

Audit plan

Portsmouth City Council

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

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 you.

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.

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

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Governance and Audit Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

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

Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting 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's information systems.

Identification of risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have not identified any significant risks. I did however identify a number of specific risks, which are set out below.

Table 1: **Specific risks**

Risk	Audit response
<p>Financial pressures</p> <p>The Council needed to deliver over £15m of savings in 11/12 to achieve its budget, which was set based on a contribution from General Reserves to meet a shortfall between income and expenditure. Children’s Services were granted an increased cash limit at the end of quarter 1 of £944k, and are forecasting to meet their revised budget, but other Portfolios are overspent at the end of the second quarter and need to identify options to address this.</p>	<p>I will consider how the Council is responding to the increasing financial pressures and whether these are impacting on the reporting of financial results.</p>
<p>Heritage Assets</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture For the first time in 2011/12, the Code of Practice on Local Authority Accounting in the United Kingdom adopts the requirements of FRS 30 Heritage Assets and requires disclosures for all heritage assets, regardless whether they are recognised on the balance sheet or not. There is a risk that the Authority may be unable to identify and account for all heritage assets.</p>	<p>I will evaluate the management controls you have in place to recognise and value heritage assets and consider any change to accounting policy. I will also undertake testing to check that the Authority has accounted for heritage assets in accordance with FRS 30 and the Code, and that the financial statements are materially stated.</p>
<p>Pooled Budgets</p> <p>The Council has revised its existing s.75 arrangements during 2011/12, to reflect the separation of NHS commissioning and provider functions.</p>	<p>I will need to satisfy myself that the accounts of the pool are consistent with the s75 agreement and with the accounting requirements, and that the Council’s share is consolidated correctly into its own accounts.</p>
<p>Senior Management Capacity</p> <p>The s.151 responsibilities are now vested in the Head of Financial Services, whose team was also reduced in year. There is a risk that there will be insufficient capacity to properly manage and deliver the closedown process.</p>	<p>I will critically review the closedown plan and the arrangements to oversee its delivery and assess the likelihood of material errors.</p>

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: **Proposed work**

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Capital accounting Accounts receivable Accounts payable Payroll SCALA	General ledger Payroll SCALA Housing Rents		Valuation of property, plant and equipment	Property, plant and equipment Heritage assets Component accounting Officers remuneration and members allowances Accounting estimates Review of accounting policies Review of transfers between reserves

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Final visit	Asset management Interests, gifts and hospitality Members expenses Cash and petty cash Treasury management Port income dues Council tax & NNDR Housing benefits		Pooled budgets that are hosted by the NHS Pensions assets and liabilities – auditor to HCC Pension Fund Group accounts – auditors to components set out below	Pensions liabilities and assets – HCC and our own consulting actuary Valuation of loans and investments Valuation of property, plant and equipment Contingent liabilities and provisions	All material accounts balances and amounts Year-end feeder system reconciliations

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Group accounts

I am responsible for the direction, supervision and performance of the group audit. I may contact the auditors of the following components as part of my audit procedures.

- MMD Shipping Services Limited
- Portchester Crematorium
- Portsmouth Harbour Renaissance Limited
- Southsea Skatepark Company Limited
- Portsmouth Social Housing Ltd

Please discuss with me any concerns about me contacting component auditors.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

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

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's 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 Council secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

How I form my value for money conclusion:

To form my view on the Council's arrangements, I plan a programme of VFM audit work based on my risk assessment. This includes:

- capturing what I knew already from last year's work, the Audit Commission's VFM profiles, my continuing reviews of minutes and discussions with officers;
- considering how the Council is addressing issues I raised in my Annual Audit Letter last year, on the Council's arrangements for managing its workforce and its property assets; and
- considering risks that are common to some or all local authorities.

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion and identified the following significant risks that I will address through my work.

Table 3: **Significant risks**

Risk	Audit response	Separate audit output?
<p><u>Transformation Programme</u></p> <p>The Council has set itself a new three year savings target for 2012/13 to 2015/16 of £56m but is trying to achieve as much of this as possible through increased efficiency and effectiveness, rather than cuts in service. The <i>Transformation Programme</i> is an ambitious modernisation programme that aims to deliver a significant proportion of the savings target.</p>	<p>We will consider the arrangements for the development of the underlying plans and challenging the assumptions used to calculate estimated savings.</p>	<p>No</p>
<p><u>Public Health and NHS reorganisation</u></p> <p>The Council is:</p> <ul style="list-style-type: none"> ■ setting up a Health and Wellbeing Board to lead on improving the strategic coordination of commissioning across NHS, social care, and related children’s and public health services; ■ working with the SHIP cluster to prepare for the transition of public health services; ■ planning increased use of joint arrangements with health for commissioning, contracting and assessment; ■ building relationships with the emerging clinical commissioning groups. <p>These all bring a range of governance and value for money issues, in light of policy direction towards increased integration and personalisation of health and social care.</p>	<p>We will review the Council’s preparations for these changes and consider how well integrated they are with the transition programme.</p>	<p>No</p>
<p><u>Senior Management Capacity</u></p> <p>On the retirement of the previous s.151 Officer, the strategic elements of his portfolio were allocated to the other strategic directors and the s.151 responsibilities to the Head of Financial Services. This inevitably will reduce the capacity of the small team of strategic directors, although the addition of the Director of Public Health to the Board does allow some scope to address this.</p>	<p>We will need to consider the impact of the revised management structure, and planned management savings, on the capacity of strategic directors and the discharge of statutory governance functions as a theme throughout our programme of work.</p>	<p>No</p>

Risk	Audit response	Separate audit output?
<p><u>Finance and Investment</u></p> <p>The Council is preparing for the introduction of new housing subsidy and business rate financing arrangements, which involves using rents collected to maintain social homes and increased uncertainty and risk about income from business rates. It is also planning an extensive capital development programme. These changes will put additional pressures on the finance department to ensure the risks are being properly mitigated and reflected in the business planning cycle.</p>	<p>We will review the development of the capital strategy and its linkage to revenue budgeting, and the assumptions used in financial modelling.</p>	<p>No</p>
<p><u>Asset management</u></p> <p>Over recent years we have raised concerns over the management of the Councils assets and improving this is one of the underpinning criteria of the <i>Transformation Programme</i>. The Council intends to reduce the size of its portfolio, and is considering a range of options to do so, and needs to ensure it is achieving adequate rates of return from its investment properties.</p>	<p>We will follow up the Council's progress in reviewing its portfolio and in the returns it generates from investment assets.</p>	<p>No</p>

Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	February to April 2012	If issues requiring reporting are identified
Opinion: receipt of accounts and supporting working papers	30 June 2012	If issues requiring reporting are identified
Opinion: substantive testing	July to September 2012	Annual Governance Report or separately if significant issues are identified
Value for money work	January to June 2012	Annual Governance Report or separately if significant issues are identified
Present Annual Governance Report at the Audit Committee	27 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **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 quality of reports, signing the auditor's report and liaison with the Chief Executive.
Mark Justesen Audit Manager	m-justesen@audit-commission.gov.uk 0844 798 4635	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Financial Services..

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

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 – Standards & Technical, 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.

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).

Fees

The fee for the audit is £330,300, as set out in my letter of 12 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £330,300 which represents a 12 per cent reduction on the final audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Head of Financial Services and the Head of Audit & Performance Improvement. I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of actions you could take to reduce your audit fee. As in previous years, I will work with staff to identify any specific actions the Council could take and to provide continuing audit support.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns;
- investigating and responding to questions or objections raised by local government electors. and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	330,300	375,200	(44,900)
Certification of claims and returns	55,000 ⁱ	52,159	2,841
Non-audit work	-	-	-
Total	£385,300	£427,359	£(42,059)

ⁱ In our fee letter dated 12 April 2011, we initially estimated the fee for certification of grants claims for 2011/12 to be £67,767. However in light of the lower 2010/11 outturn we have revised this estimate. It should be noted though this is only an estimate and that certification fee could be higher should we be required to undertake more testing than in 2010/11.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid 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.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for 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.</p>	<p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p>

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>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.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively;
 - there have been no changes of material systems or controls over them;
 - I secure the co-operation of other auditors; and
 - officers maintain a proactive dialogue throughout the year on sensitive accounting issues.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
 - other information requested within agreed timescales;
 - prompt responses to draft reports;
 - suitable office accommodation; and
- there are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under 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.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated 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 that contain basic principles and essential procedures with which auditors must 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 for local government bodies issued by the Audit Commission and approved by Parliament.

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 relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting 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 accounting 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 to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

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 of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Governance and Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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0844 798 7070

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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.

