written assurance from another auditor, the following arrangements should be made:
o the 'principal auditor' should define a programme of work that he wishes the 'other auditor' to undertake;
o the audited body to which the principal auditor is appointed should agree to be responsible for the fees arising from any additional work the other auditor has to perform over and above that he would otherwise have to carry out;
o the audited body to which the other auditor is appointed should consent to the disclosure of information relating to its affairs to the principal auditor;
o the other auditor should report only on whether he has completed the programme of work and identify any issues which have arisen in the conduct of that work; and
o the other auditor's report should be addressed to the principal auditor and the other auditor accepts no responsibility to any party other than the principal auditor in giving his report.

4. In situations where the principal auditor is merely seeking access to the other auditor's reports and working papers, 'hold harmless' arrangements as set out in Annex A, will apply.

Where audited bodies rely on information generated by other audited bodies

5. In certain situations, in order to fulfil his statutory functions, an auditor may seek comfort concerning the reliability of information generated by other audited bodies.
6. In such situations the approach set out at paragraph 3 above should be adopted.

Where an auditor succeeds another at an audited body

7. General guidance to appointed auditors on the handover of audits is set out in Appendix 13 of the Commission's Standing Guidance for Auditors.
8. Where the 'incoming' auditor seeks to use the work of the previous auditors, 'hold harmless' arrangements, as set out in Annex A, will apply.

Where services are transferred from one audited body to another

9. Where services are transferred from one audited body to another, an auditor may seek access to reports and working papers relating to audit work on the provision of the services by the predecessor body. In these situations, 'hold harmless' arrangements, as set out in Annex A, will apply.
Annex A

Statement on access to other appointed auditor's working papers and reports

1. This statement sets out the basis on which an external auditor appointed by the Audit Commission ('the auditor') to an audited body or bodies is allowed access to the working papers of another auditor ('the other auditor') appointed by the Audit Commission. Where the other auditor is appointed to a body other than the audited body, that other Commission appointed body is referred to as ‘the other audited body’.

2. In situations other than where access is granted following a change of appointment of external auditor to the audited body, the reviewing auditor will take all reasonable steps to explain the reasons for the proposed review and will consult with the other auditor and provide reasonable notice.

3. The reviewing auditor's access to the other auditor's working papers is covered by the requirements of Section 49 of the Audit Commission Act 1998.

4. Working papers are prepared solely for the purpose of an audit in accordance with the Audit Commission Act 1998 and the Audit Commission’s Code of Audit Practice. Audits to which this statement applies are not planned or conducted, and the working papers are not compiled, for any other purpose. Therefore, items of possible interest to the reviewing auditor may not have been addressed.

5. Where access is granted to working papers where the other auditor has not yet completed the audit of the audited body or other audited body, as the case may be, for the relevant year, the other auditor is not able to, and does not, express any opinion on the related financial statements nor on any other matter relating to the audit. The other auditor is not required to inform the reviewing auditor of any change that may be made to the working papers during the course of completing the audit for that year.

6. The other auditor does not warrant or represent that the information in the working papers is sufficient or even appropriate for the purposes of the reviewing auditor. That is a matter for the reviewing auditor’s professional judgement. The reviewing auditor accepts that the other auditor has not expressed an opinion or other form of assurance on individual account balances, financial amounts, financial information or the adequacy of financial accounting or management systems.

7. For these reasons, the working papers cannot in any way act as a substitute for other enquiries and procedures that the reviewing auditor will or should be undertaking.

8. The other auditor will grant the reviewing auditor access to the working papers and at his/her discretion give explanations in relation thereto in response to requests for information from the reviewing auditor, on the following conditions:
   a. all representations, statements and explanations made to the reviewing auditor by the other auditor in relation to the working
papers are no more than explanation of matters contained in the working papers;

b. to the extent that any such representation, statement or explanation may be construed as relating to the affairs of the audited body or the other audited body, it will be the sole responsibility of the reviewing auditor to verify the representation, statement or explanation with the audited body or the other audited body, or otherwise, before using it;

c. the reviewing auditor agrees that the other auditor does not owe or accept any duty to him/her, whether in contract or in tort (including without limitation, negligence and breach of statutory duty) or howsoever otherwise arising, and shall not be liable, in respect of any loss, damage or expense of whatsoever nature which is caused by the reviewing auditor’s usage of:

i. the working papers or any representation, statement of explanation made in relation thereto or which is otherwise consequent upon the reviewing auditor’s access to the working papers or the reviewing auditor’s receipt of such representation, statement or explanation; or

ii. any representation, statement, explanation or other information whatsoever which the other auditor may at any time make or give in connection with the affairs of the audited body or the other audited body or which is otherwise consequent upon the reviewing auditor’s receipt of such representation, statement, explanation or other information.

Accordingly, if the reviewing auditor wishes to use the working papers or any such representation, statement, explanation or other information supplied by the other auditor he/she does so entirely at his/her own risk;

d. the reviewing auditor shall not give information obtained from the working papers or from representations, statements or explanations made by the other auditor in relation thereto or otherwise to any person other than the audited body.

9. The other auditor has an interest in the exclusion of the liability of his/her staff and of partners in their associated partnerships and, accordingly, the reviewing auditor will not bring any claim against such employees and partners personally in respect of any matter which, by virtue of this document, the reviewing auditor could not bring against the other auditor.
Appendix 3: Statement on the firms providing personal financial/tax advice to senior individuals at their audited bodies

1. The Code of Audit Practice includes a general statement regarding the need for auditors to avoid conflicts of interest in carrying out their duties:

   Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired (para 11 of the LG Code and para 12 of the NHS Code).

2. If a firm provides personal financial or tax advice to a key individual at one of their audit appointments, this could give rise to a public perception that the auditor’s independent judgement had been influenced by this other relationship.

3. Following consultation with auditors, the Commission's view on the provision of personal financial/tax advice by firms to senior individuals at audited bodies is as follows:
   a. No member of the audit firm’s staff who is involved in local authority or NHS audits should provide personal financial or tax advice to executive directors, senior officers, non-executive directors or members of any such bodies.
   b. The firm should not provide personal financial or tax advice to executive directors or senior officers at a body where they are the appointed auditors. Auditors should not take on any such work after appointment by the Commission. Where such work is being carried out by a firm prior to appointment, they should take steps to relinquish the relationship immediately upon appointment.
   c. As far as non-executive directors and members are concerned:
      • The firm should not provide personal or tax advice for a non-executive director receiving a termination payment.
      • The firm should follow the ICAEW Code of Ethics which states that where a firm becomes aware of a possible conflict of interest between the interests of two or more clients, all reasonable steps should be taken to manage it and thereby avoid any adverse consequences. The steps should include the following safeguards:
        • the use of different partners and teams of staff for different engagements;
        • standing instructions and all other steps necessary to prevent the leakage of confidential information between teams and sections within the firm;
• regular review of the situation by a senior partner or compliance officer not personally involved with either client; and
• advising at least one or all clients to seek additional independent advice.

- The member or non-executive director concerned should declare an interest in terms of the relationship and the auditor report the issue to those charged with governance at the audited body.
- If there are changes in circumstances that give rise to an increased threat to the auditor’s independence, the position should be reviewed.

4. These requirements are in addition to the normal consideration of any threats to independence as required by the APB’s Ethical Standards.
Appendix 4: Statement on auditors' independence considerations in relation to procurement of services, including PFI

1. The Code of Audit Practice requires 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 auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired" (para 11 of the LG Code and para 12 of the NHS Code).

2. This provision quite clearly rules out providing advice to an audited body in relation to a proposed significant procurement such as a PFI deal. However, it does not cover directly situations, such as where a firm of auditors is providing financial and other advice to a consortium bidding in relation to a significant procurement at a body to which the firm is the appointed auditor.

3. The Commission recognises that in such situations, the relationship between the firm and the consortium is such that the possibility of any threat to the auditor's independence arising in relation to the firm's role as appointed auditor to the audited body is only remote and that the Commission's audit firms can be relied upon to act in such a way as to uphold their independence and objectivity. Nevertheless, it is concerned to address possible public perceptions that auditors' independence could be impaired by the existence of such a relationship.

4. This statement sets out a framework of safeguards and controls within which firms of auditors can provide financial and other advice to consortia bidding in relation to a significant procurement at bodies to which they are the appointed auditor.

5. Firms of auditors appointed by the Audit Commission can provide financial and other advice to consortia bidding in relation to a significant procurement at bodies to which they are the appointed auditor only where the following safeguards are satisfied:
   - the firm must inform the Commission immediately via auditregulation@audit-commission.gov.uk where such situations arise;
   - the firm must demonstrate to the Commission that it:
     - has put in place adequate and effective 'ethical walls' between the engagement partner advising the consortium and the Commission's appointed auditor and, specifically, that no member of the audit team will be involved in the proposed advisory work. These arrangements may be reviewed by the Commission as part of the annual quality review process;
     - is not acting as a principal leading the bid, but rather is only a supporting member of a multi-skilled team or consortium and the firm will not obtain a participating interest in any proposed special purpose vehicle that may be created;
is working with a consortium, with the members of which it has a regular and ongoing relationship, or is otherwise involved in an ongoing basis with various consortia on work in relation to the specific aspects of the PFI deal on which it is engaged to give advice;

- has no direct interest in the ongoing provision of services to the audited body under the proposed deal;

  - the engagement lead must demonstrate to the Commission that:

    - in accordance with the ICAEW’s Code of Ethics, he/she has assessed the potential that a conflict of interest might exist and, where appropriate, has taken steps to safeguard the audited body’s interest;

    - he/she has satisfied him/herself that the audited body concerned is being advised by, or is in the process of commissioning advice from, suitably qualified and knowledgeable, independent financial advisors; and

    - the accountable officer (NHS bodies) or Chief Executive (local government bodies) of the audited body and those charged with governance have been made aware of the firm’s role in advising any consortium that is bidding for a particular scheme and the firm has obtained approval from the accountable officer or Chief Executive.

6. Firms are reminded of the restriction on the disclosure of information contained in section 49 of the Audit Commission Act 1998. There are strict criteria as to the circumstances in which information covered by section 49 may be disclosed. Information may only be passed to the consortium if one of the criteria is satisfied. Breach of section 49 can result in prosecution.

7. Where firms of auditors provide financial and other advice to consortia in relation to a significant procurement at bodies to which they are the appointed auditor, the Commission reserves the right to arrange a 'special' QCR visit to review any work carried out by the appointed auditor in relation to the procurement process, where this is considered necessary or desirable in the public interest.

8. Exceptionally, where in the Commission's view there is a real risk of the auditor's objectivity being called into question, it reserves the right to appoint another auditor to carry out the auditors’ functions in relation to the procurement process, or to remove the auditor altogether.

9. These requirements are in addition to the normal consideration of any threats to independence as required by the APB’s Ethical Standards.
Appendix 5: Area-wide internal audit work

1. The Code of Audit Practice requires 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 auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired" (para 11 of the LG Code and para 12 of the NHS Code).

2. Firms must seek the approval of the Commission before they enter into partnership arrangements with providers of internal audit services at bodies where they are the appointed auditor. In such instances, firms must provide the Commission with details of the proposed arrangement and the steps they have taken to safeguard their independence via auditregulation@audit-commission.gov.uk.

3. In considering whether to approve such a request, a firm must confirm to the Commission that:
   o its staff who work on the audited body's external audit will have no involvement with the partnership arrangement;
   o its staff will not be involved in the direct or indirect provision of any part of the internal audit programme at any body where it is the appointed auditor and where the partnership provides internal audit services;
   o all aspects of the internal audit relationship and the services to be provided will be discussed and agreed at least annually with the audit committee of the audited body to which it is the appointed auditor and to which the partnership provides internal audit services;
   o suitable steps will be taken to ensure full transparency. This includes presenting to each audit committee a clear statement setting out that it has satisfied itself that it is independent and that it believes it has suitable arrangements in place to prevent any threats to its independence as the appointed auditor; and
   o the partnership will provide annually a summary of other external auditors' views of the partnership to the Audit Committee of those bodies at which the firm is the appointed auditor.

4. In addition, the firm must also ensure that:
   o when bidding for future internal audit partnership opportunities the firm must raise the issue of independence with potential partners;
   o when an internal audit partnership bids for work at a body where the firm is the appointed auditor, the firm must ensure that the relevant Chief Executive Officer/Director of Finance of the audited body has been made aware of - and is content with - the firm's role in the partnership;
   o if the firm is appointed as the auditor to any body at which internal audit services are supplied by an internal audit provider with which the firm has a partnership arrangement, the firm must first seek the approval of the Commission, as specified in paragraph 3, before accepting the appointment.
Commission approves the arrangements the firm must ensure that the Chief Executive Officer/Director of Finance of the audited body has been made aware of - and is content with - the firm’s role in the partnership; and

- The agreement with each internal audit provider with which the firm has entered into a partnership arrangement will state clearly that, where the firm is the external auditor to any of the internal audit provider’s clients, its responsibilities as an appointed auditor will take precedence over any duties that may be owed to the internal audit provider.

5. These requirements are in addition to the normal consideration of any threats to independence as required by the APB’s Ethical Standards.
Appendix 6: Restriction on disclosure of information

1. Appointed auditors, and those assisting them in carrying out their statutory duties under the Audit Commission Act 1998, should be aware of the provisions of section 49 of the Audit Commission Act 1998. This section states that information collected in the course of an audit should not be disclosed unless certain criteria apply (see below).

49 Restriction on disclosure of information

(1) No information relating to a particular body or other person and obtained by the Commission or an auditor, or by a person acting on behalf of the Commission or an auditor, pursuant to any provision of this Act or in the course of any audit or study under any such provision shall be disclosed except:

(a) with the consent of the body or person to whom the information relates;
(b) for the purposes of any functions of the Commission or an auditor under this Act;
(c) in the case of a health service body, for those purposes or for the purposes of the functions of the Secretary of State and the Comptroller and Auditor General under the National Health Service Act 1977;
(d) for the purposes of the functions of the Secretary of State relating to social security;
(e) in accordance with section 37(6) or 41(4); or
(f) for the purposes of any criminal proceedings.

(2) References in subsection (1) to studies and to functions of the Commission do not include studies or functions under section 36

[(2A) A person who is, or acts on behalf of a person who is, a public authority for the purposes of the Freedom of Information Act 2000, may also disclose [such information in any circumstances unless the disclosure would, or would be likely to, prejudice the effective performance of a function imposed or conferred on the person by or under an enactment.]

(2B) An auditor who does not fall within subsection (2A), or a person acting on his behalf, may also disclose such information except where the disclosure would, or would be likely to, prejudice the effective performance of a function imposed or conferred on the auditor by or under an enactment.

(2C) A person who does not fall within subsection (2A) or (2B) may also disclose such information in accordance with consent given by the Commission or an auditor.

(2D) Section 49ZA makes further provision about consent for the purposes of subsection (2C).

(3) A person who discloses information in contravention of subsection (1) is guilty of an offence and liable:
(a) on summary conviction, to imprisonment for a term not exceeding six months or to a fine not exceeding the statutory maximum or to both; or

(b) on conviction on indictment, to imprisonment for a term not exceeding two years or to a fine or to both.

2. Staff undertaking Commission work should be made aware of these provisions under the Act, and should sign a declaration to that effect. A model declaration is included below.

Declaration and Undertaking

My attention has been drawn to section 49 of the Audit Commission Act 1998. I understand those provisions and I undertake to observe them. [Optional: I am also aware of the contents of ISA (UK&I) 230 and will ensure that appropriate procedures are taken to protect the confidentiality and safe custody of working papers.]

I am also aware that the Audit Commission is a “public authority” under the Freedom of Information Act 2000 and that it may be required to disclose information that it holds in connection with its statutory functions. Where I am acting as an “agent” of the Commission – for example, in carrying out its claims and returns certification work – I acknowledge that I will be holding that information on behalf of the Commission, and will fully co-operate in relation to any Freedom of Information Act request that the Commission may receive.

Date:

Signed:
Appendix 7: Protocol for issuing Public Interest Reports

For all audited bodies

Purpose

1. This protocol sets out the arrangements for publishing and promoting Public Interest Reports (PIRs) issued by auditors. The presumption is that, normally, all PIRs will be published on the Commission website with an accompanying press release circulated to appropriate media.

Background

2. Section 8 of the Audit Commission Act 1998 requires auditors to consider whether in the public interest they should make a report on any matter coming to their notice in the course of the audit, in order for it to be considered by the body concerned or brought to the attention of the public.
3. Sections 13 and 13A of the Audit Commission Act 1998 enables the auditor of a local authority to notify any person he thinks fit that he has made a report under Section 8 and to publish the report in any way he thinks fit. Section 13A(4)(b) also states that from the end of the period of one year beginning with the day when the report is sent, the obligations of the auditor transfer to the Commission. These powers do not apply to health bodies. Under the Freedom of Information Act 2000, the Commission has also committed itself to using the internet as the primary means of publishing information.

Reporting PIRs and sign off procedures

4. The Audit Compliance group manages PIRs for the Commission and ensures that other stakeholders in the Commission are notified formally of a forthcoming PIR.
5. If an auditor is considering issuing a PIR, they should notify the Commission by logging the issue on the Sensitive Issues system on EDC. Auditors of smaller bodies should log the issue with the Commission via lcauditissues@audit-commission.gov.uk
6. The Audit Compliance group will then notify the Commission's legal advisor and communications staff.
7. Consultation drafts of the report must be shared with the audited body. Drafts should also be shared with any individuals named in the report and the auditor may consider sharing the draft with local stakeholders or other interested parties. At this stage the draft PIR should logged onto the Audit Issues system on EDC by the appointed auditor.
8. The Audit Compliance group will liaise with the appointed auditor and communications staff to prepare a press release and agree a provisional publication date. The press release must be approved by the appointed auditor prior to final sign-off.
9. The Commission has agreed to share all draft NHS reports with the DoH. Auditors will need to ensure that they allow sufficient time for this consultation when agreeing publication dates for the report. The DoH requires two weeks for a report relating to financial performance and four weeks for other reports. Auditors must ensure that the draft report has been shared with the audited body and the SHA before the report is forwarded to the DoH.

10. The Audit Compliance group is responsible for managing the consultation with the DoH, and will forward all DoH comments to the auditor. The auditor should then consider whether the report requires amendment prior to issue.

11. For both local government and health PIRs, the approval of the final report and press release is the responsibility of the appointed auditor.

12. Once approved, the auditor can agree the publication date with the audited body, When this has been agreed, communications staff will ensure:

- the approved report and press release are programmed for publication on the website;
- the press release is sent, under embargo, to the appropriate media; and
- the press office at the audited body is given a final copy of the press release and final report at least two days before the publication date.

13. The auditor will then issue the final report to the audited body, with a copy logged onto the Audit Issues EDC system. In the case of health PIRs, the Audit Compliance group will send a copy of the final report to the DoH.

**Publishing PIRs without an accompanying press release**

14. PIRs are published on the Audit Commission website with an accompanying press release, if appropriate. There may be circumstances where it is counter-productive to issue a press release. This decision is taken by the Commission in consultation with the engagement lead and the firm’s Contact Partner.

**Publishing on the website**

15. It is the responsibility of communications staff to ensure that a final version of the PIR is published on the Commission's website. The communications lead will follow the process outlined above.

16. For those bodies within the Limited Assurance Approach, the decision to issue a press release is taken by the auditor consulting with communications staff.
Appendix 8: Protocol for information requests

Purpose

1. The Audit Commission reserves the right to request information about audited bodies or the conduct of audits from time to time, in order to discharge its statutory and regulatory responsibilities.
2. The Commission recognises that all requests for information from its audit firms consume expensive and scarce audit resources and therefore will consider carefully the need for and timing of information requests.
3. The Commission will have regard to the overall burden of information requests, and as part of its planning process will challenge the need to request particular pieces of information.
4. Wherever possible information requests will be planned in advance, and consulted on, as part of the process of developing the Standing Guidance for Auditors and its updates.
5. Where the Commission has to make an ad hoc request for information or the timing of a planned request for information changes significantly, it will provide an explanation.
6. The Commission will think carefully about, and consult on, the timing of individual information requests, so as to:
   - minimise the cost and other overheads for audit firms; and
   - reflect ‘peaks’ in the annual audit cycle.
7. The Commission will, other than in exceptional circumstances, allow auditors a minimum period of four weeks on all specific requests for information. Wherever possible it will allow longer during ‘peak’ periods of work or over holiday periods.
8. The Commission will take all reasonable steps to ensure that all requests for information are directed to the appropriate contact points within each audit firm, as identified by contact partners.
9. Contact partners or their representatives should ensure that any problems they foresee in terms of the information requested or the timescale for its return are communicated to the Commission at the earliest opportunity.

Contact partners or their representatives are responsible for ensuring that:
   - information is compiled with due care and diligence, and complete; and
   - information is returned by the deadline specified.

10. If auditors receive requests for information which appear unreasonable, either in terms of the timescale for responding or the volume of work required, the Associate Controller of Audit (Compliance) should be informed.
11. The Associate Controller of Audit (Compliance) will monitor compliance with this protocol.
Appendix 9: Protocol for liaison between the Commission and firms of appointed auditors

Scope

1. This protocol is intended to cover all formal liaison with auditors through the Contact Partners or via their representatives on liaison groups. It does not cover informal discussions between individuals which may be used to help Commission staff to develop their thinking on particular issues or to determine what the Commission might consult on.

The Commission

2. The Commission will consult auditors:

- before introducing any new requirements which affect materially the specification of the audit as defined in the Code of Audit Practice, the Statement of Responsibilities, the Standing Guidance for Auditors, Certification Instructions and any supplementary directions that may be issued from time to time; and
- before setting scales of fees.

3. It may also consult auditors on policy and/or technical issues where it would welcome auditors’ comments, to inform its own view or to help establish best practice.

4. The Commission will consult or seek the views of auditors through the Auditors’ Group and its various sub-groups or via a Contact Partner letter.

5. The Commission will, other than in exceptional circumstances, allow auditors a minimum period of four weeks on all consultations. In setting deadlines for responses, the Commission will, so far as possible, allow longer during ‘peak’ periods of work or over holiday periods.

6. When initiating consultation, the Commission will make clear:

- on what issues in particular it is seeking auditors’ views (and the extent to which a particular issue is open for consultation or must be regarded as a “given”);
- what level of response it anticipates (i.e. whether at a strategic policy or detailed technical level);
- who it suggests should respond (i.e. individual firms, the Auditors’ Group or a new liaison group);
- when responses are required by (and why, e.g. if the Commission has to respond to an external deadline); and
- to whom the response should be made.
7. Following each consultation, the Commission will:

- communicate the outcomes of each consultation;
- respond to firms who have identified an ‘issue of principle’ setting out how this issue of principle has been addressed, or otherwise, as a result of the consultation; and
- for major or significant consultations (such as revisions to the Code of Audit Practice), detail the main issues raised in the consultation and how these have been considered.

The firms

8. Contact Partners will:

- nominate their firm’s representatives on each of the Auditors’ Group’s sub groups (including technical groups);
- ensure that a substitute attends to represent the views of the firm, if the nominated individual is unable to attend a meeting; and
- ensure that their firm responds to any consultation by the deadline specified.

9. Each firm’s representative will:

- canvass views on the issues to be discussed at the meeting so they can properly represent the firm’s views on these issues; and
- inform the Contact Partner about the key points of the discussion at the meeting.
Appendix 10: process for approval of proposed variations to scale fee

Fee remains same as scale fee published by AC following statutory consultation?

Yes

No further action by Auditor

No

Firm submits Fee Variation Template (FVT) with quarterly WIP return

The Audit Compliance group considers if explanation in FVT is acceptable

Yes

Firm may vary invoice(s) to AB
Firm reports approved varied fee in subsequent WIP return(s) (PI)

Further variation to updated fee required?

No

Yes

No

The Audit Compliance group rejects fee variation (PI) and refers back to firm

Fee remains the same as scale fee (initial or varied)
Firm can submit revised information in FVT with next WIP return

The Associate Controller of Audit (Compliance) approves final scale fee (reported to AC Board to note)

The Audit Compliance group publishes final scale fee on AC Fee Comparator Tool

PI = Performance indicator reported in contract monitoring
Appendix 11: Indemnity against court costs and liabilities resulting from challenge work

1. Where the Appointed Auditor takes any such action in the discharge of their functions as is described in paragraph 2 below, the Commission will indemnify the Auditor against any charges, losses, expenses and liabilities which may be properly and reasonably incurred or suffered by the Appointed Auditor from third parties in performance of their functions in so far as the same are not recoverable or recovered from other persons or bodies under the provisions of the 1998 Act or by order of the Court.

2. The actions to which the indemnity in paragraph 1 applies are as follows (all references are to the 1998 Act);
   i. the institution of any proceedings under subsection (6) of section 6 for failure to comply with the requirements of an auditor under subsections (1) to (5) of section 6;
   ii. any application to the court under section 17 for a declaration that an item of account is contrary to law;
   iii. any appearance as respondent to any appeal brought under the provisions of subsection (4) of section 17;
   iv. the issue or revocation of an advisory notice under section 19A;
   v. any application for judicial review under section 24 or any appearance as respondent to any application for judicial review made in respect of the exercise of the auditors' functions; and
   vi. any proceedings, application, claim or appeal consequent upon any of the foregoing, upon action taken by the Appointed Auditor under section 19 or upon any other action properly taken by the Appointed Auditor in the course of their duties.

3. Prior to taking such action as described in this paragraph, or on receipt of information about any action against them, the Appointed Auditor shall notify the Commission in writing of such action via auditregulation@audit-commission.gov.uk.

4. The cost of dealing with questions and objections prior to legal action is a charge on the audited body. The initial cost of issuing an advisory order is also a charge on the audited body.
Appendix 12: Consultation on the appointment of auditors

1. Under s3(1) of the Audit Commission Act 1998 (the 1998 Act), the Commission may appoint as an auditor:
   - an officer of the Commission;
   - an individual who is not an officer of the Commission; or
   - a firm of individuals who are not officers of the Commission.

2. Where we appoint a firm of auditors, the appointed auditor is the firm itself. The nomination of the engagement lead is a matter for the firm itself to determine. This has implications for how the Commission discharges its statutory duty to consult on the appointment of auditors under s3(3) of the 1998 Act which states that “before appointing an auditor or auditors to audit the accounts of a body other than a health service body the Commission shall consult that body”.

3. It follows that where the Commission has consulted on the appointment of a particular firm, its statutory obligation to consult has been satisfied (because the firm is the appointed auditor).

4. Although the statutory requirement to consult applies only to local government bodies, the Commission applies the same process to NHS audited bodies.

New auditor appointments

5. Auditor appointments normally run for a period covering the audit of five years’ accounts (i.e. signing five audit opinions). The time served by any auditor should not normally exceed the audit of five years’ accounts (i.e. signing five audit opinions). The Commission will subsequently agree to an auditor being responsible for an audit for an additional period of up to no more than two years (i.e. signing seven audit opinions), provided that there are no considerations that compromise, or could be perceived to compromise, the auditor’s or the firm’s independence or objectivity.

6. The Audit Compliance group will copy all initial consultation letters to the firm’s Contact Partner.

7. In practice, it may also be helpful to arrange a face to face meeting, at which the proposed auditor can introduce himself or herself and the firm’s approach to the audit to the Chief Executive, Director of Finance or Audit Committee of the audited body. Where there is rotation between firms, The Audit Compliance group will coordinate arrangements for the meeting. Where appropriate, it may be helpful for this meeting to be attended by the outgoing firm or auditor.

8. Audited bodies will be given a minimum of four weeks to consider and comment on the proposed appointment.
9. As in any consultation, the Commission will need to consider any comments made by audited bodies and weigh these against the range of other factors outlined in the consultation letter. Where an audited body ‘objects’ to a proposed appointment, the Associate Controller of Audit (Compliance) will consider the objection in consultation with the firm’s Contact Partner and either confirm the proposed appointment or make alternative proposals.

10. If the audited body still objects to the proposed appointment, the matter will be referred to the Commission Board, which will make the final decision.

11. The Associate Controller of Audit (Compliance) will recommend all appointments to the Commission Board. When the Board has formally approved the proposed appointment, the Associate Controller of Audit (Compliance) will write to the audited body confirming the appointment. The Audit Compliance group will copy the confirmation of the appointment to the firm’s Contact Partner and will update the Commission’s appointments database.

Changes to a firm’s nominated engagement lead after initial appointment

12. Where it is necessary for a firm to change a nominated auditor, the firm should inform the audited body and follow, but adapting as necessary, the steps outlined in paragraphs 7 and 8 above.

13. When the audited body has indicated that it is content with the proposed auditor, the firm must advise the Audit Compliance group via auditregulation@audit-commission.gov.uk. The auditor contact information on the Commission’s website and intranet will be updated by the Audit Compliance group.

Directory of auditor appointments

14. The Commission Board will formally approve the appointed auditor appointments once a year, usually no later than the March meeting immediately prior to the start of the following audit year.

Appointment of auditors to Local Authority Controlled Companies

15. The Commission does not appoint auditors to local authority controlled companies. It must, however, give its consent before a company first appoints its auditor. This is required under Article 9 of the Local Authorities (Companies) Order 1995 (SI 1995 No. 849).
16. Public transport companies must seek the Commission’s consent to their auditor appointments under section 76 of the Transport Act 1985. Public airport companies must seek the Commission’s consent under section 22 of the Airports Act 1986. Companies controlled by passenger transport executives must seek the Commission’s consent under section 31 of the Audit Commission Act.

17. The Commission is required to give its consent only before the auditor is first appointed. It is not required to consent to the (annual) reappointment of auditors by controlled companies, as this is a matter for the shareholders.

18. Auditors should remind audited bodies about the requirement for any new controlled company to obtain the Commission’s consent before the company appoints its auditor.

19. The controlled company should send its request for consent to the Associate Controller of Audit (Compliance) via auditregulation@audit-commission.gov.uk. Auditors should also advise the Commission of any new controlled companies via email to auditregulation@audit-commission.gov.uk.

20. The Commission carries out due diligence before giving its consent. Where a controlled company proposes to appoint a firm holding a contract with the Commission, the consent will normally be automatic.

21. Where a controlled company proposes to appoint any other firm, we require that firm to complete and submit a short questionnaire to the Commission. This asks the firm to outline its quality assurance and independence arrangements and provide supporting evidence where necessary. Where the Commission is satisfied with the information provided by the firm, it will give its consent to the appointment.

Appointment of auditors to Joint Committees

22. Administrative arrangements for a joint committee vary according to its particular circumstances. Auditors are required to follow the flowchart below to ensure the Commission consults with the correct audited body when making auditor appointments to Joint Committees.
Flowchart for the appointment of auditors to Joint Committees

1. Does the JC consist solely of local authorities?
   - Yes
     - Do devolved powers include power to incur expenditure in discharging functions of the constituent ABs?
       - Yes
         - Is the JC constituted under s101 LGA 1972 or some other specific legislation?
           - Yes
             - No further action
               - Service expenditure audited as part of main accounts of constituent ABs
           - No
             - No
               - JC identified
     - No
2. Yes
   - Is the JC constituted under s101 LGA 1972 or some other specific legislation?
     - Yes
       - No further action
       - Service expenditure audited as part of main accounts of constituent ABs
     - No
       - No
       - JC identified
3. Has the gross revenue income or expenditure in the accounts of the JC >£6.5m in each of the last 3 years? For new JCs, is gross revenue income or expenditure expected to >£6.5m p.a?
   - Yes
     - The Audit Compliance group consults administrative lead authority on behalf of constituent ABs
     - The Audit Compliance group appoints auditor of financial or administrative lead authority as auditor of the accounts of the JC (full Code audit)
   - No
     - The Audit Compliance group consults administrative lead authority on behalf of constituent ABs
     - The Audit Compliance group appoints limited assurance auditor (for relevant county/contract area)*

*JCs may opt to prepare accounts in the same format as their constituent ABs. In this case, limited assurance is withdrawn and an auditor appointment made for a full Code audit at the appropriate scale fee.
Appendix 13: Guidance on handover of audits

1. This appendix is applicable to all audits completed prior to rotation of an auditor. In addition, guidance on transitional arrangements specific to appointments made on 1 September 2012 where 2011/12 and prior year audit work and certification work is outstanding and/or where audit work in relation to 2012/13 has already been carried out is included as Annex A to this Appendix. Both this Appendix and Annex A are applicable where 2011/12 and prior year audit work is outstanding.

2. The Commission recognises that rotating the appointment of the external auditor to an audited body could present difficulties for the audited body and both the outgoing and incoming auditors if not properly managed. In order to minimise disruption to all parties, and maximise the transfer of the outgoing auditor's knowledge of the audited body, the Commission expects the following:

   • co-operation between the outgoing and incoming auditor to ensure that the incoming auditor is fully briefed on the specific audit issues facing the audited body;
   • co-operation between the outgoing and incoming auditors to determine responsibility for undertaking specific pieces of audit work in the lead up to, or period immediately following, handover and advise the audited body accordingly;
   • where appropriate, co-operation between the outgoing and incoming auditor to ensure that the incoming auditor is fully briefed on the wider issues facing the audited body; and
   • timely communication by the incoming auditor to the audited body, as soon as possible after formal appointment, of the contact details of the audit team and future audit arrangements, requirements and expectations.

Good practice by incoming auditors

3. The incoming auditor should consider:

   • establishing early contact with key officers;
   • holding a pre-meeting between the audited body and the new audit team, to specify relationships, exchange information and agree the way forward;
   • producing a detailed listing of their expectations in relation to working papers, timescales and contact points in advance of the audit; and
   • conducting a workshop on the presentation of accounts and working papers to the audited body.

4. The Commission expects that the outgoing auditor should complete the certification of all claims and returns relating to the audit of the financial statements, unless otherwise mutually agreed.
Co-operation between auditors

5. The outgoing and incoming auditors are expected to have a joint meeting prior to the handover.
6. A joint meeting with the audited body during the handover period should normally be held unless it is considered to be impracticable.

Use and provision of information

7. The outgoing auditor should be prepared to assist the incoming auditor with timely oral or written explanations to assist the latter's understanding of the audit and any audit working papers provided.
8. The incoming auditor’s requests for access to relevant information need to be timely to minimise the cost/burden on both the outgoing auditor and the audited body.
9. The outgoing auditor should make it clear in writing that information provided is for audit purposes only and must not be disclosed to a third party (including the audited body), unless required by a legal or professional obligation.
10. The incoming auditor should not comment on the quality of the outgoing auditor's work unless required to do so by a legal or professional obligation.
11. Where considered appropriate, the incoming auditor should place reliance on work undertaken by the outgoing auditor. Judgement by the incoming auditor will need to be applied in determining what is considered to be an appropriate level of reliance. However, it is expected that the incoming auditor will ensure that sufficient documentation and information is requested from the outgoing auditor to enable him or her to place the maximum reliance on work previously undertaken.
12. Any decision not to place reliance on the outgoing auditor's work should be documented and include the incoming auditor's justification for this decision.
13. On receipt of a written request, the outgoing auditor should allow the incoming auditor to review the previous year's audit file. The outgoing auditor should also arrange for copies of the following to be passed to the incoming auditor on request:

- Specific audit outputs - for up to 6 years prior to handover

These should include:
  o latest audit plan;
  o annual audit letters;
  o any reports on use of resources work;
  o public interest reports (and details of any other instances when the outgoing auditor has exercised his/her powers under the Audit Commission Act 1998);
  o annual ISA (UK&I) 260 (or equivalent) report including reports on accounting systems weaknesses; and
• annual reports on accounts including opinion and certificate pages.
• Correspondence - for up to 6 years prior to handover
  Copies of correspondence with members, officers, the public and others relating to the accounts and the audit.
• Claims and returns - for 6 years prior to handover
  Copies of claims and returns control records for the last 6 years and copies of the claims and returns report for the last year. All uncertified returns should be handed over, except where the incoming auditor agrees that the outgoing auditor should deal with them (see CI A01 paragraph 16).

14. Due to the volume of appointments being made on 1 September 2012 the Commission will facilitate the transfer of this information.
15. For Small Bodies’ audits - including local (parish and town) councils, Internal Drainage Boards and other small body audits, as defined in Regulation 2 (2) of the Accounts and Audit Regulations 2011, the outgoing auditor should also arrange for copies of the following to be passed to the incoming auditor on request:
   • Copy of the latest audited annual return
   • Database entry for the body including latest available contact details.

Annex A: Guidance on handover of audits for appointments made on 1 September 2012.

16. The Commission recognises that the rotation of external auditors to audited bodies on 1 September presents difficulties for audited bodies and both incoming and outgoing auditors. This guidance aims to minimise disruption to all parties and maximise the transfer of the outgoing auditor’s knowledge and working papers relating to the audited body.
17. In cases where an auditor rotates as a result of a new appointment made on 1 September 2012, the Commission expects compliance with the guidance as set out in the Appendix above as well as the additional guidance in this Annex. The above Appendix is applicable to all audits completed prior to rotation of auditor.

2011/12 and prior year audit work and claims and returns certification work outstanding as at the date of transfer of staff of 31 October 2012

18. Incoming auditors will be required to complete 2011/12 and prior year audit work and claims and returns certification work that has been identified by the Commission as outstanding (outstanding work), as at the date of transfer of staff of 31 October 2012. In such cases, the Commission will specify clearly what aspects of the work require to be completed and, therefore, limit the scope of the auditor’s responsibilities in the incoming auditor’s terms of appointment for each
of the relevant audit(s), in accordance with section 3(8) of the Audit Commission Act 1998.

Outstanding opinion audit work

19. Where the incoming auditor’s terms of appointment specify that the auditor has responsibility for completing outstanding opinion audit work, the incoming auditor is expected to rely on the outgoing auditor’s opinion audit work to the maximum extent consistent with the requirements of auditing standards. To avoid unnecessary duplication of work, the incoming auditor should undertake only the minimum additional procedures on work undertaken by the outgoing auditor consistent with meeting their responsibilities in relation to the financial statements, as set out in the Code and auditing standards.

Outstanding audit work relating to the VFM conclusion and other audit responsibilities, or outstanding certification work

20. Where the incoming auditor’s terms of appointment specify that the auditor has responsibility for completing outstanding audit work relating to the VFM conclusion and other audit responsibilities, or outstanding certification work, the incoming auditor is expected to place full reliance on the outgoing auditor’s work in relation to the VFM conclusion, challenge matters and any certification work (including outstanding HB COUNT work), as these are not subject to auditing standards. The incoming auditor is not normally expected to undertake any additional steps on work that has already been performed by the outgoing auditor.

21. It is possible that in some cases the outgoing auditor will have issued his or her opinion and VFM conclusion, but will not have issued the audit certificate because of ongoing challenge matters. The incoming auditor will therefore be required to both conclude the challenge work and issue the certificate of completion. In these cases, the incoming auditor will need to consider whether anything has come to their attention that might have a material effect on the financial statements or VFM conclusion, from the date of the earlier opinion and VFM conclusion up to the date when the audit is concluded. However, there is no requirement for auditors to actively seek out information that may have implications for the audit opinion or VFM conclusion. Further information on concluding challenge matters is included in the Challenge Toolkit.

Audit work relating to 2012/13 carried out before the date of transfer of staff of 31 October 2012

22. In exceptional circumstances the ‘interim’ auditor appointed for the first part of the 2012/13 year may have carried out work on particular aspects of the audit. Where this is the case, the incoming auditor is expected to place full reliance on the outgoing auditor’s work.
Use and provision of information

23. The Commission will facilitate the transfer of information to the incoming auditor (including audit files and working papers) for all outstanding audit work and any work carried out in relation to the 2012/13 audit. The incoming auditor will not need to make a request for this information, but should have regard to the section on 'use and provision of information' in the above Appendix.

24. The Commission will provide the incoming auditor with an assurance statement completed by the outgoing auditor setting out both the work completed up to the date of transfer and what is left to be carried out by the incoming auditor.

25. In addition the Commission will provide the incoming auditor with guidance on the audit report, making it clear that where the incoming auditor is providing the opinion or VFM conclusion, or certifying claims and returns, in relation to 2011/12 or prior years, the firm has placed significant reliance on the work of the outgoing auditor.

Transfer of auditors

26. Where the 2011/12 auditor transfers to the incoming firm taking over any outstanding work, the Commission considers there are significant advantages if that firm uses the same auditor to complete any outstanding work relating to the 2011/12 audit and certification work. The Commission would normally expect the incoming firm to use the same auditor unless there are significant operational reasons preventing the firm from doing so.

27. Where the 2011/12 auditor transfers from an audit with outstanding work to a firm which is not appointed to complete this outstanding work (for example where there is an out of area appointment due to conflict issues), the firm should make the auditor available to assist the incoming firm with any queries. The Commission will facilitate access to audit files and working papers to the outgoing auditor in these cases.

28. Similarly, where the 2012/13 interim auditor transfers from an audit at which work relating to the 2012/13 audit has been carried out to a firm which is not appointed as the auditor for the relevant body 2012/13, the firm should make the auditor available to assist the incoming auditor with any queries. The Commission will facilitate access to audit files and working papers to the outgoing auditor in these cases.

Other Standing Guidance amendments relevant to handover of audits for appointments made on 1 September 2012.

29. New paragraphs should be read in conjunction with existing guidance. References to the existing guidance are included below.

Annual Audit Letters [Section 5 LG and NHS guidance]

30. 5.10 LG and 5.14 NHS Auditors should submit annual audit letters in accordance with relevant target dates notified in the rolling calendar.
The final annual audit letter should be submitted to:
Firms: to annualauditletters@audit-commission.gov.uk
Audit practice: to publishing-requests@audit-commission.gov.uk

31. Where an auditor has completed all work relevant to the 2011/12 audit, the annual audit letter should be submitted to the audited body and copied to the Commission by no later than 26 October 2012.

Challenge Work [Section 6 LG guidance only]

32. 6.2 Auditors should deal with objections within nine months from the date of receipt of a notice of objection that meets statutory requirements. Auditors should inform the Commission as soon as they have received a notice of objection made in accordance with section 16 of the Audit Commission Act and provide updates on the progress in dealing with it, including the outcome. Updates should be provided when the nine month target date has passed and at least every three months thereafter. The initial notification, updates and the outcome should be logged using the Sensitive Issues EDC system.

33. Where an auditor is due to rotate from an audit as a result of a new appointment made on 1 September 2012, the outgoing auditor will need to consider whether any challenge matters raised after 1 August 2012 should result in any work or just be brought to the attention of the incoming auditor. Any matter raised after this date should normally be left for the consideration of the incoming auditor, unless directly related to the work on the audit opinion or VFM conclusion that the outgoing auditor needs to complete.

34. Where a matter is left for the consideration of the incoming auditor, the nine month target date for completion of challenge work will not start until the date of transfer of staff of 31 October 2012. The outgoing auditor must still log the matter on the Sensitive Issues EDC system.

Work in Progress (WIP) return [Section 8 LG and Section 7 NHS Guidance]

35. 7.8 NHS and 8.8 LG Firms must complete work in progress (WIP) returns each quarter and before the year end. The deadlines for submitting WIP returns will be communicated via the rolling calendar of deadlines, which is sent as an appendix to the first Weekly Auditor Communication of each month.

36. Where an Audit Practice audit is due to rotate as a result of a new appointment made on 1 September 2012, the Commission will review the Audit Practice’s WIP return as at 30 September 2012 and finance records to establish:

- all fees have been billed for 2011/12 and prior years audits;
- the level of work that has been completed against the 2011/12 fee;
- the value of incomplete work where there is outstanding work on opinions, VFM conclusions or WGA;
• the value of income that is remaining to be drawn down by the Commission where all the work has been completed; and
• additional fees for overruns already incurred have been billed.

37. Following this review, the Commission will update the position as at 31 October 2012 and provide a schedule of all audits with outstanding work identified (including claims and returns certification and challenge work) to the incoming firm to review and complete. The schedule will include the:

• planned fee agreed with the audited body and already billed;
• work completed to date;
• fee remaining, if any, available to meet the costs of audit and certification work carried out by the incoming auditor;
• incoming auditor’s estimate of the outstanding work and any fee variation resulting in additional billing by the incoming auditor;
• the contribution due to the Commission; and
• revised dates for payments for the first year of the contract.

38. This schedule will be included as part of incoming firms quarterly WIP return.

Complaints [Section 8 LG and Section 7 NHS guidance]

7.24 NHS and 8.25 LG

39. Where an auditor has rotated from an audit as a result of a new appointment made on 1 September 2012, the incoming firm should allow transferred staff to co-operate with and provide reasonable assistance to, any enquiries prompted by complaints.

Indemnities [Section 8 LG and Section 7 NHS guidance]

40. 7.14 NHS and 8.14 LG The Commission maintains professional indemnity insurance cover (subject to an excess and upper limit per claim) against any claims, damages, costs or other liabilities incurred by the Commission or any auditor appointed by the Commission, as a result of any negligent act, error or omission by the Commission or by any auditor in the course of carrying out the audits.

41. Additionally the Commission will indemnify incoming auditors against any claims, damages, costs or other liabilities incurred to the extent that these arise from the incoming auditor's reliance on the work of the outgoing auditor in accordance with Annex A to the Appendix on handover of audits.

Schedule of compliance for auditors of small bodies [Section 5 LG guidance only]

42. Auditing the financial statements and reporting the results of audit work
Target Dates

43. The target date for auditors of small bodies to issue their limited assurance opinion is 30 September. As far as possible, all 2011/12 audit work should be completed by 31 October 2012 unless, in exceptional cases, prior approval has been sought from the Associate Controller of Audit (Compliance) that ongoing work (such as challenge issues) prevent completion. Approval should be sought via auditregulation@audit-commission.gov.uk.

44. Auditors of small bodies should have regard to the guidance on ‘Exercising formal powers to close audits’ in Appendix 18 (Dealing with non-responding or non-cooperating small bodies).

Annex B: Statutory terms of appointment

45. Under Section 3(8) and paragraph 7 of Schedule 1 of the Audit Commission Act 1998 (the Act) the Audit Commission (the Commission) has powers to determine the terms of appointment of appointed auditors.

46. Annex A to the Standing Guidance on Handover of Audits (Appendix 13) states that in exceptional circumstances the ‘interim’ auditor appointed for the first part of the 2012/13 year may have carried out work on particular aspects of the audit.

47. The interim auditor is required only to maintain a ‘watching brief’. The purpose of this annex is to specify interim auditors' terms of appointment for the period 1 April 2012 to 31 August 2012 to reflect the limited role envisaged and set out the exceptional circumstances in which the auditor may need to carry out work.

48. These terms specify that interim auditors should not undertake any work relating to 2012/13, except in exceptional circumstances, and therefore the scale fee for the interim appointment is nil. Auditors may only propose a variation to this scale fee where they need to carry out substantive work in accordance with these terms of appointment. Where this is the case auditors should inform the Commission immediately.

Audit work

49. The interim auditor should undertake work in relation to the audit of the 2012/13 year only if matters come to his or her attention which may reasonably require the exercise of any of the following statutory powers before 1 September 2012:

- a report in the public interest (s8 of the Act);
- recommendations to the audited body (s11 and 11A of the Act);
- an application to the court for a declaration that an item of account is contrary to law (s17 of the Act);
- a referral to the Secretary of State for health (s19 of the Act); or
• to consider whether to issue, and if appropriate, issue an advisory notice or make an application for judicial review (s19A, s19B and s24 of the Act).

50. Any matters not requiring the exercise of the statutory powers detailed above should be noted and brought to the attention of the incoming auditor, appointed from 1 September 2012.

51. Where such work is undertaken, the Commission will meet any costs properly incurred by the interim auditor and determine a variation to the scale fee under s7(4) of the Act accordingly.

52. For the 2012/13 year, the interim auditor is not to plan or undertake any work, or propose any variation to the scale fee, relating to:

• the audit of the financial statements, including interim audit or systems work; or
• the conclusion on arrangements to secure economy, efficiency and effectiveness.

53. In exercising their watching brief, interim auditors should not take a proactive role. They should only attend meetings, and review minutes and associated papers, to the extent necessary to the exercise of their functions as the appointed auditor for the audit of the 2011/12 accounts (for example in relation to post balance sheet events).

Ad hoc requests for auditors’ views

54. The Statement of Responsibilities of auditors and audited bodies states that there may be occasions when audited bodies seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors are precluded from giving a definite view in any case because auditors:

• must not prejudice their independence by being involved in the decision-making processes of the audited body;
• are not financial or legal advisers to the audited body; and
• may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute.

55. In the period 1 April 2012 - 31 August 2012, auditors should only provide an auditors’ view in cases where not providing a view would be significantly detrimental to the audited body, for example where such a view is required for an external authoriser as part of a PFI agreement.

56. Where such work is undertaken the Commission will meet any costs properly incurred by the interim auditor and determine a variation to the scale fee under s7(4) of the Act accordingly.

Correspondence with electors and other stakeholders

57. Interim auditors should acknowledge correspondence from local electors and other stakeholders. If the matters raised in the
correspondence relate to the audit of the 2012/13 accounts, the
acknowledgement should make clear that

- the interim auditor’s statutory terms of appointment preclude carrying
  out any substantive work unless the matter may reasonably require the
  exercise of specified statutory powers before 1 September 2012; and
- where this criterion is not satisfied, the correspondence will be passed
to the incoming auditor to consider.

58. If the matter may reasonably require the exercise of specified statutory
powers before 1 September 2012, the interim auditor should consider
the matter in accordance with this statement.

Certification work

59. The Commission makes arrangements to certify claims and returns
from bodies to which it appoints the auditor. Arrangements are made
under section 28 of the Act. The Commission, rather than appointed
auditors, is responsible for making certification arrangements. In
performing certification work, auditors act as the Commission’s agent.

60. The majority of certification work to be undertaken in the period 1 April
2012 to 31 August 2012 will be carried out by the appointed auditor for
2011/12. There may be a small number of 2012/13 projects (we are
currently only aware of two, RG20 at Bath and LD01 at Bournemouth),
requiring certification before 31 August, for which the Commission will
need to make arrangements. In these cases the Commission may
require the interim auditor for 2012/13 to complete any such
certification work. Where such work is undertaken the Commission will
meet any costs properly incurred by the interim auditor and charge the
audited body a fee accordingly.
Appendix 14: Complaints procedure

1. The Commission is responsible for monitoring the performance of the firms within its audit regime, but the firms themselves remain responsible for the work and behaviour of their staff.

2. Firms are required to report any complaints to the Commission’s Audit Compliance group, to enable full contract monitoring. Any complaints that are upheld will be reported to the Commission Board, through the Associate Controller of Audit (Compliance)’s monthly Audit Issues report.

3. Each firm already has its own complaints process and complaints about auditors should be dealt with under those processes, independently of the Commission. Therefore, as and when the Commission receives a complaint that has not already been investigated by the relevant firm, it will be passed to the relevant contact partner to deal with in the first instance.

4. The complaint should be progressed through all stages of the firm’s own complaints process, until either a satisfactory resolution is found, or it is clear that the firm will be unable to resolve matters.

5. If the firm is unable to resolve matters, it should refer the complainant to the Commission. Contact details are:

The Private Secretary
Controller of Audit’s Office
Audit Commission
1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

complaints@audit-commission.gov.uk

Tel: 0844 798 3131

6. Complaints about a firm will be dealt with, in the first instance, by the Head of the Controller of Audit’s office. As a second and final stage, the complaint would be referred to the Controller of Audit for review.

7. Because appointed auditors are statutorily independent of the Commission the Commission cannot:

- interfere with an appointed auditor’s exercise of his or her professional skill and judgement in performing his or her statutory functions;
- substitute its own judgements for those of an appointed auditor in the exercise of those functions; and
- direct an appointed auditor to act or to review his or her decisions, as only the courts have the powers to do so.
8. The Commission will therefore not consider complaints about:

- the judgements and decisions of auditors;
- the processes followed by auditors of local authorities who are exercising their specific powers in relation to electors' objections to items in a council's accounts, as this is a matter for the courts. This extends not just to decisions about matters of substance, but also to the process by which those decisions are made.

9. However, the Commission will consider complaints about auditors which relate to a failure in service or maladministration.

10. The definition of maladministration is very wide, and can include:

- failure to follow proper procedures;
- discourtesy and rudeness;
- discrimination;
- delays;
- not informing someone of their rights and entitlements;
- not responding to phone calls, emails or letters;
- not providing answers to reasonable questions within our remit;
- not answering complaints fully and promptly;
- failure to recognise and rectify mistakes; and
- failure to comply with standards.

11. The Commission will not consider any complaint that relates to ongoing audit investigations, until the investigation has been concluded.
Appendix 15: Reporting Freedom of Information Act 2000 requests

1. Where an appointed auditor from a firm receives a request for information under the FoIA in relation to work carried out as an agent of the Commission, the Commission requires auditors to comply with the following six step reporting process.

1) Immediately forward the request to the Commission.
   - If the request is in electronic form, forward the email to auditregulation@audit-commission.gov.uk; and
   - If the request is in hard copy form, forward the letter for the attention of the Associate Controller of Audit (Compliance), but also email auditregulation@audit-commission.gov.uk to alert us to the fact that a request has been received.

2) Inform the individual making the request that his/her request has been forwarded to the Commission to be dealt with by the Commission, and that the 20 day time limit for dealing with such requests will start from the time the request is received by the Commission.

3) The Commission will assess the request in accordance with its own agreed internal procedure and the FoIA.

4) If the request relates to specific documents or other information, which the Commission concludes should be disclosed, the Commission will formally request the appointed auditor to provide those documents or that information for the Commission to forward to the individual making the request.

5) If the request is not for specific documents or information, the Commission may need to visit the appointed auditor's offices to review all relevant files.

6) Responsibility for the assessment of whether or not to disclose the requested information rests with the Audit Commission but the Commission will consult its appointed auditors before coming to a final view.
Appendix 16: Character and confidentiality declaration form

1. All engagement leads and members of the engagement team who are awaiting the completion of BPSS checks and who require access to information held on or taken from DWP’s CIS system at local authorities are required to sign a character and confidentiality declaration statement. A pro forma statement is set out below.

CHARACTER AND CONFIDENTIALITY DECLARATION FORM

*To be signed by all* engagement leads and members of the engagement team *who are to have access to information held on or taken from DWP’s CIS system at local authorities.*

Character Declaration

Before allowing access to the Department for Work and Pensions Customer Information System (CIS), we need you to answer the following question about yourself.

It is a condition of using CIS that you answer the questions on this form and do not withhold any information, except as provided under the Rehabilitation of Offenders Act 1974. Failure to do this will mean you will not be given access to CIS. Please answer the questions frankly. Answering ‘yes’ does not necessarily mean you will not be given access to CIS.

**Question. Have you been convicted or found guilty of an offence in the United Kingdom or abroad by any court or court martial which is unspent?**

Yes [ ]

No [ ]

If you answered ‘Yes’, please tell us the date and place of the court hearing, the nature of the offence, the sentence of the court and the name and address of your probation office, if you have one:
I confirm the information I have provided on this form is correct and complete. I understand that if I withhold any information or provide false or misleading information this may lead to appropriate legal action being taken against me.

If you are charged with an offence after you have completed this form, you must let your manager know straight away.

Confidentiality Declaration

Section 49 of the Audit Commission Act 1998 makes it a criminal offence for an auditor, or person acting on behalf of an auditor, to disclose any information relating to a particular body or person and obtained pursuant to any provision of that Act, except in the specific circumstances provided in that section.

Section 123 of the Social Security Administration Act 1992 makes it a criminal offence for any person employed in the audit of expenditure to disclose any personal information held on or taken from CIS without lawful authority. All information obtained from DWP is deemed to have been received in confidence.


I understand I may face prosecution and dismissal for any offence in respect of any unauthorised access or attempted access to CIS or any misuse of information obtained from CIS.

I understand it is a criminal offence for me to access or to process DWP personal information for any purpose other than the audit of the accounts of a local authority under section 2 of the Audit Commission Act 1998 or certification of a claim or return under section 28 of the Audit Commission Act 1998.

I understand that I will not be free to communicate personal information acquired in the course of my duties, whether written or oral, to anyone who is not authorised or entitled to receive such information.

I realise that upon termination of my involvement in any particular audit or certification engagement I will continue to be bound by these provisions.

I understand that if there is any reason to believe that I have breached this declaration appropriate legal action may be taken against me.

I understand that this declaration does not extend to information which is in the public domain.

Nothing in this confidentiality declaration shall be taken to prevent the proper discharge of my statutory functions.
Signed:

Name:

Date of Declaration:
Appendix 17: Audit approach for small bodies

1 Schedule I of the Code of Audit Practice describes the Commission’s audit approach for small bodies.

2 Auditors must recognise the fundamental difference between carrying out an audit with a view to giving a ‘true and fair’ opinion on accounts for a principal authority, and carrying out work with a view to giving assurance in an audit opinion based on limited procedures. Auditors should plan their work accordingly, adopting a risk based approach.

3 In support of the limited assurance audit approach, the Commission works closely with local councils through their representative bodies, the National Association of Local Councils (NALC) and the Society of Local Council Clerks (SLCC). Similarly, in relation to Internal Drainage Boards, the Commission works with the Association of Drainage Authorities (ADA).

4 The Commission supports NALC’s, SLCC’s and ADA’s technical advisory networks. These networks, rather than external auditors, should be the first point of contact for small bodies for technical accounting queries or audit framework questions.

5 The Commission provides technical support to the NALC/SLCC/ADA networks as well as to auditors. If asked for technical assistance, auditors should remind small bodies and their officers of these arrangements. Auditors should charge for time taken in resolving enquiries which are outside the audit engagement.

Model of delivery

6 The key elements of the model¹ for limited assurance audit are:

- all small bodies in England complete an annual return each year (issued by the Audit Commission);
- small bodies with no financial activity in a financial year may complete a short-form version of the annual return. The short form annual return is issued to the small body by auditors calling the annual audit². The short form annual return serves as a ‘nil annual return’ from the small body;
- small bodies with an annual turnover (i.e. the greater of gross income or gross expenditure) of £200,000 or less undergo basic audit. They may also be selected for an intermediate audit as part of a random 5 per cent sample;
- bodies with an annual turnover between £200,001 and £6.5 million undergo intermediate audit; and
- bodies with an annual turnover greater than £6.5 million fall outside the scope of these arrangements.

7 The limited assurance audit approach:

¹ For a detailed description please refer to Appendix 3 of the practitioners’ Guide
² See paragraph 12 below
comprises three key elements:

- a compliance check against the requirements of the annual return;
- high level analytical review of financial and other information requested by the auditor; and
- review of the small body’s annual governance statement;

leads to the issue of a certificate of closure and a limited assurance audit opinion on the annual return; and

at no extra cost to individual bodies selected, all basic audit annual returns are subject to a 5 per cent quality assurance sample ‘spot check’.

Wherever the auditor is for any reason unable to progress directly to an opinion on the annual return based on the information submitted for audit, further enquiry and audit work should be targeted at the specific omission, error or risk area. To avoid over-auditing, auditors should ensure that audit testing is designed to deal with the specific omission, error or risk identified.

The reasons for additional work must be documented and the body informed of the intention to carry out the work and its estimated cost.

If additional work is carried out over time, auditors should provide regular feedback to the body on accumulated recoverable costs, including any disbursements.

The Commission has established the overall framework within which auditors will operate but, as with any audit, appointed auditors must exercise professional judgement on how best to carry out the work required in reaching a limited assurance opinion on annual returns.

All audits must be ‘called’ by the auditor. This process is a legal requirement designed to ensure that the statutory rights of electors can be exercised. The auditor must appoint a date on or after which electors’ rights may be exercised, and notify the small body.

Each appointed auditor should make their own administrative arrangements for calling audits, but may wish to use the Commission’s form AF3 which is designed for this purpose and published annually. Each small body is responsible for publicising this information once notified by the auditor. Electors’ rights are a sensitive area and the auditor should be satisfied that the body provides positive assurance that proper arrangements to meet this requirement are in place.

Basic audit

The auditor must carry out basic audit for all small bodies. Where the body has a turnover of less than £200,000 per annum, and is not selected to be part of the 5 per cent annual quality assurance sample, the basic audit will – if properly performed – enable the completion of the limited assurance audit. Where a small body’s turnover exceeds £200,000, or it has been selected to be part of the 5 per cent sample, the intermediate audit procedures described below should also be applied.

Small bodies complete and return an approved annual return sent to them by the auditor when calling the audit. The Responsible Finance Officer (RFO)
certifies the accounting statements present fairly the financial position of the
council and its income and expenditure, or properly present receipts and
payments, as the case may be. The RFO then arranges for three sections of
the annual return to be completed and signed off:

- **Section 1: Accounting statements** – the body should transfer key
  financial data items from its prime accounting records in accordance with
  the guidance provided on the annual return. The certified accounting
  statements should be approved by the body. This approval may not be
  delegated to a committee;

- **Section 2: Annual governance statement (AGS)** – should be completed
  by the members of the body with a simple ‘yes’ or ‘no’ response to eight
  (nine for local councils) governance assertions and the AGS should then
  be approved by them. It summarises the body’s understanding and
  acceptance of their joint and several statutory responsibilities. It also
  provides local taxpayers with assurance the body has fulfilled the duties
  imposed on it by statute; and

- **Section 4: Annual report by the internal auditor** – should contain an
  independent report on the adequacy and effectiveness of the body’s
  system of internal control.

16 Guidance in the annual return reminds bodies to submit key additional
information with the annual return. Together with the annual return, this
comprises the minimum information requirement for audit. Failure to provide
the minimum information required, or any supplementary information or
evidence requested by the auditor, triggers additional audit work for which
the Commission will charge an additional fee.

17 The key additional information is:

- year-end bank reconciliation. There is no prescribed format but an
  example is provided in the Practitioners’ Guides. Small bodies may attach
  annotated copies of bank statement pages covering the 31 March
  financial year end to the reconciliation, but annotated bank statements are
  not acceptable as an alternative to providing a bank reconciliation; and
- explanation(s) of significant variances in the annual return.

18 Auditors may also:

- obtain information about balances of borrowings by small bodies from the
  Public Works Loan Board (‘PWLB’);
- request an independent verification of bank and investment balances if
  the audit process or unresolved omission or error on the annual return, or
  some other justifiable reason, indicates possible irregularity with regard to
  cash. Auditors should inform the body when taking this action, recognising
  that there will be a cost. Banks may charge for this service; and
- make arrangements with the Council Tax authorities in each of their
  contract areas to receive local council precept data for the relevant
  financial year.

19 Once auditors have sufficient information they should complete the basic
audit:
• in cases where a fully compliant annual return is submitted and analytical review indicates no unresolved material audit risk, the auditor should proceed to sign the opinion and certificate at section 3 of the return; or

• if the initial examination of the annual return indicates that additional audit work is required before an opinion can be reached, auditors should identify the specific area of concern and the additional work required. On each occasion, if additional work is required, auditors must estimate the time cost and inform the audited body before commencing the work. The justification for additional work must be properly evidenced.

• if additional audit work can be avoided by the small body providing further information, assurance or evidence, the auditor must give the body reasonable opportunity to comply before undertaking additional work.

Intermediate audit (applies to small bodies with annual turnover between £200,000 and £6.5 million and also to a further 5 per cent of basic audits)

20 Intermediate audit focuses on the body’s overall control environment. It describes how auditors seek additional audit assurance to reflect the risks associated with higher levels of activity.

21 In addition to the basic audit, auditors perform tests on the body’s corporate governance arrangements. It applies where either annual expenditure or annual income exceeds £200,000 but is below £6.5 million.

22 Intermediate audit is also applicable to an annual sample of 5 per cent of small bodies with turnover under £200,000 per annum. This sample provides assurance about the basic audit approach.

23 Intermediate audit tests one or more of the governance assertions in part 2 of the annual return through a ‘show me’ approach to the responses. Auditors test how well the body understands its responsibilities and duties. Therefore, in deciding how to apply the testing schedule below, the auditor should take into account their:
  • initial risk assessment; and
  • cumulative audit knowledge and experience.

24 To determine the extent and frequency of testing, the auditor should also consider:
  • the outcome of analytical review; and
  • the level of compliance with requirements, including previous internal and external audit reporting.

25 The Commission expects evidence requested by auditors for intermediate audit to be proportionate to audit risk. Auditors should minimise additional information requests by planning a cyclical approach to the audit of the annual governance statement based on risk. Additional work arising from intermediate audit must also be evidenced and documented.
Each of the eight assertions (nine for local councils) in the annual governance statement is reproduced in schedule 1 below. For each assertion a range of possible intermediate tests has been identified, either in the form of additional assurance or documentary evidence. The tests should be used sparingly.

In order to reduce the frequency of correspondence and to provide a reasonable time for response, the Commission recommends that auditors highlight additional evidence being sought for intermediate audit when calling the audit. Provision for this is made in the AF3.

The auditor should only consider making further document requests if necessary information cannot be obtained from the documents already obtained from the small body.

The cost of intermediate audit, whether determined by the turnover of the small body or required for the 5 per cent sample, is included in the scale fees.

Auditors should note when planning intermediate audit that the format of the audit opinion is the same limited assurance opinion that applies to basic audit.

Other matters: Previous years’ audits not completed

All small body audits should be completed in time for the body to publish or display audited accounts on or before 30 September. Auditors should prevent audit backlogs building up.

Sometimes the audit of the accounting statements is complete but the annual return cannot be certified, for example when challenge matters are still outstanding, which may affect the opening or closing balances in the accounts. To avoid creating a backlog, auditors may return the annual return to the body for publication or display but include the following text in their report:

“The audit of the [small body]’s accounts for the years ended 31 March 20XX and 20YY have yet to be concluded and as a consequence the audit for the year ended 31 March 20ZZ must remain open. While my (our) report is given in advance of the conclusion of the audit, I (we) can confirm that my (our) opinion is subject only to the changes that may be required to balances brought forward as shown in Section 1”

Audits incomplete at statutory deadline (30 September)

In the event that an audit has not been concluded and no audit opinion has been issued prior to the statutory deadline, auditors may provide bodies with a 'confirmation' letter suitable for public display confirming that as 'at the statutory publication date no audit opinion has yet been issued in relation to the statement of accounts for the year ended 31 March 20XX.'

To meet the requirements set out in regulation 16 of the Accounts and Audit Regulations 2011 small bodies must publish or display the audited accounts 'as soon as reasonably possible after the conclusion of the audit', regardless of when that occurs. Publication in a newspaper is not required unless that is the small body’s usual or preferred method of publicising the audit.
<table>
<thead>
<tr>
<th>Annual governance statement</th>
<th>Possible further assurance request</th>
<th>Possible additional documentation request</th>
</tr>
</thead>
<tbody>
<tr>
<td>• “we have approved the accounting statements prepared in accordance with the requirements of the Accounts and Audit Regulations and proper practices”</td>
<td>Confirm the body understands ‘proper practices’: do members have access to a Practitioners’ Guide?</td>
<td>Copy of accounting records on which annual return is based.</td>
</tr>
<tr>
<td></td>
<td>Confirm arrangements for producing accounting statements in accordance with regulations and proper practices.</td>
<td>Copy of extended trial balance (if I&amp;E).</td>
</tr>
<tr>
<td></td>
<td>Confirm arrangements for reviewing bank reconciliation.</td>
<td>Copy of closing bank statements.</td>
</tr>
<tr>
<td>• “we have maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness”</td>
<td>Confirm arrangements to ensure system of internal control is fully documented.</td>
<td>Copy of internal auditor’s reports.</td>
</tr>
<tr>
<td></td>
<td>Confirm arrangements to report on internal controls and arrangements to prevent and detect fraud and corruption.</td>
<td>Copy of minute(s) where internal controls discussed/approved.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Copy of annual review of internal control or minute relating to its consideration.</td>
</tr>
<tr>
<td>• “we have taken all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and codes of practice which could have a significant financial effect on the ability of the small body to conduct its business or on its finances”</td>
<td>Confirm that all expenditure decisions made are within existing powers and minuted.</td>
<td>Copies of minutes for a selected period showing expenditure powers have been properly identified.</td>
</tr>
<tr>
<td></td>
<td>Confirm that the small body has adopted Standing Orders and Financial Regulations.</td>
<td>Copy of Standing Orders/Financial Regulations and/or minute adopting or periodic review.</td>
</tr>
<tr>
<td></td>
<td>Confirm that the small body has adopted, provides training on and applies applicable Codes of Conduct.</td>
<td>Copies of members’ acceptance of office.</td>
</tr>
<tr>
<td>• “we have provided proper opportunity during the year for the exercise of electors’ rights in accordance with the requirements of the Accounts and Audit Regulations”</td>
<td>Confirm that the notice of audit has been prominently advertised/displayed.</td>
<td>Copy of notice of audit.</td>
</tr>
<tr>
<td></td>
<td>Confirm that the notice of completion of the</td>
<td>Copy of notice of completion of audit.</td>
</tr>
<tr>
<td>Annual governance statement</td>
<td>Possible further assurance request</td>
<td>Possible additional documentation request</td>
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</tr>
<tr>
<td>Audit Regulations”</td>
<td>audit has been properly advertised/displayed. Confirm that accounts have been made available to electors.</td>
<td>Copy of arrangements in place for inspection of accounts.</td>
</tr>
<tr>
<td>“we have carried out an assessment of the risks facing the small body and taken appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required”</td>
<td>Confirm arrangements for risk management and how this has been carried out/updated and/or considered by the small body. Confirm that appropriate insurance cover for identified risks is in place. Confirm small body regularly seeks assurance regarding internal controls.</td>
<td>Copy of risk management minute. Copy of insurance schedule including value of Fidelity Guarantee bond. Copy of any risk assessment documentation or reports (if any).</td>
</tr>
<tr>
<td>“we have maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems”</td>
<td>Confirm that internal audit does not undertake tasks or give advice which may compromise or fetter their independence or invalidate the small body’s insurance.</td>
<td>Copy of minute appointing/reappointing internal audit. Copy of letter of engagement scoping internal audit. Copy of annual review of internal audit.</td>
</tr>
<tr>
<td>Annual governance statement</td>
<td>Possible further assurance request</td>
<td>Possible additional documentation request</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------------------</td>
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</tr>
</tbody>
</table>
| • “we have taken appropriate action on all matters raised in previous reports from internal and external audit” | Confirm that all internal and external audit reports have been considered by the body.  
Confirm that there are no outstanding matters from previous audit reports.                                                                                                                                                        | Copy of minute recording auditor’s report.  
Copy of agreed action plans to carry out recommendations.                                                                                                                                                                                                                                                                  |
| • “we have considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on the body and where appropriate have included them in the accounting statements” | Confirm that reserves are adequate and not excessive.  
Confirm that where there are any claims against the small body, any uninsured portion has been provided for.  
Confirm the small body borrows money only for financing capital schemes and obtains borrowing approval.                                                                 | Copy of analysis of reserves identifying general fund and any earmarked reserves.  
Details of any provisions made or added to in the year.  
Details of any loans.  
Details of any current or planned lottery bids.  
Details of capital programme.                                                                                                                                                                                                                                 |
| For local councils only (where applicable)                                                                                           | Where line 11 of the accounting statements discloses a council is a sole trustee:  
o Confirm trust accounts prepared in accordance with trust deed and reported to Charity Commission requirements  
• Confirm banking arrangements for council and trust allow adequate separation  
• Confirm date of annual filing of trust accounts  | Annual report to Charity Commission.  
Copy of Charity SoRP compliant accounts (if produced).  
Copy of audit opinion or independent examiner’s opinion (as appropriate).  
Minutes of trustee meetings.  
Copy of trust deed.                                                                                                                                                                                                                                           |
Appendix 18: Dealing with non-responding or non-cooperating small bodies

Auditors report a variety of scenarios where communications breakdown with small audited bodies. Typically these include failure to respond to correspondence sent about annual audit or to follow up reminders. The guidance covers two key areas of communication failure, breakdown and non-co-operation. It distinguishes circumstances where communication with the body may have broken down irretrievably from persistent non-co-operation by the body, which requires a different approach.

Part 1 Communication breakdown

This section covers the scenario where, in relation to carrying out an audit or in exercising functions, or in attempting to keep up to date the audit engagement database, the auditor has not been able to establish a working communication channel with an audited body or, having done so initially, an irretrievable breakdown has in their view subsequently occurred.

1 Auditors must appoint a date on or after which electors’ rights can be exercised and notify the relevant body concerned. This date effectively ‘opens’ the annual audit which is then ‘closed’ by the auditor completing his or her work and certifying completion in Section 3 of the annual return.

2 Having attempted to contact the audited body to ‘open’ the annual audit without response and issued one further letter of reminder, auditors should attempt to make telephone contact with the clerk or chair as soon as possible to resolve the matter before invoking these formal procedures.

3 Correspondence with small bodies is properly conducted via the clerk or senior executive officer of the body. However, evidence suggests that where communications between the auditor and the clerk break down, the members of small bodies are often unaware of this or that the body may have failed to meet a legal responsibility. At the point of breakdown auditors should immediately make reasonable efforts to contact the Chair to attempt to restore communications. For this purpose, ‘the point of breakdown’ may be defined as a lack of response for one month from an expected or set deadline.

4 The principal authority of the council (the District or Unitary council responsible for collecting council tax and paying local council precepts in the area) will usually keep an up to date list of all its
parish councils and other small bodies with which they are associated, sometimes including contact details of their members and officers. Internal Drainage Boards’ details are available from the DEFRA website. ** Auditors are required to keep up to date the database of their audit appointments. **

5 District, County or Unitary Council Members in whose area a local council is located may also be contacted for assistance in identifying the chair or even invited to intervene and re-open communication channels. Local secretaries of NALC and SLCC are usually willing to assist auditors to contact apparently reluctant councils.

6 ** First formal letter. ** Auditors should allow no more than two months to elapse from an unmet deadline before taking the next step (ie a month following the point of breakdown identified in paragraph 3). If all the recommended action steps described above fail, auditors should send a formal letter to the Chair with a copy to the principal authority’s Monitoring Officer and local representatives of NALC and SLCC. An example for local councils is attached as *Sample Letter 1.* For other small bodies the letter should be tailored appropriately but not copied to the Monitoring Officer.

7 This letter restates the legal requirement for local small bodies to prepare annual accounts and to submit them for audit, the contravention of which is an offence under the Accounts and Audit (England) Regulations 2011. Small bodies are reminded that the Commission may recover the costs associated with any extra correspondence. Ten working days from the letter date are allowed for a response to this final reminder.

8 ** Second formal letter (does not apply to other small bodies). ** If there is no response to the first formal letter within 14 working days, auditors should send *Sample Letter 2* to the Monitoring Officer at the principal authority responsible for Council Tax in the area, and inform the Audit Commission by post or email (*lcauditissues@audit-commission.gov.uk*).

9 ** Referral to the Commission. ** Non response from a local council to *Sample Letter 2* after a further 10 working days (or to *Sample Letter 1* for any other small body) should be notified in writing to the Commission by post or email (*lcauditissues@audit-commission.gov.uk*). Auditors should provide the last known contact details and a full history of attempted communications. The Commission will make best efforts to re-open communications and if these efforts fail will, together with the auditor, determine the appropriate next steps to be taken. Auditors should consider at this point exercising their formal powers to close the audit (see below).
10 Auditors must keep the Commission informed of any changes and/or developments regarding non-responding small bodies that have been referred to the Commission under this appendix.

11 For contract monitoring purposes auditors will report the number of non-responding small bodies referred to the Audit Commission at each reporting date. If communication is restored, audited bodies should no longer be classified as non-responding.

**Exercising formal powers to close audit**

12 Statute provides a timetable for the preparation, audit and publication of the accounting statements for small bodies. The timetable is not discretionary and auditors should carry out their responsibilities in ways that best support it.

13 Only in exceptional circumstances where auditors are considering the exercise of their specific powers (as described in Section 5 of the Code of Audit Practice) may audits remain open. Auditors may not, however, leave audits open indefinitely.

14 Auditors should consider exercising formal powers in cases where they experience continuing repetitions of any of the following scenarios or a combination of them and they have followed the steps set out above with no success:
   - Scenario 1 - No annual return;
   - Scenario 2 - Incomplete annual return;
   - Scenario 3 - Incomplete evidence to an annual return

15 For each of the scenarios in paragraph 14 above, the Annex to this Appendix provides, for auditors’ use, examples of:
   - External auditor’s report;
   - Draft Report in the Public interest; and
   - Audit file note.

16 The Accounts and Audit (England) Regulations 2011 specify the need for small bodies to complete and approve annual returns by 30 June in any financial year and present them for external audit. The small body must either publish or display its audited accounts by 30 September. Auditors must plan their audits to achieve this timetable.

17 Appendix 7 of Standing Guidance for Local Government auditors provides information on publishing and promoting public interest reports.
Part 2  Persistent non co-operation

18 At a small number of small bodies, efforts by the auditor to access information required to complete the audit have failed. While communications are still open, the body has either failed or refused to respond to auditors’ reasonable questions about the annual return or to requests for further information at audit. Consequently, auditors are not able to discharge their audit functions in respect of these small bodies and delays build up. These bodies may be referred to as ‘non co-operating’.

19 Auditors may wish to progress the conclusion of the audit by specifically drawing the attention of non co-operating bodies to their special powers under Section 6 of the Audit Commission Act 1998 (ACA).

20 Section 6 gives a Commission appointed auditor ‘a right of access at all reasonable times to every document relating to a body subject to audit which appears to him necessary for the purpose of his functions’. This power includes the right to information, explanations and to direct any relevant person to attend before the auditor.

21 Auditors should take into account a number of issues when determining whether and how to draw attention to the provisions of Section 6 when requiring explanations and documents from non co-operating small bodies:

a. Section 6 confers rights on the auditor to access documents and to require people to appear before him or her to provide information but not the right to dictate any other actions by individuals, officers or members. Auditors should word communications carefully to ensure that no third party directions are issued e.g. requesting specific performance of a task which is not related to the production of a document or providing information to the auditor.

b. Communications referring to Section 6 should either:
   i. require any officer, member or person holding or accountable for a document, to produce the document being sought, or
   ii. require any officer, member or person holding or accountable for documents, to attend before the auditor to give information or explanations.

c. A person, officer or member who fails to comply without reasonable excuse is guilty of an offence and liable to summary conviction and to an additional fine of up to £20 for each day the offence continues after conviction (Section 6(6) of the ACA).
Auditors should therefore ensure that because explicitly drawing attention to the provisions of Section 6 may lead to more formal legal action they are fully prepared to deal with a failure to comply.

d. Any expenses incurred by the auditor in connection with proceedings under Section 6 are recoverable by the Commission from the audited body. Auditors should keep supporting records of expenses incurred and be able to provide small bodies and the individuals being pursued for documentation with an estimate of likely costs.

22 Requests for guidance on the content of this appendix should be referred to ACTS in accordance with Appendix 1.

23 Auditors should consult appropriate guidance, particularly before drawing a body’s attention to the provisions of section 6 for the first time.

24 Auditors **must** seek immediate guidance from the Commission’s legal advisor via ACTS when considering the issue of proceedings under section 6 (6) and also inform lcauditissues@audit-commission.gov.uk of their intention.
Dear (Chair)

Audit of Accounts 20xx/20yy – failure to account.

The Audit Commission Act 1998 (the Act) requires the accounts of local councils are made up each year to 31 March and then audited by an auditor appointed by the Audit Commission. The Act provides for local electors and other interested parties to exercise their rights to inspect your council’s accounts, question the auditor and make objections to the accounts. A failure to account for public funds is a serious matter.

We are your appointed auditors and have made several attempts to contact your council for the purposes of appointing a date on or after which electors’ rights may be exercised and the audit process may commence.

Please contact me now so that we may proceed with the statutory audit of your council’s accounts without incurring any further costs for the council. We have already incurred additional costs as a consequence of your Council’s failure to respond to our earlier letters.

It is possible that the information we hold regarding your council is incorrect. Therefore, I would appreciate your assistance in confirming that I hold the correct contact details. I must also alert you to the council’s duty to prepare annual accounts and submit them for audit and that a failure to do so constitutes an offence.

The Audit Commission’s limited assurance audit approach for all local small bodies with an annual turnover below £6,500,000 is designed to minimise the burden and cost of external audit. This is difficult to achieve if unnecessary correspondence is required.

Elected members should be aware they are responsible for ensuring the council meets its legal duty to prepare accounts and/or to have them audited.

Failure to comply with the Accounts and Audit (England) Regulations 2011 may constitute an offence punishable by summary conviction. If we do not receive a response to this letter within ten working days we will inform the Monitoring Officer of the District Council where you make your precept demand and the Audit Commission.

I look forward to hearing from you soon.

Yours sincerely

[Appointed Auditor]

CC  DC Monitoring Officer, NALC County and SLCC Branch secretary
Sample letter 2

Dear [DC Monitoring Officer]

[xxxxx] Parish Council/Meeting Audit of Accounts 20xx/20yy – failure to account.

The Audit Commission Act 1998 (the Act) requires the accounts of local councils are made up each year to 31 March and then audited by an auditor appointed by the Audit Commission. The Act provides for local electors and other interested parties to exercise their rights to inspect a council’s accounts in detail, question the auditor and make objections to the accounts. A failure to account for public funds is a serious matter.

We are the appointed auditors to [xxxxx] parish council/meeting and have made several unsuccessful attempts to contact the council for the purposes of appointing a date on which electors’ rights may be exercised and the audit process may commence.

It is possible that the information we hold regarding [xxxxx] parish council/meeting is incorrect. Therefore, I would appreciate you confirming the correct contact details for [xxxxx] parish council/meeting and assisting me to make contact with the council.

Elected members of [xxxx] council should be aware that local electors must be provided with the opportunity to exercise their statutory rights in regard to the accounts of the council and that failure to comply with the Accounts and Audit (England) Regulations 2011 may constitute an offence punishable by summary conviction.

The Audit Commission’s limited assurance audit approach for all local councils with an annual turnover below £6,500,000 is designed to minimise the burden and cost of external audit. This is difficult to achieve if unnecessary correspondence is required.

I hope you will be able assist me in this matter and look forward to hearing from you or [xxxx] parish council/meeting soon.

Yours sincerely

[Appointed Auditor]

CC Chair [xxxx] Council, Audit Commission, NALC County and SLCC Branch secretary
Annex to Appendix 18

SCENARIO 1 – NO ANNUAL RETURN

1.1 External auditor's report to [Name] Parish Council – no annual return

We certify that we have completed our audit of the accounts of [name] Parish Council the year ended 31 March [date].

Respective responsibilities of the council and the auditor

The council is responsible for preparing accounts in accordance with the requirements of the Accounts and Audit Regulations and for an annual return which:

• summarises the council's accounting records for the year ended 31 March 20xx; and
• confirms and provides assurance on those matters that are important to our audit responsibilities.

Our responsibility is to conduct an audit in accordance with guidance issued by the Audit Commission and, on the basis of our review of the annual return and supporting information, to report whether any matters that come to our attention give cause for concern that relevant legislation and regulatory requirements have not been met.

External Auditor’s Report

The Council failed to prepare the annual return required by the Accounts and Audit (England) Regulations 2011. We were therefore unable to undertake the procedures specified in the Audit Commission’s guidance.

Because of the Council’s failure to prepare an annual return, in our opinion [name] Parish Council has:

• not provided information in accordance with the Audit Commission’s requirements; and
• not complied with relevant legislation and regulatory requirements.

We have today issued a report in the public interest under section 8 of the Audit Commission Act 1998. It highlights our concerns about the failure of the Council to prepare an annual return and makes recommendations.

1.2 Draft Report in the Public Interest – No annual return

Dear Members

[Name] Parish Council: Report in the Public Interest
We have a duty to consider whether to issue a report in the public interest about something we believe the Council should consider or the public should know about. We have decided to issue a report about the Council’s failure to prepare an annual return about its finances and governance for the year[s] ended 31 March [date] [to [date]]. We have a power to send a copy of this report to anybody we think appropriate. We have therefore sent a copy of the report to [e.g. the District Councillor for the area and the Monitoring Officer of the District Council].

The Council must consider the report in public at a Council meeting held within one month of receiving it. At that meeting the Council must decide what action to take in response to our recommendations.

The Council is responsible for the use of funds raised by taxation. Citizens expect the Council to account for how it has used and protected those funds. The Council must prepare an annual return:

- summarising its financial performance;
- giving assurances that it has a robust system of internal control to protect public funds; and
- reporting the results of the work of an internal auditor employed to check that its systems of control work.

The Council, despite our repeated requests between [date] and [date], failed to submit an annual return. We accept that the Council spends relatively small amounts of public money. But that does not exempt it from giving an account of how it has used that public money. Completing the annual return provides appropriate accountability at minimum cost to the Council.

The Council has failed in an important statutory duty and has failed to account to its taxpayers for the use and safeguarding of their money. That should not happen again.

We therefore recommend that the Council should:

- adopt a formal plan for preparation of the annual return by the statutory deadline of 30 June each year; and
- monitor performance against that plan.

Yours sincerely

1.3 File note – no annual return

[Name of Council]: [Years of Audit]: Decision to certify completion of the audit and issue a report in the public interest

The Council has not presented an annual return for audit. This is despite full compliance by the auditor with the Guidance for Local Council auditors on Non-Responding Councils involving:
- a first formal letter sent to the Council on [date];
- a second formal letter sent to the Monitoring Officer of the relevant principal local authority on [date]; and
- referral to the Audit Commission on [date].

Given the lapse of time, the value of preparation of the annual return now is very limited. But it is important to act decisively to prevent a recurrence.

We have therefore decided:

- to certify completion of the audit, qualifying our certificate to reflect non-compliance with proper practices and with legislative and regulatory requirements;
- to issue a short public interest report to the Council, highlighting our concerns about the failure to prepare an annual return and making recommendations for the future; and
- to provide copies of that report to [identify recipients].

[Name]
[Date]
SCENARIO 2 – INCOMPLETE ANNUAL RETURN

2.1 Draft External Auditor’s Report – incomplete annual return

The Council’s annual return is incomplete in that it does not contain:

- [insert details].

The Council has therefore not compiled with its duty under the Accounts and Audit (England) Regulations 2011. Because the annual return was incomplete, we were unable to undertake all the procedures specified in the Audit Commission’s guidance.

On the basis of our review, in our opinion:

- the information contained in the annual return is not in accordance with proper practices; and
- the Council has failed to comply with relevant legislation and regulatory requirements have not been met.

Therefore, we have today issued a report in the public interest under section 8 of the Audit Commission Act 1998. It highlights our concerns about the failure of the Council to prepare a complete annual return and makes recommendations.

2.2 Draft Report in the Public Interest – incomplete annual return

Dear Members

[Name] Parish Council: Report in the Public Interest

We have a duty to consider whether to issue a report in the public interest about something we believe the Council should consider or the public should know about. We have decided to issue a report about the Council’s failure to prepare a complete annual return about its finances and governance for the year[s] ended 31 March [date] [to [date]]. We have a power to send a copy of this report to anybody we think appropriate. We have therefore sent a copy of the report to [e.g. the District Councillor for the area and the Monitoring Officer of the District Council].

The Council must consider the report in public at a Council meeting held within one month of receiving it. At that meeting the Council must decide what action to take in response to our recommendations.

The Council is responsible for the use of funds raised by taxation. Citizens expect the Council to account for how it has used and protected those funds. The Council must prepare an annual return:

- summarising its financial performance;
• giving assurances that it has a robust system of internal control to protect public funds; and
• reporting the results of the work of an internal auditor employed to check that its systems of control work.

The annual return submitted by the Council for audit did not include key elements - [add details]. Despite our repeated requests between [date] and [date], the Council failed to submit a revised annual return. We accept that the Council spends relatively small amounts of public money. But that does not exempt it from giving an account of how it has used that public money. Fully completing the annual return provides appropriate accountability at minimum cost to the Council.

The Council has failed in an important statutory duty and has failed to account to its taxpayers for the use and safeguarding of their money. That should not happen again.

We therefore recommend that the Council should:

• adopt a formal plan for preparation of a complete annual return by the statutory deadline of 30 June each year; and
• monitor performance against that plan.

Yours sincerely

2.3 File note – incomplete annual return

[Name of Council]: [Years of Audit]: Decision to certify completion of the audit and issue a report in the public interest

The Council has presented an annual return for audit that omits [add details]. This is despite correspondence with the Council between [date] and [date] asking that it submit a complete return.

Given the lapse of time, the value of preparation of a complete annual return now is very limited. But it is important to act decisively to prevent a recurrence.

We have therefore decided:

• to certify completion of the audit, qualifying our certificate to reflect non-compliance with proper practices and with legislative and regulatory requirements;
• to issue a short public interest report to the Council, highlighting our concerns about the failure to prepare a complete annual return and making recommendations for the future; and
• to provide copies of that report to [identify recipients].

[Name]  
[Date]
SCENARIO 3 – INCOMPLETE EVIDENCE

3.1 Draft External Auditor’s Report – incomplete evidence

The Council has failed to provide me with evidence and explanations to support the following entries within its annual return:

- [insert details].

In consequence, we have been unable to undertake all the procedures specified in the Audit Commission’s guidance to report on whether:

- the information contained in the annual return is in accordance with proper practices; and
- other matters had come to our attention to give me concern that relevant legislation and regulatory requirements had not been met.

We have today issued a report in the public interest under section 8 of the Audit Commission Act 1998. It highlights our concerns about the failure of the Council to provide evidence and explanations to support its annual return and makes recommendations.

3.2 Draft Report in the Public Interest – incomplete evidence

Dear Members

[Name] Parish Council: Report in the Public Interest

We have a duty to consider whether to issue a report in the public interest about something we believe the Council should consider or the public should know about. We have decided to issue a report about the Council’s failure to provide evidence and explanations to support the annual return about its finances and governance for the year[s] ended 31 March [date] [to [date]].

We have a power to send a copy of this report to anybody we think appropriate. We have therefore sent a copy of the report to [e.g. the District Councillor for the area and the Monitoring Officer of the District Council].

The Council must consider the report in public at a Council meeting held within one month of receiving it. At that meeting the Council must decide what action to take in response to our recommendations.

The Council is responsible for the use of funds raised by taxation. Citizens expect the Council to account for how it has used and protected those funds. The Council must prepare an annual return:

- summarising its financial performance;
- giving assurances that it has a robust system of internal control to protect public funds; and
- reporting the results of the work of an internal auditor employed to check that its systems of control work.
The annual return is subject to review by auditors. Despite our repeated requests between [date] and [date], the Council failed to provide me with evidence and explanations about [add details]. We were therefore unable to complete all the audit procedures. We cannot report on whether the information in the annual report is in accordance with proper practices nor report whether any matters that come to our attention give cause for concern that relevant legislation and regulatory requirements have not been met.

We accept that the Council spends relatively small amounts of public money. But that does not exempt it from giving an account of how it has used that public money. Completing the annual return and providing evidence to support it provides appropriate accountability at minimum cost to the Council.

As a result of the Council’s failings, I am unable to provide assurance to the Council’s taxpayers about the use and safeguarding of their money. That should not happen again.

We therefore recommend that the Council should:

- adopt a formal plan for preparation of an evidence file alongside its annual return by the statutory deadline of 30 June each year; and
- monitor performance against that plan.

Yours sincerely

3.3 File note – incomplete evidence

[Name of Council]: [Years of Audit]: Decision to certify completion of the audit and issue a report in the public interest

The Council has failed to provide the following evidence and explanations about its annual return:

- [add details].

This is despite correspondence with the Council between [date] and [date] asking that it submit the evidence and explanations.

Given the lapse of time, the value of completing all the audit procedures and reporting accordingly is now very limited. But it is important to act decisively to prevent a recurrence.

We have therefore decided:

- to certify completion of the audit, qualifying our certificate to reflect an inability to complete all the procedures to report on non-compliance with proper practices and with legislative and regulatory requirements;
- to issue a short public interest report to the Council, highlighting our concerns about the failure to provide evidence and explanations to
support the annual return and making recommendations for the future; and
• to provide copies of that report to [identify recipients].

[Name]
[Date]