

Audit plan

Hampshire County Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

Background

1 This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

2 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

3 It also explains:

- the changes to our approach as a result of applying the revised International Standards on Auditing (ISAs); and
- the extra work we will be doing because of the transition to accounts based on International Financial Reporting Standards (IFRSs).

Responsibilities

4 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

5 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

6 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

7 I plan and carry out my audit work in accordance with the Audit Commission's approach, which meets the requirements of the International Standards for Auditing (UK and Ireland).

Fee for the audit

8 The fee for the audit is £287,700, as indicated in my letter of 31 March 2010. The Audit Commission scale fee for a county council with Hampshire County Council's gross expenditure is £351,603. The fee for 2010/11 is 9.1 per cent below the scale fee and is within the normal level of variation specified by the Commission.

9 The published fee scale for 2010/11 included a 6 per cent increase to cover the costs of additional audit work arising from the introduction of International Reporting Standards. In July 2009, in recognition of the financial pressures that public bodies were facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities and police and fire and rescue authorities from 2010/11. You therefore received a refund from the Audit Commission of £20,590 in April 2010. This refund is not reflected in the fee quoted above.

10 The published fee scale for 2010/11 did not include any increase for the extra work auditors will be required to do to meet the clarified international standards on auditing which are explained later in this letter. The Audit Commission expects auditors to accommodate this extra work within the fee scales by making efficiency savings.

11 On 9 August 2010 the Commission wrote to all audited bodies about its proposed new arrangements for local value for money audit work. The impact of this on fees for 2010/11 has now been considered as part of the December 2010 consultation on its work programme and fee scales for 2011/12. In addition to the IFRS rebate above the Commission has decided to rebate a further 3.5 per cent of fees in 2010/11 reflecting the change in the approach to VFM.

12 In setting the fee, I have assumed that:

- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems.

13 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the County Treasurer and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

14 Further information on the basis for the fee is set out in appendix 1.

Specific actions the Council could take to reduce its audit fees

15 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. For the purposes of my opinion I have assessed the Council as having a good control environment in place. This assessment is reflected in the fee for the audit being 9.1 per cent below the scale fee. I have not identified any specific actions that the Council can take to reduce its audit fees. If this should change I will in the first instance inform the County Treasurer.

Audit of the financial statements

Auditors report on the financial statements

16 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

17 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council at 31 March 2011.

Materiality

18 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

19 Misstatements, including omissions are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken based on the financial statements. Judgements about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

20 Our initial overall materiality level for the audit of Hampshire County Council has been set at £33.2 million. Based on this initial level we would report any errors above £369,000. Some accounts entries below this value have been identified as material due to their sensitivity; including remuneration disclosures and members allowances.

21 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

22 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control – including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

Identification of specific risks

23 I have considered the additional risks that are appropriate to the current opinion audit and have set these out in table 1.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
Transition to IFRS compliant accounts	<ul style="list-style-type: none">■ I will review the restated accounts and comparatives for 2009/10 ahead of the year-end, and the revised accounting policies.■ I will pay particular attention to the higher risk areas of Property, Plant and Equipment (especially leases, contracts with embedded leases and component accounting), segmental reporting and accruals for employee benefits.

24 If I identify any further specific risks in advance of my 2010/11 opinion audit I will update my risk assessment.

Testing strategy

25 On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at year-end.

26 My testing will be carried both before and after the draft financial statements have been produced (pre- and post-statement testing).

27 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of the following pieces of work.

- General ledger.
- Accounts receivable.

28 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the results of other audit work in the following areas.

- Pensions – Hampshire Pension Fund.

29 I also plan to rely on the work of experts in the following areas.

- Property valuations – Council Valuer.
- Pensions liabilities – Pension Fund actuaries.

International standards on auditing (ISAs)

30 In 2009 the auditing profession completed a comprehensive project to enhance the clarity of all the ISAs. This is known as the Clarity Project. One of its main objectives was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

31 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they request from you.

32 The main changes you will see are as follows.

- Journals – ISA (UK&I) 330 (The Auditor's response to assessed risks) requires me to review all material year-end adjustment journals. My testing will include testing of year-end non-reversing adjustments journals made during the preparation of the financial statements. This includes non-system adjustment journals made manually outside the general ledger.
- Related Party Transactions – ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions.
- Accounting Estimates – ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:
 - the process you use to make your accounting estimates;
 - the controls you use to identify them;
 - whether you use an expert to assist you in making the estimates;
 - whether any alternative estimates have been discussed and why they have been rejected;
 - how you assess the degree of estimation uncertainty; and
 - whether there has been a change in the method of calculation for the current year.

Value for money conclusion

33 I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

34 This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

35 I will plan a programme of VFM audit work based on my risk assessment. In assessing risks relating to Council's arrangements to secure economy, efficiency and effectiveness I have:

- considered the, evidence gained from previous audit work;
- the work other inspectorates and review agencies; and
- considered the Councils response to the spending review.

36 I will report the results of all my VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Key milestones and deadlines

37 The Council is required to prepare the financial statements by June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

38 The key stages in producing and auditing the financial statements are in table 2.

39 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

40 During the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	February 2011
Receipt of accounts	June 2011
Sending audit working papers to the auditor	June 2011
Start of detailed testing	July 2011
Progress meetings	Fortnightly
Present report to those charged with governance at the audit committee	September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

41 Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Kate Handy District Auditor	k-handy@audit-commission.gov.uk 0844 798 1740	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Hassan Rohimun Audit Manager	h-rohimun@audit-commission.gov.uk 0844 798 1746	Manages and coordinates the different elements of the audit work. Key point of contact for the County Treasurer.
Sara Rowntree Team Leader	s-rowntree@audit-commission.gov.uk 07779 336934	Responsible for leading the opinion audit and day-to-day liaison with the Finance Team.

Independence and objectivity

42 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in appendix 2.

43 I consider any relationships that may affect the independence and objectivity of the team, which I am required by auditing and ethical standards to communicate to you. I need to bring to your attention the following relationship. The former Comprehensive Area Assessment Lead (CAAL) for Hampshire County Council, undertook a secondment to the County Council. The secondment had no impact on the independence of my opinion work on your statement of accounts. However, it could be perceived that there is a self review threat which might compromise my independence in arriving at my value for money conclusion.

44 I reported in my 2009/10 Annual Audit Letter that the main focus of my 2010/11 value for money work would be to assess the effectiveness of the Council's actions to respond to the economic downturn and the reduction in Government funding and its effect on the County Council's financial sustainability.

45 The former CAAL is based in the Council's Policy and Programme Unit. Her facilitative role is intended to provide additional capacity to:

- review the preparedness, robustness and viability of the Council's transformation action plans;
- assess how likely plans are to deliver the relevant outcome ; and
- suggest how improvements might be made to the implementation and delivery plans.

46 The former CAAL will not be in a position of reviewing her own work. During her secondment she was under notice of redundancy and left the employment of the Commission on 28 February 2011. However, there might be a perceived self review threat as the audit team may need to review the work of a former colleague

Safeguards put in place

47 I have put the following safeguards in place to manage the risk of a perceived threat to the audit team's independence to an acceptably low level.

- The secondment agreement included:
 - an outline of the plans, processes and responsibilities which the Council has already put in place. This makes it clear that the Council has already done much work on which the former CAAL will be facilitating challenge; and
 - the Council's confirmation that the former CAAL will be supervised and does not have discretionary authority to commit the Council to any position nor will she be involved in drafting or approving any plans which the audit team could be called upon to review.

Fee

48 The fee for the secondment is estimated to be £5,290 plus VAT. This is in addition to the fee for the audit which has already been set out in our audit plan.

Meetings

49 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in appendix 3.

Quality of service

50 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

51 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

52 My team will discuss and agree reports with your nominated officers before issuing them to the Audit Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements and the VFM conclusion	By 30 September 2011
Final accounts memorandum (if necessary)	November 2011
Annual audit letter	November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

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 2009/10 (except for IFRS);
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on agreed systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
 - good quality working papers and records to support the financial statements;
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this in the first instance with the County Treasurer and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

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.

The Standing Guidance for Auditors includes a number of specific rules.

The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two 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 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive and County Treasurer	DA and AM	February, May, September, November	General updates
County Treasurer	AM and Team Leader (TL)	February, May, September, December	General update plus: <ul style="list-style-type: none"> ■ February – audit opinion plan; ■ May – VFM conclusion progress; and ■ September – annual governance report.
Finance team	AM and TL	Quarterly	Update on audit issues
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> ■ Audit Plan; ■ Annual governance report; and ■ Other issues as appropriate.

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices. I actively consider opportunities to reduce our impact on the environment. This includes:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body.

Regularity (of expenditure and income)

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Annual Governance Statement

Local government bodies are required to publish an Annual Governance Statement with their financial statements. The statement is prepared in accordance with guidance issued by CIPFA.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

- For the Council, the Audit Committee are those charged with governance, for the purpose of complying with auditing standards.

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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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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