

Item 6
MIS - 2780

Audit Plan

Hampshire Fire and Rescue Authority

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

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.

1 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.

2 The audit planning process for 2010/11, including the risk assessment will continue as the year progresses and I will keep the information and fees in this plan under review and update it as necessary.

Responsibilities

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.

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

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

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

5 Should you wish to discuss any element of your responsibilities please let me know.

Fee for the audit

The fee for the audit is £ 87,500, as indicated in my letter of 27 April 2010.

6 The published fee scale for 2010/11 included a 6% 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 £5,162 in April 2010. This refund is not reflected in the fee quoted above.

7 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 1.5% of fees in 2010/11 reflecting the change in the approach to VFM.

8 In setting the fee, I have assumed that:

- the level of risk around the audit of accounts has not changed from 2009/10 (except for the introduction of IFRS);
- good quality, accurate working papers are available at the start of the financial statements audit; and
- good quality working papers will be prepared to support the restatement of 2009/10 balances in line with International Financial Reporting Standards (IFRS).

9 Where these assumptions are not met, I will have to undertake more work which is likely to result in extra audit fees. If this happens, I will discuss it first with the Treasurer. I will then issue updates to the plan to record changes to the risks and the impact on the fee.

10 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Hampshire Fire and Rescue Authority could take to reduce its audit fees

11 The Audit Commission requires its auditors to let audited bodies know what they can do to reduce audit fees. The fee for your audit has been set based on the minimum level work required to deliver an ISA compliant audit.

I will continue to work with your staff to identify any further actions that could be taken to further reduce fees and limit additional fees.

Auditors report on the financial statements

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).

12 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 Authority as at 31 March 2011.

Materiality

13 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.

14 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.

15 Our initial overall materiality level for the audit of Hampshire Fire and Rescue Authority has been set at £1,111,000. Some accounts entries below this value have been identified as material due to their sensitivity; including remuneration disclosures and related party transactions. A separate materiality level has been set for the Fire Fighters Pension Fund of £150,000...

Identifying opinion audit risks

16 I need to understand the Fire Authority fully 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 Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- 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 Authority information systems.

Identification of specific risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
IFRS restatements - the change to IFRS is complicated and there are significant risks of material mis-statement in the financial statements if errors occur.	We will work with your staff to consider progress and emerging IFRS issues and carry out early testing of restated balances. We will review supporting working papers when they are produced to support the 2010/11 statements.
Analysis of Service Expenditure. The ledger is maintained on a subjective analysis basis whereas the accounts classify expenditure on a service basis.	Our work on accounting estimates will test the reasonableness of assumptions used in translating the ledger to the service analysis required for the accounts

Testing strategy

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

17 I can carry out testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

18 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies and accounting estimates.
- Bank reconciliation.
- Investments – ownership.
- Year-end feeder system reconciliations.
- Restated balances under IFRS
- Additions or disposals to fixed assets

Where I identify other possible early testing, I will discuss it with officers.

19 Wherever possible, I seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11 Internal Audits plans include work on all core financial systems. I have liaised with internal audit and identified and agreed areas where we will seek to place reliance on their work . We have also agreed the sampling basis and sample sizes we require to support reliance on their work.

20 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 work of other auditors for pension fund assurances under IAS16 (Audit Commission as auditors of the Hampshire County Council Local Government Pension Scheme).

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

- The Authority's external property valuer for changes in property valuations in year.
- My own experts for valuation trends.
- My own experts for the adequacy of pension fund actuaries.

Value for money conclusion

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

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

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

23 I will plan a programme of VFM audit work based on my risk assessment and update you regarding any specific risks I identify that might impact on what I need to do to complete this work.

Value for money risks

24 I undertook my risk assessment for the VFM conclusion earlier in the year and assessed the main risk for my audit to be the impact of the current economic climate and the Government spending review announced on 20 October 2010.

25 My programme of work for the VFM Conclusion will include:

- considering the cumulative information and evidence from previous audit work
- updating our assessment of medium term financial planning, budgeting and financial monitoring
- considering the Authority's response to the economic climate
- considering overall performance measures and indicators
- assessing financial resilience
- considering the robustness of arrangements for prioritising resources and improving productivity and efficiency.

Key milestones and deadlines

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

26 The key stages in producing and auditing the financial statements are in Table 2.

27 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.

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

Table 2: **Proposed timetable**

Activity	Date
IFRS restatement	February 2011
Control and early substantive testing	February/March 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	30 June 2011
Start of detailed testing	July 2011
Progress meetings	Weekly
Present report to those charged with governance at the Governance Committee	23 September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

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 Officer.
Graham West Audit Manager	g-west@audit-commission.gov.uk 0844 798 1738 07970-064363	Manages and coordinates the different elements of the audit work. Key point of contact for the Treasurer / Senior Management Team
Steve High Team Leader	s-high@audit-commission.gov.uk 0844 798 4621 07779 576294	Supervises the day-to-day delivery of the detailed audit work. Key point of contact for accounts staff.

Comment [KL1]: Changed this as I think this is what John prefers - we had to amend it in the AAL I seem to recall?

Independence and objectivity

29 I am not aware of any relationships that may affect the independence and objectivity of myself (District Auditor) or my audit staff, which I should tell you about.

30 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.

Meetings

31 I will make sure we understand your issues to inform our risk-based audit through regular meetings and conversations with key officers. My proposals are set out in Appendix 3.

Quality of service

32 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.

33 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

34 My team will discuss and agree reports with the right officers before issuing them to the Governance Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Audit Opinion Plan	February 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements and the VFM conclusion	September 2011
Final accounts memorandum [if required]	November 2011
Annual audit letter	November 2011

Kate Handy

District Auditor

January 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 Authority based on:

- my cumulative knowledge of the Authority;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Authority 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 has changed from that for 2009/10 with the move to IFRS based reporting;
- the fee for the value for money conclusion is the same as for 2009/10
- you will tell me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- you provide:
 - good quality working papers and records to support the financial statements by 30 June 2011;
 - 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 need to do additional work which is likely to result in an increased audit 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 Governance Committee. The auditor reserves the right, however, to communicate directly with the Authority 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 make sure we are aware of your issues to inform our risk-based audit through regular contacts with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Authority officers	Audit Commission staff	Timing	Purpose
Chief Fire Officer and Director of Corporate Services	DA and AM	February, June, September	General update plus: <ul style="list-style-type: none"> ■ February - risk assessment and audit plan; ■ June - accounts planning and VFM Conclusion progress; ■ September - annual governance report and annual audit letter
Chief Accountant	AM and TL	Quarterly	Update on audit issues
Governance 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 and I will actively consider how we can reduce our impact on the environment. This will include:

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

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. (See also ‘Those charged with governance’ and ‘Audited body’.)

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.

Statement on internal control/Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and 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'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

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.