External Audit Plan

Year ending 31 March 2018

Buckinghamshire County Council

31 May 2018

Contents

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Buckinghamshire County Council ('you' or 'the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as you auditor. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Regulatory and Audit Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Regulatory and Audit Committee of your responsibilities. It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. We have considered how you are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of your business and is risk based.

Significant risks	Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management over-ride of controls • Valuation of property, plant and equipment • Valuation of the net pension fund liability We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £16.5m (2016/17: £15.9m), which equates to 2% of your gross service expenditure for 2016/17. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.8m (2016/17: £0.8m).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks: • Ofsted inspection of children's services • Funding pressures • Transformation of adult social care services • Transfer of services from Buckinghamshire Learning Trust
Audit logistics	Our interim visit took place in January 2018 and our final visit will take place in June 2018. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be no less than £88,088 (2016/17: £88,088) for the Council.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code.

Transformation of Adult Social care services

You are currently transforming the way that adult social care is delivered in Buckinghamshire, including resolving residual challenges from bringing the work of Buckinghamshire Care back in house and greater health and social care integration, with a movement toward the establishment of an Accountable Care System in Buckinghamshire. Any large scale transformation programmes carry inherent risk and it is important to have a clear vision and benefits realisation strategy.

Transfer of services from Buckinghamshire Learning Trust

In recent years, you have experienced some challenges in ensuring effective contract management of the contract with Buckinghamshire Learning Trust (BLT) to provide a range of services to support schools.

In January 2018, your Cabinet decided that your contract with BLT will not be renewed and their grant-funded services will transfer back in-house.

It is important to ensure that there are effective arrangements in place for managing this transition and ensuring the effective provision of these services going forward.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Minimum Revenue Provision (MRP)

Local authorities are required to set aside a prudent amount of Minimum Revenue Provision (MRP). DCLG has issued 'Guidance on Minimum Revenue Provision' which sets out the principles and processes to be followed in complying with these regulations.

DCLG is consulting on new MRP statutory guidance. This would move away from the approach under the current regulations where authorities make a prudent judgement on the amount of MRP to calculate to a rule based system.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Key challenges

Financial pressures

Buckinghamshire faces a challenging financial settlement going forward, with Revenue Support Grant reducing to £nil in 2018/19, compared to £8m in 2017/18m, and down from £60m in 2013/14.

Though you have a good track record on delivering budgets and savings plans to date, in common with other local authorities nationally you continue to remain in a challenging financial position. It is therefore of vital importance that you strive to deliver continued cost savings and develop new revenue streams to bridge the reduction in central funding and demand pressures that you face.

Children's services

In August 2014, the Council was rated 'inadequate' by Ofsted in relation to services for children in need of help and protection, children looked after and care leavers. Following a re-inspection in November 2017, though some improvements were noted, Ofsted reported in January 2018 that children's services remain 'inadequate'.

Responding to the findings of Ofsted is a significant challenge that will take a number of years and will require significant continued investment in transforming ways of working. It will be critical to learn from the feedback from Ofsted around why you continue to underperform in this area.

Our response

- We will consider your arrangements for managing and reporting your financial resources, as part of our work in reaching our Value for Money conclusion. We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops. We will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, and the impact of impairment assessments and the adequacy of provisions in relation to essential work on high rise buildings.
- For the last four years we have qualified our conclusion on your arrangements for delivering Value for Money in respect of the issues identified by Ofsted around children's services. We will review the report of Ofsted dated and other correspondence you have had with Ofsted and the Department for Education in reaching our Value for Money conclusion for 2017/18.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Buckinghamshire County Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for your audit.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. You face external scrutiny of your spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	We will: • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness; and • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	You revalue your land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter for the audit. .	We will: • review management's processes and assumptions for the calculation of the estimate, the instructions issued to the external valuer and the scope of their work; • consider the competence, expertise and objectivity of the external valuer used by management; • discuss with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions; • review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; • testing revaluations made during the year to ensure they are input correctly into your asset register; and • evaluate the assumptions made by management for those assets not revalued during the year and verify how management have satisfied themselves that these are not materially different to current value.
Valuation of pension fund net liability	Your pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter for the audit.	We will: • identify the controls put in place by management to ensure that the pension fund liability is not materially misstated; we will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation; we will gain an understanding of the basis on which the valuation is carried out; • undertake procedures to confirm the reasonableness of the actuarial assumptions made; and • check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration	Payroll expenditure represents a significant percentage of your operating expenses. As the payroll expenditure comes from a number of individual transactions and an interface with a number of different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.	We will: • evaluate your accounting policy for recognition of payroll expenditure for appropriateness; • gain an understanding of your system for accounting for payroll expenditure and evaluate the design of the associated controls; and • gain substantive assurance over payroll expenditure for the year.
Operating expenses	Non-pay expenses on other goods and services also represents a significant percentage of your operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of creditors as a risk requiring particular audit attention.	We will: • evaluate your accounting policy for recognition of non-pay expenditure for appropriateness; • gain an understanding of your system for accounting for non-pay expenditure and evaluate the design of the associated controls; and • undertake testing of post-year end payments to test completeness of expenditure recorded in the financial statements.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
    - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
    - issue of a report in the public interest; and
    - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements..

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We propose to calculate financial statement materiality based on a proportion of your gross service expenditure for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £16.5m (2016/17: £15.9m), which equates to 2% of your gross service expenditure for 2016/17. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit Committee

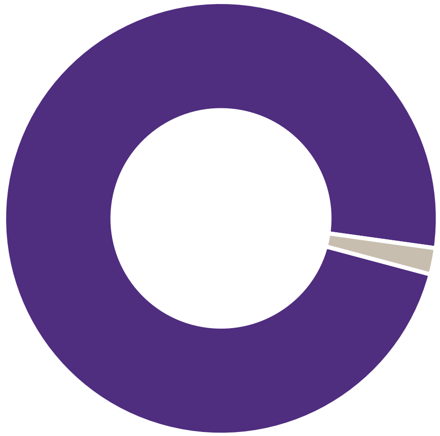
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Regulatory and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.8m (2016/17: £0.8m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Regulatory and Audit Committee to assist it in fulfilling its governance responsibilities.

Outturn gross service expenditure 2016/17

£827.7m

(2015/16: £794.8m)



Materiality

£16.5

Whole financial statements materiality

(2016/17: £15.9m)

▪ Outturn gross service expenditure 2016/17

Value for Money arrangements

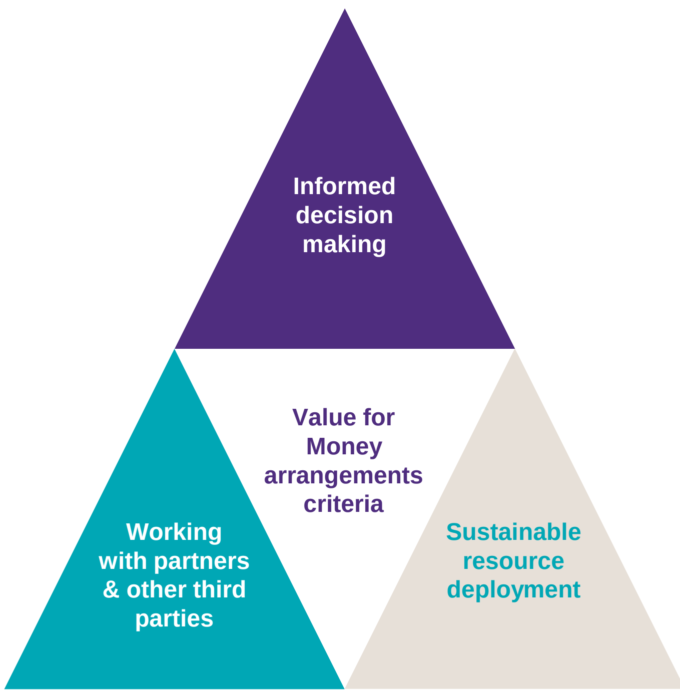
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether you have proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that you do not have proper arrangements in place to deliver value for money.

Ofsted inspection of children's services

Ofsted issued a report on your children's services in August 2014 which gave a rating of 'inadequate'. A follow-up review was completed by Ofsted in November 2017, for which you have received a further rating of 'inadequate'.

We will review progress made in implementing the changes to your arrangements requested by Ofsted. We will also consider your performance against your internal objectives and targets in delivering a safe and reliable children's service.

Funding pressures

In light of the continued funding pressures that you face, there is a risk that you will not be able to generate new revenue streams or deliver saving cuts of sufficient scale to maintain a balanced budget over the period covered by the Medium Term Financial Plan (MTFP).

We will review recent performance against the budget and consider the reasonableness of the assumptions upon which the MTFP is based.

Transformation of adult social care services

You are currently transforming the way that adult social care is delivered in Buckinghamshire, including resolving residual challenges from bringing the work of Buckinghamshire Care back in house and greater health and social care integration, with a movement toward the establishment of an Accountable Care System in Buckinghamshire.

We will review progress made in implementing the changes to your arrangements and hold discussions with relevant officers involved in the delivery of this transformation.

Transfer of services from Buckinghamshire Learning Trust

You have decided to terminate your contract with Buckinghamshire Learning Trust and bring the majority of their services back in-house from 1 April 2018.

We will review plans for the transfer of services back in-house and discuss with officers the plans in place for managing these services going forward.

Audit logistics & audit fees

Paul Grady, Engagement Lead

Paul will be the main point of contact for the Chief Executive, CFO and Members. Paul will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Senior Management and the Regulatory and Audit Committee. Paul will ensure our audit is tailored specifically to you and is delivered efficiently. Paul will review all reports and the team's work focussing his time on the key risk areas to your audit.

Marcus Ward, Senior Audit Manager

Marcus will work with the senior members of the finance and executive teams, working with Tom to ensure early delivery of testing and agreement of accounting issues on a timely basis.

Tom Slaughter, Audit Manager

Tom will lead the onsite team and will be the day to day management contact for the audit. Tom will attend Regulatory and Audit Committees, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Tom will work with Internal Audit to secure efficiencies and avoid duplication, providing assurance for your Annual Governance Statement. Tom will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Tom will coach the junior members of the team and review the teams work.

Audit fees

The planned audit fees are no less than £88,088 (2016/17: £88,088) for the financial statements audit. In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, you must ensure that:

- all audit queries arising from our interim work are responded to satisfactorily during the interim audit and all testing samples provided to enable completion during the interim audit
- the draft accounts are provided to us by 31 May and are materially accurate;
- supporting schedules to all figures in the accounts and other working papers are provided to us by 31 May in accordance with the agreed upon information request list;
- all supporting schedules are clearly presented and agree to figures in the accounts;
- key management and accounting staff identified in our information request list are available throughout the duration of our audit visits to help us locate information and to provide explanations; and
- all audit queries are resolved promptly and within agreed timescales.

If any of the above requirements are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We would like to draw to your attention that this will be Paul Grady's sixth year as your Engagement Lead. Where an Engagement Lead wishes to act for a period of more than five years, we are required to seek agreement from those charged with governance (the Regulatory and Audit Committee), that you are content with this arrangement. You have confirmed that you are content. Engagement Leads are able to act for a maximum of seven years at local authority audits.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Non-audit services

The following non-audit services were identified:

Service	Fees £	Threats	Safeguards
Audit related			
Teachers Pensions certification (in respect of 2016/7)	£7,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work was £7,500 in comparison to the total fee for the audit of £88,088 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Skills Funding Agency certification (in respect of 2016/17)	£4,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fee for the audit of £88,088 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Appendices

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: • The directors use of the going concern basis of accounting is appropriate • The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: • Responsibilities of management and auditors regarding other information • A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation • Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

Appendix B: Internal control findings

	Assessment	Issue and risk	Recommendations
1	Deficiency	**Approval of journal entries** • We identified that six journal accruals to a total of £1,622,448 were posted by an individual in the SAP team on behalf of the adult learning team into a prior closed period without the permission of the central finance team. This was to post a mid-year accrual to enable an academic return to be completed. However, this bypassed your established process for raising journal accruals; such entries are only permitted to be raised at year end and not mid-year. • The SAP team were able to post these journals because a number of their team have "super-user" access rights that allow them access to all areas of the SAP system. We have flagged to you in previous audits that the number of employees with "super-user" access should be reduced. • In response to this finding, the accrual entries posted have been reversed out by your finance team.	• Review "super user" access rights and take immediate action to that SAP users hold such access rights only where this is essential to their job role. • Ensure that all staff with access to SAP are aware of and adhere to the Council's journal approval processes and specifically to your arrangements for posting and approval of journal accruals. **Management response** • We agree with your recommendation and have put new processes in place as to stop this from happening in the future. **Rachael Martinig (Financial Accountant) – 18th May 2018**

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA UK 265)

Assessment
- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement