

Regulatory and Audit Committee 11 June 2013

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The Audit Plan for Buckinghamshire County Council

Year ended 31 March 2013

June 2013

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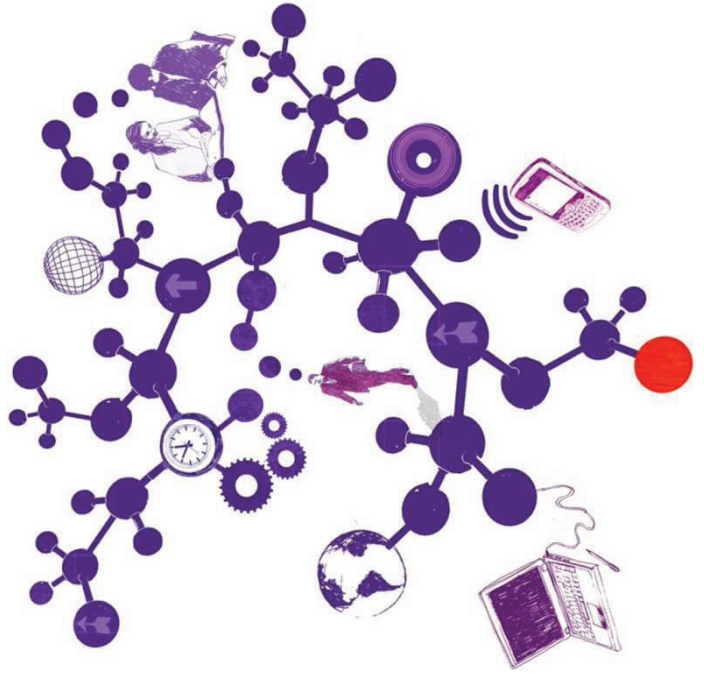
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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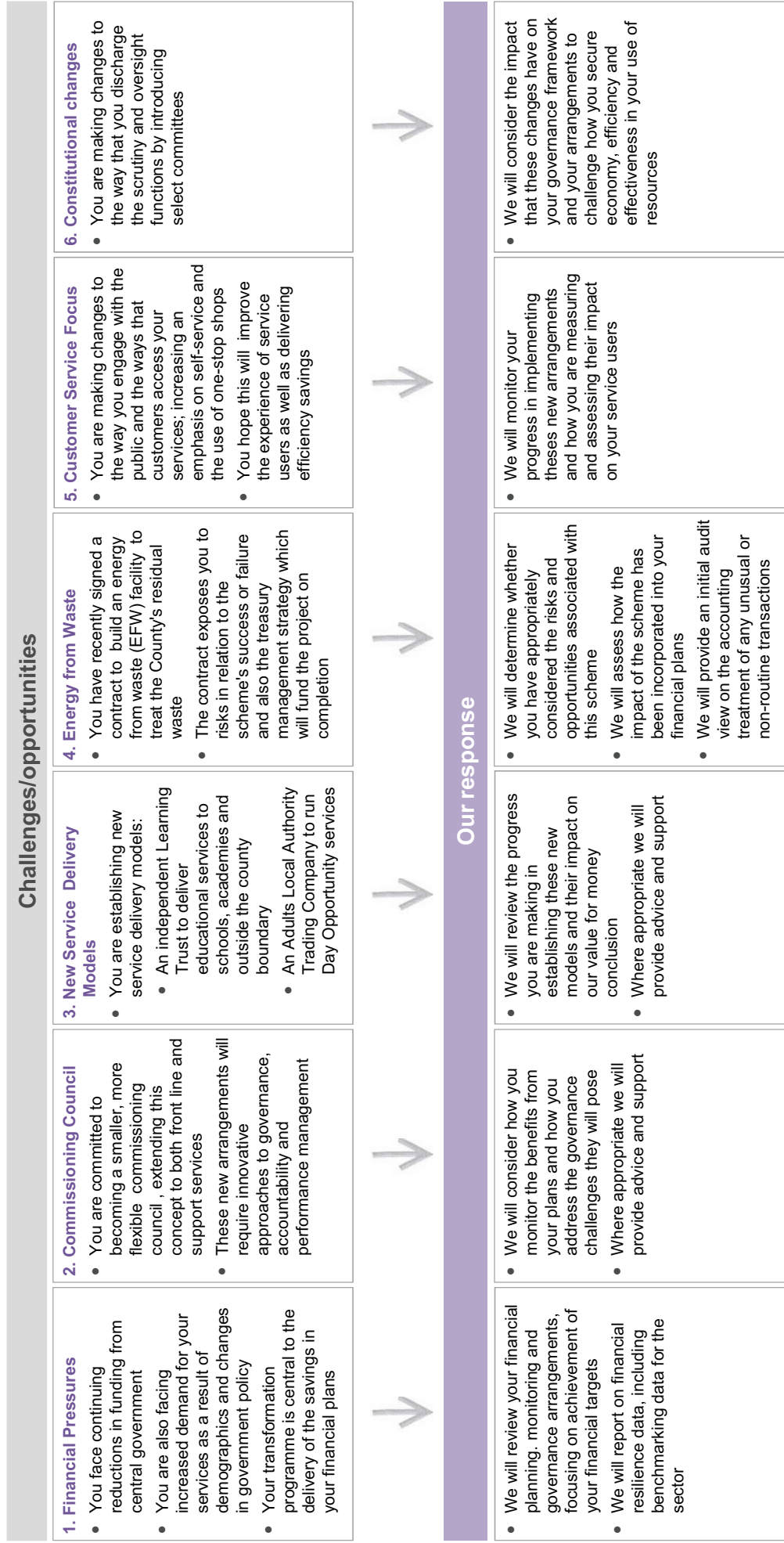
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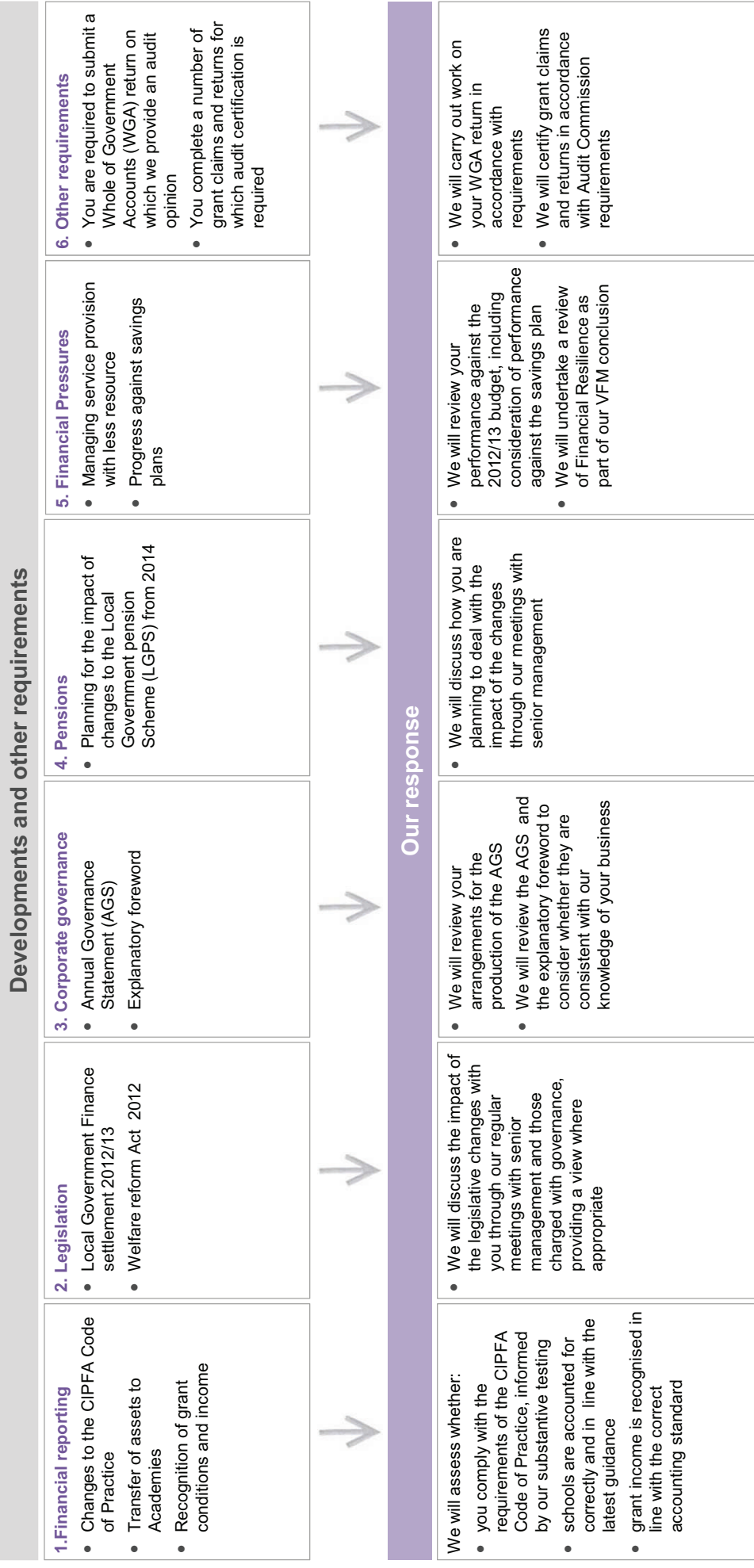
Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We set out a summary of our understanding below.

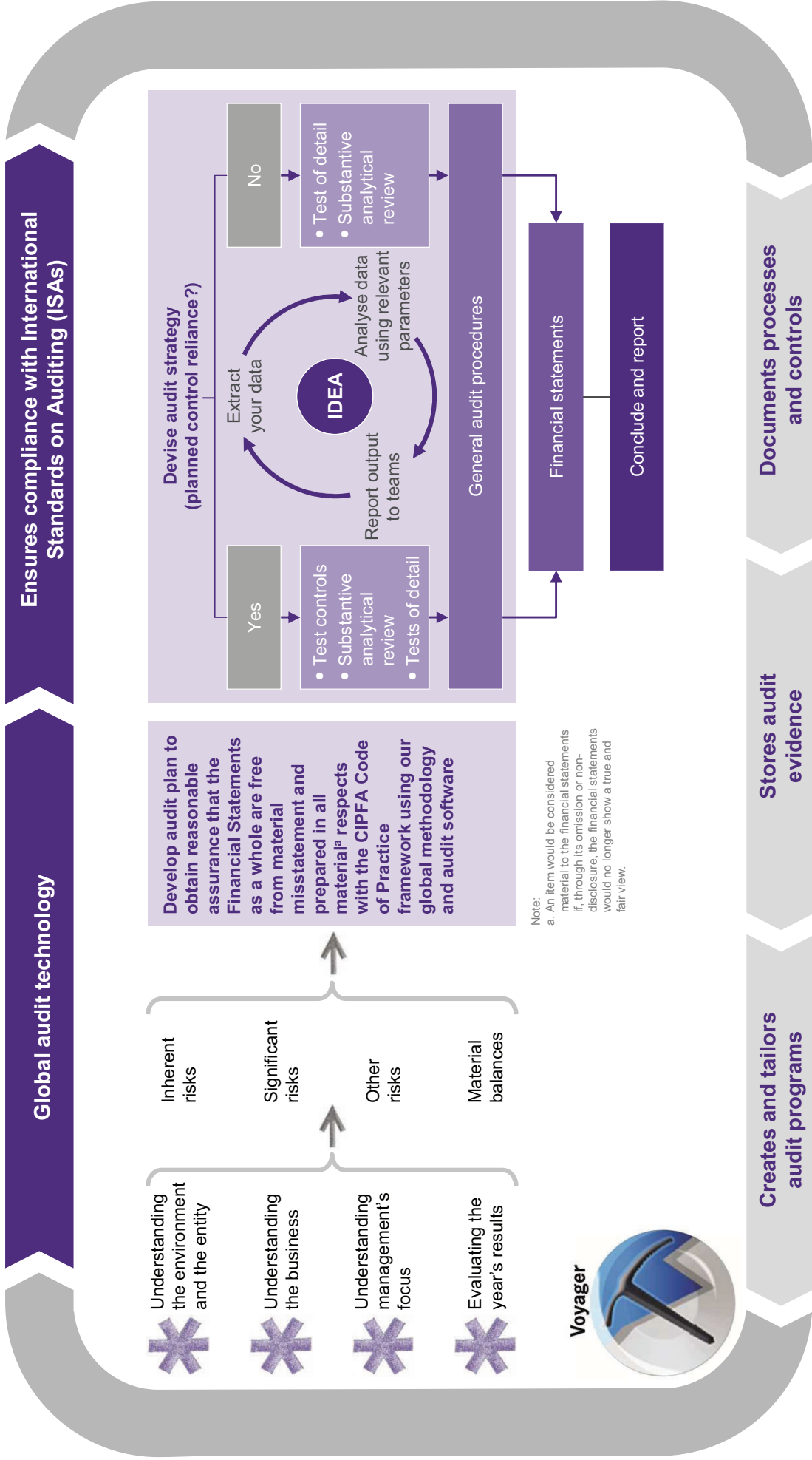


Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.



Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses not correct	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	Yes	Property, Plant and Equipment	Low	None		✓
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest & investment income	Yes	Investments	Low	None		✓
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Impairment of investments	No	Investments	Low	None		×
Income from council tax	Yes	Council Tax	Low	None		✓
Revenue support grant & other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	PPE activity not valid PPE improperly expensed	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	✓
Heritage assets	No	Property, Plant & Equipment	Low	None		✗
Intangible assets	No	Intangible assets	Low	None		✗
Investments (long & short term)	Yes	Investments	Low	None		✓
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		✗
Inventories	No	Inventories	Low	None		✗
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provision	Low	None		✓
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work planned:</p> <ul style="list-style-type: none"> Review and testing of revenue recognition policies Performance of attribute testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries (months 1 to 9) <p>Further work planned:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries for remaining three months and at year end Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Operating expenses understated	<ul style="list-style-type: none"> • Identification of controls over operating expenses • Walkthrough of the operating expenses cycle 	<ul style="list-style-type: none"> • Attribute sample testing • Review of expenditure by supplier and other procedures to gain assurance over completeness
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> • Identification of controls over operating expenses • Walkthrough of the operating expenses cycle 	<ul style="list-style-type: none"> • Attribute sample testing • Review of liability balances by supplier and other procedures to gain assurance over completeness
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> • Identification of controls over employee remuneration • Walkthrough of employee remuneration cycle 	<ul style="list-style-type: none"> • Attribute testing of employee remuneration • Proof in total of employee remuneration • Review the calculation of tax, NI, pensions and other deductions • Review of pension and other employee remuneration disclosures • Review of officer and members remuneration
Property, Plant & Equipment	PPE activity not valid Revaluation measurement not correct	<ul style="list-style-type: none"> • Identification of controls over the purchase of property, plant & equipment • Walkthrough the property, plant and equipment cycle 	<ul style="list-style-type: none"> • Attribute sample testing • Review of capital expenditure budgets in comparison to spend • Review of assets under construction if significant

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Internal audit	We have reviewed internal audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service and that we can take assurance from their work in contributing to an effective internal control environment at the Council.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. We carried out walkthrough tests of Property, Plant and Equipment, Employee Remuneration and Operating Expenses.	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Review of information technology (IT) controls	Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.	No significant issues were noted. IT controls were observed to have been implemented in accordance with our documented understanding. We have identified some areas where potential improvements could be made to your IT control environment. We have discussed these with management and made three technical recommendations. The recommendations and management's responses are set out in action plan included in the appendix to the plan.
Journal entry controls	We have reviewed your journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on your control environment or financial statements. To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that need to be reported.	No issues have been identified that we need to report to you. We will undertake our review of journals for the remaining three months as part of our final accounts visit.

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on your priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to you on a review-by-review basis.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources with tighter budget

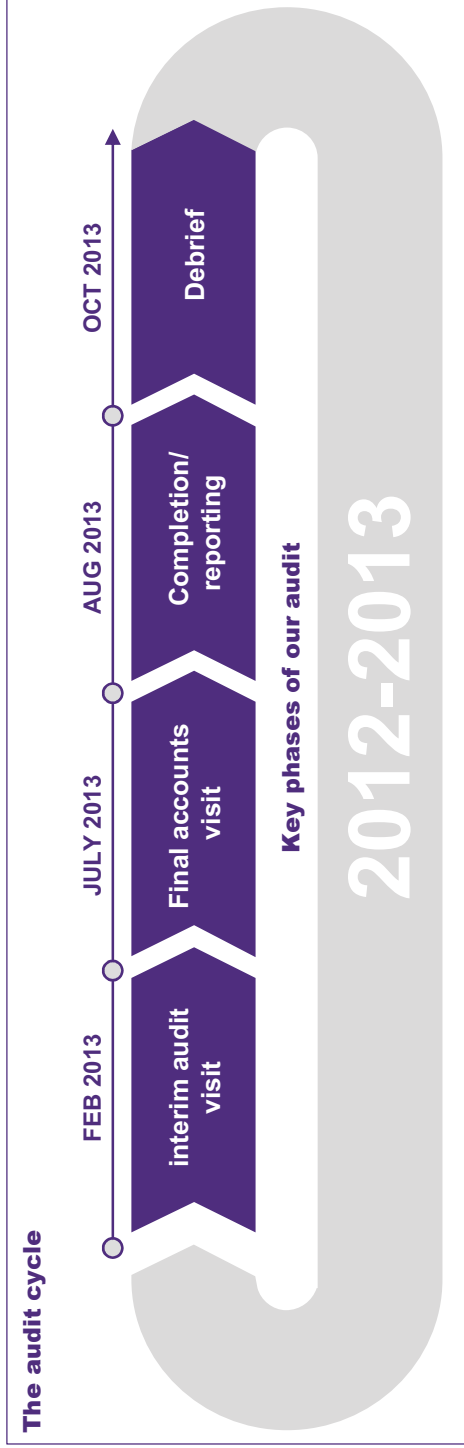
Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- evaluate plans and progress in becoming a Commissioning Council;
- consider the reasonableness of the decision to enter into the Energy from Waste contract and review the risk assessment and management of the contract;
- review progress in establishing the independent Learning Trust and Local Authority Trading Company;
- consider the impact on your governance framework of the move to select committees;
- review your financial plans including the underlying assumptions made;
- review your 2012/13 financial performance
- review progress against savings plans and the adequacy of future plans; and
- benchmark your performance against other similar bodies.

Logistics and our team



Date	Activity
November 2013	Planning commences
February 2013	Interim site work
June 2013	The audit plan presented to Regulatory and Audit Committee
July 2013	Year end fieldwork commences
August 2013	Audit findings clearance meeting
24 September 2013	Regulatory and Audit Committee meeting to report our findings
By 30 September 2013	Sign financial statements and VFM conclusion
By 31 October 2013	Issue Annual Audit Letter

Our team

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Fees and independence

Audit Fees

	Fees £
Council audit	117,450
Grant certification	8,500
Total audit fees	125,950

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- You will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Service	Fees £
None	nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>A documented annual review of user rights should be implemented to ensure that user permissions are aligned with user roles and that conflicting permissions are identified and either removed or mitigated.</p> <p>The annual review should identify business roles with their respective SAP roles and allow business management to review whether the user's access is still relevant and required. Conflicting permissions should be controlled through appropriate controls that mitigate the risk that inappropriate or unauthorised transactions might occur.</p>	Low	<p>This issue has also been raised by Internal Audit and considered by the SAP Governance Group. A report is to be prepared for COMT setting out proposals for changes to the governance of SAP roles, including new processes and clarity of ownership and accountability. Managing the risk of conflicts within SAP roles will also be covered as part of the proposal. The SAP Governance Group will then lead on the implementation of actions arising.</p>	<p>Paper to COMT Chief Internal Auditor August 2013</p> <p>Action arising SAP Governance Group Dates TBD</p>

Action plan (continued)

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
2	Separation should be made between users who require privileged access, such as SE38 or similar development transaction codes in production and the ability to open the production client (SCC4). Client opening utilities should be restricted to persons with no development capabilities such as SE38. Where a conflict cannot be avoided, an appropriate mitigating control should be enforced such as transaction use monitoring using the RSAU event logging parameter or similar.	Low	The individual's access to SCC4 was removed in January 2013 at the time of the visit of the External Auditor. SCC4 and access to the related table will be removed from non-Basis roles by the end of May 2013.	May 2013 ICT Manager (SAP)
3	Management should deliver a clearly documented policy on program testing and ensure that all testing results are formally documented for future reference. The documentation should include references to minimum testing standards expected and descriptions of testing methods used. Testing documentation should identify the business scenario being tested and include a means to capture user comments and any errors reported under the scenario being tested.	Low	The current gateway review process requires all system changes to have been tested by a responsible person, and signed off by the business owner before transportation to the live system. The business owner approval is documented and retained. We will review the documentation to ensure they adequately address the policy and testing requirements.	December 2013 ICT Manager (SAP)



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