

Final Report to the Board and
the Controller of Audit on the
2012/13 Audit



20 August 2013

Board Members
North East Scotland Transport Partnership
26-28 Exchange Street
Aberdeen
AB11 6PH

Controller of Audit
Audit Scotland
110 George Street
Edinburgh
EH2 4LH

20 August 2013

Dear Sirs

We have pleasure in setting out in this document our final report to the Board of the North East Scotland Transport Partnership (“NESTRANS”) for the year ended 31 March 2013, for discussion at the meeting scheduled for 28 August 2013. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2013.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

Yours faithfully



Jim Boyle
Senior Statutory Auditor

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We would like to take this opportunity to thank the team from Aberdeenshire Council for their assistance and co-operation during the course of our audit work

The big picture

The big picture

Our audit is substantially complete and no significant issues have arisen

- Our work is **substantially complete** and we remain on timetable to issue an unmodified opinion on 28 August 2013.
- We have identified no **material issues** and have **no material adjustments**.
- We believe the front half of your annual report is consistent with the financial statements and is in line with the requirements of the Code.
- Our work has highlighted **no disclosure deficiencies**.
- The financial reporting control environment remains robust and we **have no material control matters** to draw to your attention. Our controls findings have been included within Section 5 of this report.
- There have been no changes to the audit plan.
- We did not identify any instances of fraud that have not been reported to you. See Appendix 3 for details of fraud investigations.
- A copy of the representation letter to be signed on behalf of the Board has been included at Appendix 4 of this report.
- We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised (See Appendix 2 for further detail).
- As no specific internal audit work has been performed on NESTRANS controls in 2012/13, we have been unable to place any specific reliance for our work.

Significant audit risks

Significant audit risks

Expenditure Recognition

Background

The Partnership, like all public sector organisations, faces a very challenging financial climate. The Partnership agreed its 2012/13 budget in February 2012 at £3.208 million. Whilst there was no reduction in funding from the Scottish Government, a 5% reduction in revenue contributions from the Council partners was agreed. Given the scale of these reductions there is a risk that material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition. This may be by deferring expenditure to a later period or not recognising expenditure in the correct financial period.

Deloitte response

We have reviewed the methods applied to monitor and report on performance against budget to the Partnership. We have concluded through the performance of our year end procedures including substantive analytical review and cut-off testing, the expenditure and receipts were incurred or applied in accordance with the Partnership's procedures and the 2012/13 Code and the expenditure is valid.

	Budget (£)	Actual (£)
Core Costs	506,000	473,000
Non-Core Costs	543,000	583,000
Capital	2,159,000	2,266,000
Total	3,208,000	3,322,000

Significant audit risks (continued)

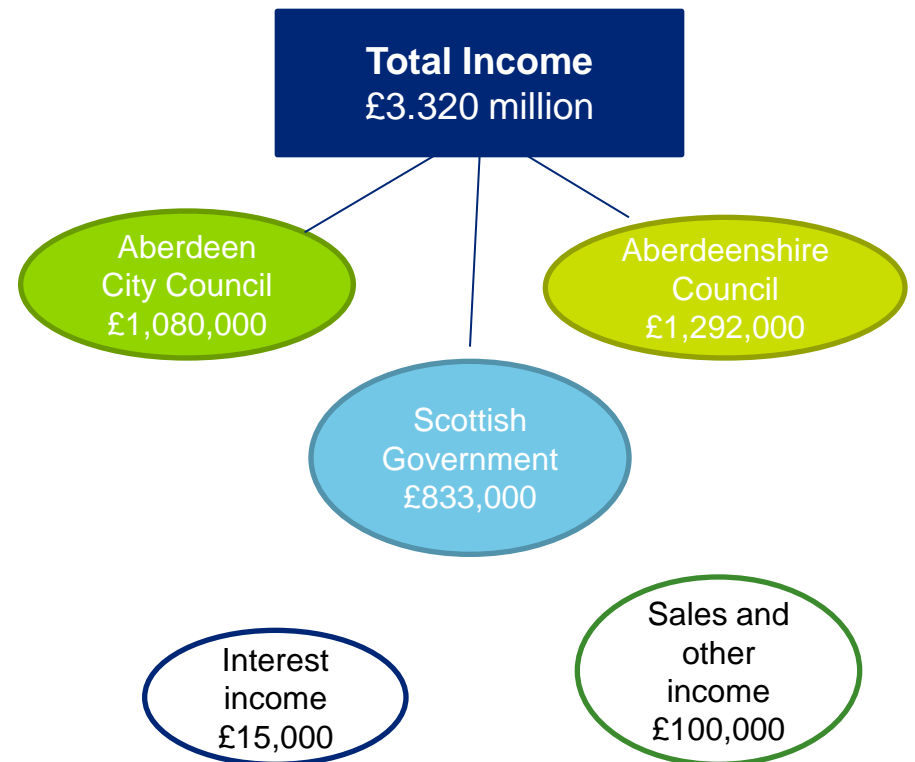
Revenue Recognition – Grants & Requisitions

Background

Under ISA (UK and Ireland) 240 'The auditor's responsibility to consider fraud in an audit of financial statements there is a rebuttable presumption that there is a risk of fraud in relation to revenue recognition'.

For the Partnership we have considered this risk to be around the completeness of requisitions from the constituent authorities given the significance of these to the organisation.

We have reviewed the treatment of income in the year to consider whether it is line with IFRS guidance and the Code. We have obtained a copy of the 2012/13 budget approved by the Partnership detailing the requisitions due from the partner Councils and the Scottish Government which has been agreed to the amount recognised by the Partnership. We have also agreed the amounts received through the bank account.



Significant audit risks (continued)

We have no significant findings in respect of the below risks

Use of Aberdeenshire Council Payments Ledger

Although the Partnership has a separate nominal ledger, payments are processed through the Aberdeenshire Council payments ledger. There is a risk that Partnership transactions may not be properly reflected within the financial ledger, which could result in the misstatement of the Partnership's financial position within the financial statements.

We have gained an understanding in regards to the design and implementation of key controls in place in relation to the posting of Partnership payments to the ledger. We have performed detailed testing to ensure that expenditure has been properly reflected in the Partnership nominal ledger, including cut-off testing to identify any unrecorded liabilities. No issues were noted.

Management Override of Controls

Management within Aberdeenshire Council acting on behalf of the Partnership is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The risk of management override of control is present in all entities. This risk cannot be pinpointed to an account balance or potential error and therefore specific procedures to respond to the risk of management override of controls should be designed and performed.

We have obtained an understanding of the design and implementation of the key controls in place in relation to the posting of journal entries. We have performed procedures on all journal entries of audit interest posted in the year and confirmed the appropriateness of the journals posted.

In addition, we have also conducted a review of significant accounting estimates in order to assess the reasonableness of management's' judgements in relation to these estimates. We have not noted any transactions that appear to be outwith the course of normal business.

Comments on *your Annual Report*

Comments on the front half of your Annual Report

The front half meets current regulatory requirements

We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

Statement on the Systems of Internal Financial Control

Regulations require English, Welsh and Northern Irish authorities to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any Statement of Accounts.

“Delivering Good Governance in Local Government” published by CIPFA and SOLACE recommends that the review be reported in an Annual Governance Statement. Scottish local authorities are not subject to such statutory requirements but may adopt them voluntarily. Authorities that do not voluntarily choose to do this shall include a statement on the system of internal financial control with their Statement of Accounts.

NESTRANS has chosen not to publish the wider Annual Governance Statement within its statement of accounts. It has therefore included a Statement of Assurance on the System of Internal Financial Control, in accordance with the Code.

The format and content of the statement is consistent with the requirements of the Code and concludes that reasonable assurance can be placed on the adequacy and effectiveness of the Partnerships Internal Control System in the year to 31 March 2013. No areas have been highlighted as requiring improvement, which is consistent with the findings of our audit.

Comments on the front half of your Annual Report (Continued)

Remuneration report

Local authorities are required by an amendment to the 1985 Regulations to publish a remuneration report as part of their statement of accounts.

NESTRANS has published a Remuneration Report as part of its statement of accounts, in accordance with the amendment regulations. The Remuneration Report provides details of the Partnership's remuneration policy for its senior employees, being the Director. The Partnership does not make any payments to any members of the Board, whether elected Member or otherwise appointed, by way of salary, enhanced pension benefits or reimbursement of expenses.

We are satisfied that the remuneration report has been prepared in accordance with the amendment regulations and is consistent with the findings of our audit.

Significant observations on your Financial Statements

Critical accounting judgements and key sources of estimation uncertainty

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the accounting policies and estimates are discussed below.

We have assessed the disclosures based upon our review of the accounts and understanding of the organisation and the specific risks we identified as part of our planning process. We have not identified any other critical accounting judgements or key sources of estimation uncertainty that require to be disclosed. We have performed work as follows against each of these areas:

Going Concern

Relevant disclosures around the basis of preparation have been made within the financial statements. The accrual of short term accumulating absences has resulted in an excess of liabilities over assets of £8,000 reflected in the Balance Sheet at 31 March 2013 (£6,000 at 31 March 2012). This liability will be funded by the 2013/14 requisitions from constituent authorities and so the Partnership has considered it appropriate to adopt a going concern basis for the preparation of these financial statements.

We concur that it is appropriate to adopt a going concern basis for the preparation of the financial statements.

Future Funding Uncertainty

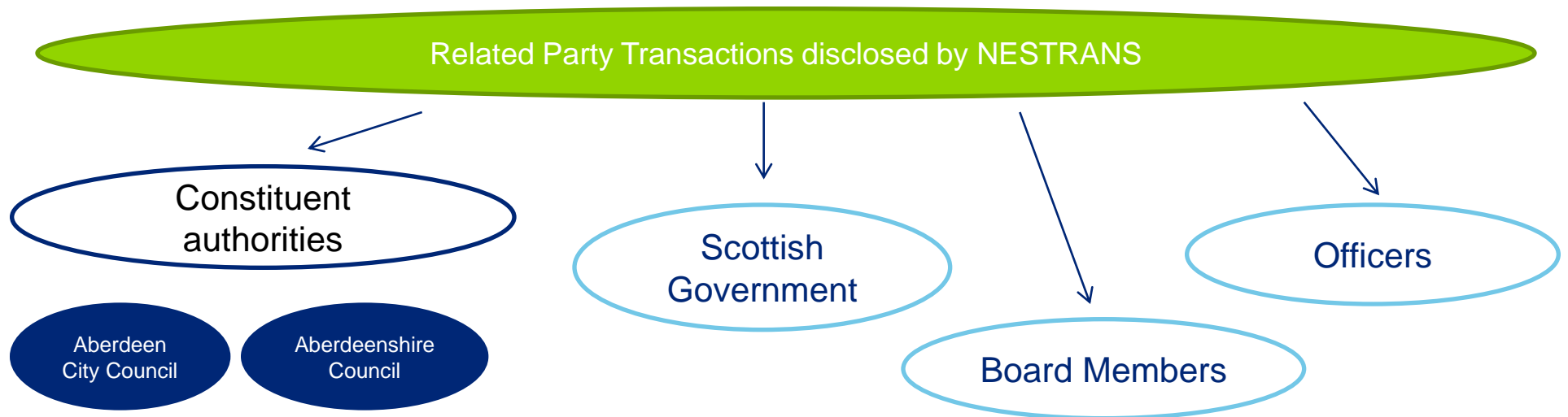
Management has made certain judgements about transactions involving uncertainty about future events. Disclosure has been made that there is a degree of uncertainty about future levels of funding from local government and hence funding for NESTRANS. However, the Treasurer has determined that the level of uncertainty is not yet sufficient to provide an indication that the activities of the Partnership might be affected by the need to reduce level of service provision.

We have confirmed that a budget has been agreed for 2013/14 with funding levels in line with 2012/13, and indicative budgets are in place for 2014/15 confirming funding beyond April 2014, and therefore concur with the Treasurer's statement.

Significant observations on your Financial Statements (Continued)

Related party disclosure

The Code requires reporting of related party relationships, transactions and balances.



We have inquired of management whether there are any transactions that they are aware of with these parties defined by the Code, and have included a listing of Board senior management in our work on related parties.

We have not identified any undisclosed related party transactions, and consider this to be a relatively low risk disclosure for the Board.

Significant observations on your Financial Statements (Continued)

Defined Benefit Pension Scheme

NESTRANS participates in the North East Scotland Pension Fund, which is a multi-employer defined benefit scheme, where the share of the assets and liabilities applicable to each employer is not identified. This is therefore accounted for on a defined contribution basis as permitted by IAS 19.

Normal employer contributions paid in 2012/13:
£43,241, or 19% of pensionable pay

We have reviewed the disclosure within the accounts against the Code and noted that it highlights Local Government Pension Schemes in relation to the participation of minor non-principal authorities that prepare their accounts in accordance with the Code (of which NESTRANS is one) meet the criteria to account for as defined contribution plans.

Best value, use of resources and
performance

Best value, use of resources and performance

Financial performance and outlook

NESTRANS budgeted a breakeven position for the year to 31 March 2013, with budgeted income and expenditure of £3.208 million. The final out-turn was a small underspend of £2,000 which is due to be returned to the partner Councils as NESTRANS is not permitted to hold reserves.

	2012/13 Budget £'000	2012/13 Actual £'000	2012/13 Variance £'000	2013/14 Budget £'000
Gross Expenditure	3,208	3,322	114	3,423
Income	3,208	3,324	(116)	3,423
Net Expenditure	Nil	(2)	(2)	Nil

Comments on the key variances in 2012/13 are as follows:

- Additional income of £83,000 was recognised in the year in relation to traffic forecasting for the Aberdeen Western Peripheral Route (AWPR) in comparison with only £20,000 in 2011/12.
- Interest income of £15,000 was received in relation to bank balances throughout the year which were not budgeted for.

A 2013/14 budget was approved by the Partnership in February 2013, subject to anticipated funding levels being confirmed. This has been drafted to support the implementation of the Regional Transport Strategy. The Core Costs reflect the running costs of NESTRANS and have been based on previous allocations, with adjustments applied in accordance with savings being achieved. The Non Core costs are for the development of projects with various Action Plans developed to support delivery of the Regional Transport Strategy and feasibility assessment to prepare Regional Transport Projects and Travel Planning.

Risk management and internal control

Risk management and internal control observations

Key controls over significant risks

In Section 1 we discussed the identified significant audit risks. For each of these significant audit risks we have assessed the design and implementation of internal controls in each of those areas, summarised below:

Significant Risk	Control	★
Expenditure Recognition	<p>The Partnership is provided with statements of expenditure against budget at each meeting, which are reviewed in detail. Any virements must be approved by the Partnership</p> <p>We have reviewed the minutes of the Partnership meetings held during 2012/13 confirming that the budget is monitored and reviewed on a regular basis.</p>	★
Use of Aberdeenshire council Payments Ledger	<p>Controls are in place over recording and processing data within the financial ledger. In addition, a detailed review is performed regularly on the results through the financial monitoring reports.</p> <p>We have reviewed the minutes of the Partnership meetings held during 2012/13 confirming that the budget is monitored and reviewed on a regular basis.</p>	★

Risk management and internal control observations (continued)

Key controls over significant risks

Significant Risk	Control	★
Revenue recognition – Grants and Requisitions	<p>The contributions from each of the partner Councils and the Scottish Government are agreed as part of the annual budget process. This is monitored during the year by the finance team and the Partnership, through the regular finance reports.</p> <p>We have confirmed that the contributions agreed as part of the budget have been reconciled to the actual amounts received and accounted for in the financial statements.</p>	★
Management override of controls	<p>Controls are in place over financial reporting and closing procedures, recording and processing of journals and segregation of duties which prevent the management override of controls. In addition a detailed review is performed regularly on the results through the financial monitoring report.</p> <p>We have tested all journal entries of audit interest posted in the year and confirmed the appropriateness of the journals posted including approval.</p>	★



No issues noted



Satisfactory – minor observations noted



Requires improvement



Significant improvement required

Responsibility statement

Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland, within the Code of audit practice, explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" in Appendix 5 and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to the board and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Partnership, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

Deloitte LLP
Chartered Accountants
Edinburgh

23 August 2013

Appendix 1: Audit adjustments and disclosure misstatements

Audit adjustments : Unadjusted misstatements

Uncorrected misstatements

There have been no uncorrected misstatements noted during the process of our audit work.

Corrected misstatements

There have been no corrected misstatements noted during the process of our audit work.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

Appendix 2: Independence and fees

Independence and fees

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General, we are required to report to you on the matters listed below:

Independence confirmation We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

Fees The audit fee for the year has been agreed at £10,400 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland.

Non-audit services In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or of any apparent breach of that policy.

There were no non audit services fees charged in relation to Deloitte LLP in the period from 1 April 2012 to 31 March 2013.

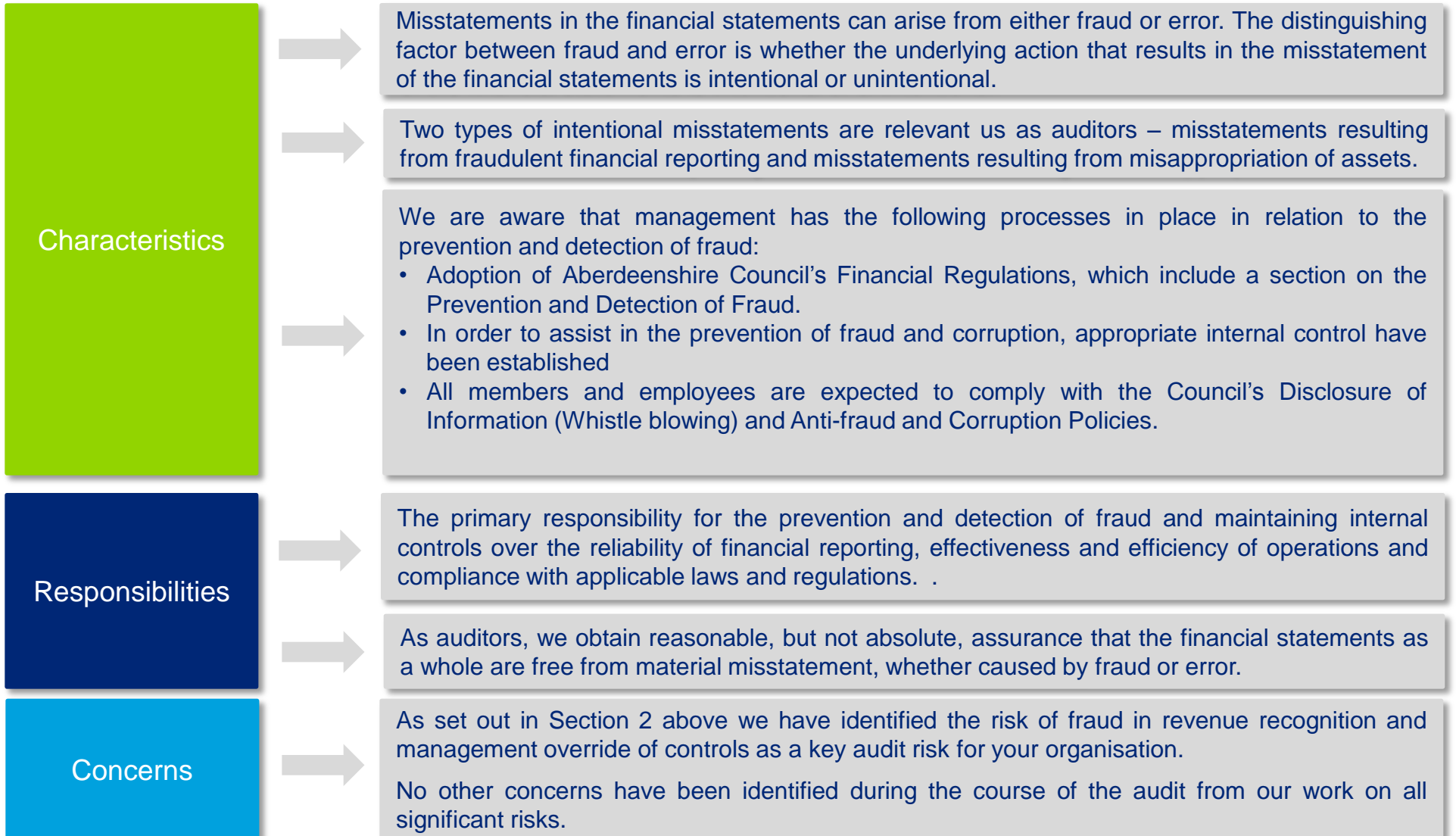
Relationships We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.

Appendix 3: Fraud considerations

Fraud considerations

The following represents a reminder of the fraud enquiries made at the planning stage of the audit:



Appendix 4: Representation letter

Representation letter

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB
United Kingdom

Our Ref: NESTRANS/2013

Date: at time of signing

Dear Sirs

This representation letter is provided in connection with your audit of the annual financial statements (“the financial statements”) of NESTRANS for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of NESTRANS as of 31 March 2013 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom. We are aware that it is an offence to mislead a Partnership auditor.

As Responsible Financial Officer and on behalf of the Partnership, I confirm to the best of my knowledge and belief, the following representations.

Representation letter (continued)

Financial statements

1. I understand and have fulfilled my responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), which give a true and fair view, as set out in the terms of the audit engagement letter.
2. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures"*.
5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Partnership or cease operating as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Partnership's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

Representation letter (continued)

Information provided

7. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

8. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

9. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

11. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects NESTRANS and involves:

- (i) management;
- (ii) employees who have significant roles in internal control; or
- (iii) others where the fraud could have a material effect on the financial statements.

12. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Representation letter (continued)

13. We are not aware of any actual or possible instances of non-compliance with laws and regulations.

14. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

15. No claims in connection with litigation have been or are expected to be received.

16. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

17. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

18. We confirm that it is not possible to identify the Partnership's share of the underlying assets/ liabilities of the North East Scotland Pension Fund attributable to our

19. I confirm that I have appropriately discharged my responsibility for the regularity of transactions.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed as Accounting Officer, and on behalf of the Partnership

Appendix 5 – Briefing on audit matters

Briefing on audit matters

Published for those charged with governance



This document is intended to assist directors to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board ("APB"). Our statutory audit objectives are:

- to express an opinion in true and fair view terms to the shareholders on the financial statements;
- to express an opinion as to whether the accounts have been properly prepared in accordance with the relevant financial reporting framework;
- to express an opinion as to whether the accounts have been prepared in accordance with the Companies Act;
- to form an opinion on whether adequate accounting records have been kept by the company; and
- to express an opinion as to whether the directors' report, including the business review, is consistent with the financial statements.

Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to the directors. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Briefing on audit matters - continued

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also local considerations of subsidiaries and divisions of the group, the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

For local statutory reporting purposes, individual materiality levels will be set for each of the subsidiary companies.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and the directors will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Briefing on audit matters - continued

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to shareholders and create value for management and the Board whilst minimising a “box ticking” approach.

Our audit methodology is designed to give directors and shareholders the confidence that they deserve.

For controls considered to be ‘relevant to the audit’ we evaluate the design of the controls and determine whether they have been implemented (“D & I”). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
ISQC 1	Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements
240	The auditor's responsibilities relating to fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
265	Communicating deficiencies in internal control to those charged with governance and management
450	Evaluation of misstatements identified during the audit
505	External confirmations
510	Initial audit engagements – opening balances
550	Related parties
560	Subsequent events
570	Going concern
600	Special considerations – audits of group financial statements (including the work of component auditors)
705	Modifications to the opinion in the independent auditor's report
706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report
710	Comparative information – corresponding figures and comparative financial statements
720	Section A: The auditor's responsibilities relating to other information in documents containing audited financial statements

Briefing on audit matters - continued

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to the directors our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Revised Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the Financial Reporting Council (FRC). The Firm's policies and procedures are subject to external monitoring by both the Audit Quality Review Team (AQRT, formerly known as the Audit Inspection Unit), which is part of the FRC's Conduct Division, and the ICAEW's Quality Assurance Department (QAD). The AQRT is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee.

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any immediate family member) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any immediate family member) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any immediate family member) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and

Briefing on audit matters - continued

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Revised Ethical Standards

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

Appendix 6: Additional resources available to you

How to keep you up to date: Financial Reporting

IAS Plus

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the internet about international financial reporting for accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site is available to browse at any time; alternatively you can subscribe to e-mail alerts and newsletters by going to <http://www.iasplus.com/subscribe.htm>

IFRS Podcasts

Our leading experts provide you with a short discussion on new IFRS standards and practical insights. These can be accessed via our website. www.deloitte.co.uk/audit. Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.

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