

A&I Plan - ST&CC (where RM and Auditor)

April 2008



Audit and Inspection Plan

City of York Council

Audit 2008/09

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

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

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

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Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2008/09;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 During 2008/09, the role of Relationship Manager will be replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities.
- 3 As I have not yet completed our audit for 2007/08, the audit planning process for 2008/09, including the risk assessment will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 4 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999 (best value inspection and audit);
 - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the annual governance statement); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies (from April 2008) sets out the respective responsibilities of the District Auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

Fees

- 8 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 9 The total indicative fee for the audit and inspection work included in this audit and inspection plan for 2008/09 is for £263,450, which compares to the planned fee of £322,530 for 2007/08. Although this is a large reduction, the 2007/08 fee included the one-off fee for the corporate assessment.
- 10 A summary of this is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions. A detailed breakdown of the audit and inspection fee is included in Appendix 2.

Table 1 Fees

Audit area	Actual fee 2006/07	Planned 2007/08	Planned fee 2008/09	Page
Audit fee	225,000	196,655	241,055	9
Inspection fee	20,000	125,875	22,395	13
AUDIT AND INSPECTION FEE	245,000	322,530	263,450	
Certification of claims and returns	55,000	50,000	49,000	18
TOTAL FEE	300,000	372,530	312,450	

- 11 The Audit Commission sets out a scale fee for what the audit fee should be for a medium risk audit, and this scale fee for City of York Council is £239,800. The audit fee for 2008/09, of £241,055, is less than 1 per cent above this mid-point scale fee and is within the normal level of variation specified by the Commission. This comparison has shown a continued reduction over the past few years, for example in 2006/07 the fee was 13 per cent above the mid-point.
- 12 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
 - internal audit undertakes appropriate work on all systems; and
 - good quality working papers and records will be provided to support the financial statements by the end of June 2009.

Further details of our assumptions are outlined in Appendix 2.

- 13 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 14 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.

Specific actions the council could take to reduce its audit and inspection fees

- 15 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. We have identified the following actions City of York Council could take.
 - In the past two years, our assessment of your arrangements to ensure the quality of data has led to an increased level of audit work. Improving your corporate ownership of data quality, improving the consistency of the quality assurance processes, and making other changes as set out in our data quality report issued in December 2007 will enable us to reduce the amount of work we do on the detailed performance indicators.
 - Ensuring the financial statements are fully and accurately supported by detailed working papers will enable our audit to be completed more promptly and more efficiently.

Process for agreeing any changes in audit fees

- 16 As set out in paragraph 4, I expect that the initial risk assessment will change as the year progress. Where this is the case, I will discuss this in the first instance with the Director of Resources and Chief Executive. Supplements to the plan will be issued to record revisions to the risk and the impact on the fee.

Auditor's report on the financial statements

- 17 I am required to issue an audit report giving my:
- opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2009; and
 - conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial statements

- 18 I have not undertaken a risk assessment for our audit of the financial statements as many of the specific risks which may become apparent after we have completed our 2007/08 audit. I will issue a separate opinion plan for our audit of the financial statements after we have completed the 2007/08 audit.
- 19 The Council is planning to replace the Financial Management System (FMS) during 2008/09, and this is a fundamental system in terms of producing the accounts free from material misstatement. We will review the new system, in particular the controls in place to ensure that the data migration from the old to the new system is correct and complete.
- 20 The adoption of International Financial Reporting Standards (IFRS) is not required by local government bodies until 2010/11. However the council will need to produce and implement a project plan to introduce an IFRS compliant reporting framework. We will work closely with your officers as you progress your project plan for implementing IFRS.

VFM conclusion

- 21 In reaching my conclusion I will review evidence that is relevant to the Council's performance management and financial management arrangements.
- 22 The key risks highlighted from our planning are summarised in the table below with details of planned work to mitigate the risks. Full details of our risk assessment are outlined in Appendix 3.
- 23 We have included an amount of time and fee to enable us to assist the Council to respond to the challenges raised in the corporate assessment (CA) report. The specific areas that we will review will be agreed with officers once the CA report has been finalised, and as a result Table 2 and Appendix 3 do not include these areas of work.

Table 2 Key risks identified

Key risks identified	Planned work to address the risk
Asset management arrangements	Review the effectiveness of the arrangements to manage the assets of the council, covering the asset management plan, the maintenance programme, the asset register, and the decision making structure and information management.
Waste management PFI scheme	Review the delivery of the project plan with respect to City of York Council resources.
Proposed changes to IA provision	Review the proposal for IA service provision.
Strategic procurement programme	Review whether the SPP will deliver the required outcomes.

Use of resources

- 24 The Audit Commission has specified that auditors will complete a use of resources assessment for 2008/09. This will be a new assessment forming part of the CAA framework for 2009.
- 25 The Commission proposes that the approach to the new use of resources assessment will be focused on three themes with the detailed Key Lines of Enquiry to be confirmed. For each of the significant risks identified in relation to the use of resources work, I consider the arrangements put in place by the Council to mitigate the risk, and plan the work accordingly.
- 26 Our initial risk assessment for use of resources work is shown in Appendix 3. This will be updated through our continuous planning process as the year progresses, in particular once the council has produced its improvement plan to respond to the issues in the forthcoming corporate assessment report.

Mandated work

27 As part of the audit, the mandated work programme comprises:

- data quality; and
- whole of government accounts.

Appendix 1 highlights the work to be undertaken.

CPA and inspection

- 28 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.
- 29 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 30 The Council's CPA category is, therefore, a key driver in the Commission's inspection planning process. For CPA 2007, the Council was categorised as three stars.
- 31 I have applied the principles set out in the CPA framework, '*CPA - The Harder Test*', recognising the key strengths and areas for improvement in the Council's performance.
- 32 On the basis of the planning process I have identified where inspection activity will be focused for 2008/09 as follows.

Table 3 Summary of inspection activity

Inspection activity	Reason/impact
CAAL role	To act as the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT statement will be reported in the Annual Audit and Inspection Letter. The DoT assessment summary will be published on the Commission's website.

Advice and assistance

- 33 Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 we have powers to provide 'advice and assistance' (A&A) to another public body where this is requested.
- 34 If you wish the Commission to provide additional services under these powers, please contact John Prentice (DA) or Michael Newbury (CAA Lead).

The audit and inspection team

- 35 The key members of the audit and inspection team for the 2008/09 audit are shown in the table below.

Table 4 Audit and inspection team

Name	Contact details	Responsibilities
John Prentice District Auditor	j-prentice@audit-commission.gov.uk 0844 798 4314	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and audit and governance panel.
Michael Newbury CAA Lead	m-newbury@audit-commission.gov.uk 0844 798 6648	The interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Alastair Newall Audit Manager	a-newall@audit-commission.gov.uk 0844 798 6646	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Resources.

Quality of service

- 36 I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact the North East, Yorkshire and Humber sub-region Head of Operations, David Allsop.
- 37 If I am unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website or on request.

Planned outputs

- 38 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Governance committee.

Table 5 **Planned outputs**

Planned output	Indicative date
Opinion Audit and Inspection Plan	March 2008
Interim audit memorandum	June 2009
Annual governance report	September 2009
Auditor's report giving an opinion on the financial statements and value for money conclusion	September 2009
Final accounts memorandum (to the Director of Resources)	November 2009
Use of resources report	December 2009
Specific audit reports	TBC
Annual Audit and Inspection Letter	TBC

Appendix 1 – Elements of our work

Financial statements

- 1 I will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 I am required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.
- 3 I am also required to review whether the Annual Government Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Government Statement is misleading or inconsistent with our knowledge of the Council.

Value for money conclusion

- 4 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires me to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at my conclusion.
- 5 In meeting this responsibility, I will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 6 I will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 7 The Commission has now consulted on its proposals for the 2008/09 Use of Resources assessment. It proposes that the work required to arrive at the 2008/09 use of resources assessment is fully aligned with that required to arrive at the auditor's 2008/09 value for money conclusion.

- 8 The Commission proposes that the assessment will be based upon the evidence from three themes:
 - managing money;
 - managing the business; and
 - managing other resources.
- 9 The Commission proposes that Data Quality will become an element of the Use of Resources framework from 2008/09.
- 10 I will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations for improvement.
- 11 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CAA.

Whole of government accounts

- 12 I will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

National Fraud Initiative

- 13 From 2008/09 work relating to the National Fraud Initiative will be carried out directly by the Commission under its new data matching powers under the Serious Crime Act 2007. The Commission will be consulting audited bodies on the work programme and fee scales for the National Fraud Initiative later this year.

Certification of grant claims and returns

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

Appendix 2 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 2 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.

Assumptions

- 3 In setting the fee, I have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - internal audit deliver their 2008/09 audit plan, particularly on the systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by the end of June 2009;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 5 Changes to the plan will be agreed with you. These may be required if:
 - new residual audit risks emerge;
 - additional work is required by the Audit Commission or other regulators; or
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 Below is a detailed breakdown of the audit and inspection fee for 2008/09.
- 7 The fee (plus VAT) will be charged in 12 equal instalments from April 2008 to March 2009.

Table 6 Detailed audit and inspection fee

Audit area	Actual fee 2006/07	Planned fee 2007/08	Planned fee 2008/09	Page
Audit				
Financial statements	69,000	72,000	78,000	9
Use of resources	156,000	99,505	133,400	11
Data quality	a	21,600	26,255	12
Whole of government accounts	b	2,500	3,400	12
National Fraud Initiative	b	1,050		
Total audit fee	225,000	196,655	241,055	
Inspection				
Relationship management	10,000	11,063	11,198	13
Direction of Travel	10,000	11,062	11,197	13
Total inspection fee	20,000	22,125	22,395	
Corporate inspection fee		103,750		
Total audit and inspection fee	245,000	322,530	263,450	
Certification of claims and returns	55,000	50,000	49,000	18
Total fee	300,000	372,530	312,450	

Notes

a 2006/07 data quality fee was included within the Use of Resources fee of £156,000

b 2006/07 Whole of Government Accounts and National Fraud Initiative were billed separately (and directly) by the Audit Commission.

Appendix 3 – Initial risk assessment – Use of resources and VFM conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to audit responsibilities
Asset management	Asset management plan in place, new asset register is operational	Yes	Review the effectiveness of the arrangements to manage the assets of the council, covering the Asset management plan, the maintenance programme, the asset register, and the decision making structure and information management.	2009 UoR assessment
Waste PFI scheme	Project plan in place and progressing well	Yes	Co-ordinate audit response with the auditors of North Yorkshire County Council. Review the delivery of the project plan with respect to City of York Council resources.	2009 UoR assessment
Job evaluation/ equal pay	Implementation plans are well advanced	No		

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to audit responsibilities
Waste management strategy	Waste strategy in place, and council is aware of the improvements needed before the waste PFI scheme is scheduled to be operational	No		
Proposed changes to IA provision	Project plan being worked up	Yes	Review the proposal for IA service provision.	2009 UoR assessment and audit opinion on financial statements
Strategic procurement programme	Part way through the five-year cycle for the SPP	Yes	Review whether the SPP will deliver the required outcomes.	2009 UoR assessment
Admin accommodation project	Project plan in place and progressing well	No		
Replacement of Financial Management System (FMS)	Project plan in place, though implementation has been delayed	Yes	Review the implementation of the new FMS system, in particular the controls over data migration.	The audit opinion on the financial statements.

Appendix 4 – Independence and objectivity

- 1 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 2 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the District Auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 6 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of audit communications from the auditor to those charged with governance is the Audit and Governance Committee. Auditors reserve the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 7 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 8 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the audit opinion and conclusion, it should be clearly differentiated within the Audit and Inspection Plan as being ‘additional work’ and charged for separately from the normal audit fee.
 - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
 - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
 - The District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.

Appendix 5 – Working together

Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 The meetings will be organised by the Audit Commission and our proposal for this is as follows.

Table 7 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive Director of Resources	District Auditor (DA) Audit Manager (AM) Local Performance Lead (LPL)	Quarterly: April, August, November, February	General update plus: <ul style="list-style-type: none"> • April - Audit and Inspection Plan; • June - accounts progress and VFM; and • February – UoR/DoT.
Other Directors	DA, AM, LPL	Six-monthly	General update
Assistant Director of Resources (Head of Audit and Risk Management)	AM and LPL	Monthly	General update
Head of Finance	AM and Team Leader (TL)	Quarterly, but more frequently through closedown process.	Update on audit and opinion issues
Internal Auditor Manager	AM and TL	Quarterly	Update on audit progress and issues
Audit and Governance Committee	DA and AM, with TL and/or LPL as appropriate	Quarterly	Formal reporting of: <ul style="list-style-type: none"> • Audit and Inspection Plan; • Annual Governance Report; • Annual Audit and Inspection Letter; and • other issues as appropriate.

Sustainability

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