North East Scotland Transport Partnership (NESTRANS)

Report to the Board on the 2012 Audit

Planning Report

18 April 2012

Contents

Executive summary

We have pleasure in setting out in this document details of our proposed audit plan for the North East Scotland Transport Partnership (NESTRANS) for the year ending 31 March 2012. Our audit will be carried out under the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General covering (1) financial statements and corporate governance and (2) best value, use of resources and performance.

Financial statements and corporate governance	We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB").	Section 1

Best value, use of resources and performance	In addition to performing the audit of the financial statements, Audit Scotland requires us to undertake additional areas of work as part of our contract with them. These additional tasks are communicated to us annually though their Planning Guidance document. These include: • Audit Scotland National Performance Reports; and • Fraud returns. Through our role as the auditors of Aberdeenshire Council, we will also be in a position to assess the effectiveness of partnership working in the Grampian area which is a key pre-requisite for best value in the public sector. As part of our work in this area we will also consider other issues relevant to the organisation and how these are monitored and addressed by the Board.	Section 1

Executive summary (continued)

Key audit risks	The key audit risks which we have identified as part of our overall audit strategy are: 1. Expenditure recognition; 2. Use of Aberdeenshire Council payments ledger; 3. Delivery of the Regional Transport Strategy; 4. Management override of controls; and 5. Revenue recognition (grants and requisitions).	Section 2
Other issues	Other issues which have not currently been identified as financial statement risks but will be considered as part of our audit in line with compliance with the Code of Audit Practice, and work on Best Value, are: 1. Delivery of Regional Transport Strategy	Section 3
Materiality	For the 2012 financial statements, we have determined materiality of £90,000. We will report to the Board on all unadjusted misstatements greater than £1,800 and other adjustments that are qualitatively material.	N/A
Internal control	As set out in "Briefing on audit matters" included within Appendix 1, for controls considered to be 'relevant to the audit' we are required to evaluate the design of the controls and determine whether they have been implemented ("D & I"). The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered. Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within NESTRANS, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.	N/A

Executive summary (continued)

Other matters for those charged with governance	As set out in our publication “Briefing on audit matters” included within Appendix 1 we have communicated those additional items which we are required to report upon in accordance with International Standards on Auditing (UK & Ireland). The document also provides detail of the safeguards and procedures we have in place to ensure our independence and objectivity. **Deloitte’s Audit Transparency Report** for 2011 provides comprehensive information regarding our approach to delivering quality and is available on our website: http://annualreport.deloitte.co.uk/audit-transparency-2011/AT-report-2011.pdf. This also includes a summary of the findings of the Audit Inspection Unit who conduct an annual review of our whole-firm procedures insofar as they relate to our audit business and of a number of completed audit engagements of public interest clients. We confirm we are independent of NESTRANS and will reconfirm our independence and objectivity to the board for the year ending 31 March 2012 in our final report to the board.	Appendix 1

New accounting and legal pronouncements	The 2011/12 Code of Practice on Local Authority Accounting incorporates only a few changes from the 2010/11 Code. The main changes which should be considered by NESTRANS are as follows: • The disclosure requirements for related party transactions in respect of other public sector bodies are less detailed; • A new disclosure requirement has been introduced in respect of exit packages; • There is a new requirement for disclosure of compliance with the statement from CIPFA on the chief financial officer in the statement on the system of internal financial control or annual governance statement. It recommends that the proper officer in Scotland signs and dates the statement of accounts, stating that they give a true and fair view. Other areas where additional guidance or clarification has been provided include leases and the treatment of irrecoverable VAT.	N/A

1. Scope of work and approach

Our audit will be carried out under the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General covering (1) financial statements and corporate governance and (2) best value, use of resources and performance.

1.1 Financial statements and corporate governance

Our audit opinion

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB").

In respect of our work on the audit of the financial statements, we are required to audit these and give an opinion on whether:

- they give a true and fair view of the state of affairs of the Partnership and of its income and expenditure for the year in question;
- they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government Scotland Act 2003;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword by the Treasurer is consistent with the financial statements.

We are also required to report by exception if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all of the information and explanations we require for our audit; or
- the Statement on the System of Internal Financial Control does not comply with 2011/12 Code; or
- there has been a failure to achieve a prescribed financial objective.

1. Scope of work and approach (continued)

Liaison with internal audit

The audit team, following an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function, review the findings of internal audit and adjust the audit approach as is deemed appropriate. This normally takes a number of forms:

- assessment of the control environment;
- discussion of the work plan for internal audit; and
- where internal audit identifies specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work.

We plan to work in partnership with Internal Audit to avoid duplication of effort and to enable reliance on their work. As part of our planning process we have met with the Chief Internal Auditor, who has confirmed that there are no internal audits planned for the current year. However, given that the Partnership uses the financial systems of Aberdeenshire Council, these systems are subject to internal audit reviews.

Audit Scotland National Performance Reports

Audit Scotland's Corporate Plan 2009-12 reinforced its commitment to maximising the impact of its work and to provide more evidence of impact. As part of our audit we are expected to provide information on how NESTRAN has responded to the national performance audit reports. As part of this review we will be expected to assess the following:

- Which Board meeting, if any, considered the report;
- Whether the Board has produced an Action Plan; and
- Form an overall view on how the Board has responded to the report and the impact of the report locally.

From a review of the national reports published by Audit Scotland concerning regional transport authorities we have identified the only relevant one is "Transport for health and social care" which was published in August 2011.

1. Scope of work and approach (continued)

1.2 Best Value, use of resources and performance (continued)

National Fraud Initiative

Audit Scotland requires auditors to continue to monitor bodies participation in the National Fraud Initiative during 2011/12 audits, specifically:

- conduct further enquiries and tests to be able to confirm that the questionnaire prepared by the outgoing auditor in 2011 remains valid;
- promote NFI in audited bodies, where appropriate; and
- reference in 2011/12 annual audit report if necessary and appropriate.

Fraud returns

The Code of Audit Practice requires auditors to make submissions of instances of fraud and irregularity to Audit Scotland in accordance with its requirements. We have held discussions with the Chief Internal Auditor who has agreed to notify us of all relevant frauds over £5,000 which occur in the Partnership and will report them by completing and submitting a pro-forma return for each case. Reports of frauds involving less than £5,000 are not required.

2. Key audit risks

Expenditure recognition	
Description of risk	The Partnership, like all public sector organisations, faces a very challenging financial climate. Grant-in-Aid for 2011/12 is down 15%, from £920,000 in 2010/11 to £782,000 and revenue contributions from constituent authorities have also decreased by 5%. 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 will seek to develop our understanding in regards to the design and implementation of key controls in place in relation to the recognition of expenditure. We will also perform cut-off testing to ensure that expenditure has been recognised in the correct financial period.

Use of Aberdeenshire Council payments ledger	
Issue identified	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 Partnerships financial position within the financial statements.
Deloitte response	We will seek to develop our 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 will also perform detailed testing to ensure that expenditure has been properly reflected in the Partnership nominal ledger.

2. Key audit risks (continued)

Management override of controls	
Description of risk	Management is in a unique position to perpetrate fraud because of Management's 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.
Deloitte response	We will seek to develop our understanding in regards to the design and implementation of key controls in place in relation to the posting of journal entries and other such adjustments and test a sample of these adjustments to ensure they are appropriate. We will also conduct a review of significant accounting estimates in order to assess the reasonableness of management's judgements in relation to these estimates. We will also review any transactions that appear to be outwith the course of normal business in order to understand the business rationale for these transactions.

Revenue recognition	
Description of risk	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 other grants and requisitions from the Scottish Government given the significance of this to the organisation.
Deloitte response	We will review the treatment of income in the year to consider whether it is line with IFRS guidance and the Code. We will obtain a copy of the year end funding statement received from the Scottish Government and reconcile to the amount recognised by the Partnership.

3. Other issues

One other issue which have not currently been identified as financial statement risks, but will be considered as part of our audit in line with the Code of Audit Practice, and work on Best Value where we are required to review and report on aspects of the arrangements made by bodies to ensure the proper conduct of their affairs and to manage performance and use of resources, are as follows:

Delivery of the Regional Transport Strategy	
Description of risk	The budget for works to deliver the Regional Transport Strategy has remained at last year's level, a decrease of £271,000 on the original delivery plan. Delivery of the strategy will therefore be challenging given the financial pressures faced.
Deloitte response	Deloitte will assess the process for monitoring the targets set in the Regional Transport Strategy through review of the monitoring reports. We will also review Board minutes in order to assess how the targets are reviewed, monitored and challenged.

4. Consideration of fraud

4.1 Characteristics

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We are aware that management has the following processes in place in relation to the prevention and detection of fraud:

- Adoption of Aberdeenshire Council's Financial Regulations, which include a section on the Prevention and Detection of Fraud which requires that whenever any matter arises which involves, or is thought to involve, irregularities concerning cash, stores, equipment or other property of the Council or any suspected irregularity in the exercise of the functions of the authority, the Director concerned shall immediately notify the Chief Executive, the Head of Finance and the Chief Internal Auditor, as appropriate, who shall take steps as may be considered necessary by way of investigation and report.
- In order to assist in the prevention of fraud and corruption, appropriate internal control have been established
- All members and employees are expected to comply with the Council's Disclosure of Information (Whistle blowing) and Anti-fraud and Corruption Policies.

4.2 Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

4. Consideration of fraud (continued)

4.3 Fraud inquiries

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
• Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments. • Management's process for identifying and responding to the risks of fraud in the entity. • Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity. • Management's communication, if any, to employees regarding its views on business practices and ethical behaviour. • Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.	• Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.	• How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. • Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.

We will make inquiries of others within the Partnership as appropriate. We will also inquire into matters arising from your whistling blowing procedures.

4. Consideration of fraud (continued)

4.4 Process and documentation

Meetings will be held with various key members of management as well as those charged with governance in order to establish the processes around the detection and prevention of fraud. We will also liaise with Internal Audit in order to assess their findings in this area throughout the year.

4.5 Concerns

As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as key audit risks for your organisation in line with the requireness of ISA 240.

4.6 Representations

We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- 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.
- We are not aware of any fraud or suspected fraud that affects the entity and involves:

  (i) management;

  (ii) employees who have significant roles in internal control; or

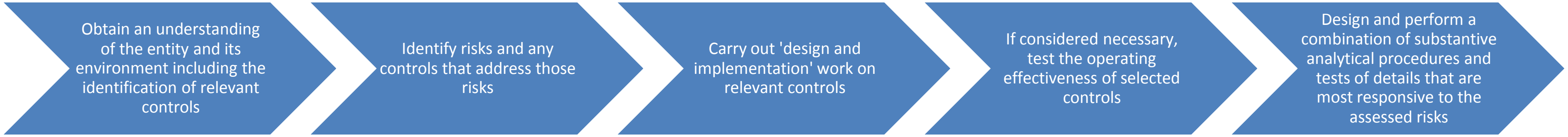
  (iii) others where the fraud could have a material effect on the financial statements.

- 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.

5. Internal control

Obtaining an understanding of internal control relevant to the audit

As set out in "Briefing on audit matters" included within appendix 1 with this report, our risk assessment procedures will include obtaining an understanding of controls considered to be ‘relevant to the audit’. This involves evaluating the design of the controls and determining whether they have been implemented (“D & I”). Our audit approach consists of the following:



The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Partnership, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

6. Communications timetable

Set out below is the approximate expected timing of our reporting and communication with NESTRANS and Audit Scotland.

Timing	Activity	Deliverables
January 2012	External audit planning, identification of risks, confirmation of opening balances and review of systems.	Planning Report to the Board – **18 April 2012.**
February 2012	Submission of Audit Scotland template summarising the Partnership's response to the national performance report "Scotland's public finances: addressing the challenges" published in August 2011.	Response to national performance reports to Audit Scotland – **15 March 2012.**
July - September 2012	Audit of the financial statements for the year ended 31 March 2012.	Report to the Board – **22 August 2012.**
	Submission of audited financial statements to Audit Scotland and the Controller of Audit.	Financial Statements Audit Opinion and Management Representation Letter – **30 September 2012.**
	Submission of Annual report to entity and Audit Scotland.	Annual Report to Members Board and the Controller of Audit – **30 September 2012.**

7. Client service team

We set out below our audit engagement team.

David Bell Audit partner Tel: 0141 304 5625 Email: dabell@deloitte.co.uk	Pat Kenny Vfm and advisory director Tel: 0141 304 5771 Email: pakenny@deloitte.co.uk	Douglas Gray Audit senior manager Tel: 0141 304 5105 Email: douglasagray@deloitte.co.uk	Karlyn Watt Audit manager Tel: 01224 847378 Email: kwatt@deloitte.co.uk
• Main point of contact for the Board and Treasurer; • Decision maker on key audit and accounting issues; and • Overall responsible for the quality of our service.	• Working directly with Douglas sharing his knowledge of the local government sector; • Assistance with identifying risks, planning and delivering the audit; • Responsible for the delivery of our best value, use of resources and performance work; and • Bringing sector issues and experiences to the Board and management.	• Oversees delivery of audit service and resolves any issues escalated by Karlyn; • Assist David in planning the audit; • Develop and implement our audit strategy; and • Technical review of audit work.	• First point of contact with the finance team; • Responsible for the day to day delivery of our services; • Co-ordinate and manage the team; and • Early advice on technical issues.

8. 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" circulated to you with this report 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 Members 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 Members, 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

Chartered Accountants

Glasgow

18 April 2012

Appendix 1: Briefing on audit matters

Published for those charged with governance

This document is intended to assist those charged with governance 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 give an opinion on whether:

- they give a true and fair view of the state of affairs of the Partnership and of its income and expenditure for the year in question;
- they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government Scotland Act 2003;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword by the Head of Finance is consistent with the financial statements.

Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to those charged with governance. 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.

Appendix 1: 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 planning 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 planning 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 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.

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 those charged with governance 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.

Appendix 1: 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 members and create value whilst minimising a "box ticking" approach.

Our audit methodology is designed to give members 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);
- 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
210	Terms of audit engagements
240	The auditor's responsibility to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
315	Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement
320	Audit materiality
545	Auditing fair value measurements and disclosures
550	Related parties
560	Subsequent events
570	Going concern
580	Management representations
720 (revised)	Section A: Other information in documents containing audited financial statements Section B: The auditor's statutory reporting responsibility in relation to directors' reports

Appendix 1: 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 those charged with governance 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 Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Directorate (QAD). The AIU 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. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies.

Appendix 1: Briefing on audit matters (continued)

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 closely-related person) 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 closely-related person) 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 closely related persons) 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
- provide safeguards against potential conflicts of interest.

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.