

# External Audit Plan

*Year ending 31 March 2019*

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Buckinghamshire County Council  
March 2019



# Contents



Your key Grant Thornton  
team members are:

Iain Murray

Engagement Lead

T: 020 7728 3328

E: iain.g.murray@uk.gt.com

Simon Turner

Audit Manager

T: 0121 232 5273

E: simon.a.turner@uk.gt.com

Cherise Douglas

In-Charge Accountant

T: 020 7865 2488

E: cherise.a.douglas@uk.gt.com

Section	Page
1. Introduction & headlines	3
2. Key matters impacting our audit	4
3. Significant risks identified	5
4. Other matters	8
5. Materiality	9
9. Value for Money arrangements	10
10. Audit logistics, team & fees	11
11. Independence & non-audit services	12
12. PSAA contract monitoring	13

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 planning 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 Authority or all 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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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Buckinghamshire County Council ('the Authority') 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 out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Buckinghamshire County Council. 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:

- whether your financial statements that have been prepared by management with the oversight of those charged with governance (the Regulatory and Audit Committee); and
- your Value for Money arrangements in place 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 its 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.

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## Significant risks

Those risks requiring special 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 land and buildings
- Valuation of the net pension 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.

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## Materiality

We have determined planning materiality to be £17.2m (Prior Year: £16.5m) for the Authority, which equates to 2% of your prior year gross expenditure for the year ended 31 March 2018. 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 £0.9m (Prior Year: £0.8m).

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## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following Value for Money significant risks:

- Ofsted inspection of children's services
- Transformation of adults social care services
- Funding pressures
- Creation of a unitary authority in Buckinghamshire

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## Audit logistics

Our interim visit will take place in February 2019 and our final visit will take place in June and July 2019. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be £66,066 (Prior Year: £88,088) for the Authority, subject to the Authority meeting our requirements set out on page 13.

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## 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.

# Key matters impacting our audit

## External Factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Buckinghamshire County Council, while you are in a healthy position for an authority of your size and scale in respect of the reserves that you hold, your reserves are below their historical levels and it is imperative that you continue to maintain appropriate budgetary control and ensure the delivery of planned savings if you are to maintain your good track record in delivering a balanced budget.

### Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

## Internal Factors

### Transformation

You are currently undergoing significant transformation of your ways of working. This includes:

- In January 2018, you received a rating of “inadequate” following the review by Ofsted of your children’s services functions. You are currently transforming how you deliver children’s services to ensure that all of the findings raised by Ofsted are appropriately resolved and addressed.
- Following the decision made by the Secretary of State in November, you expect a new unitary authority to be established in Buckinghamshire, to replace the County Council and four District Councils from 1 April 2020. You currently implementing arrangements to prepare for this transition.
- You are undertaking significant transformation of how you deliver adult social care services, with a view to modernising social care and to support your customers in remaining healthy, safe and independent for longer.

## 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.
- As part of our work we will review your financial performance in 2018/19 and consider the reasonableness of the high-level assumptions that you have made in preparing your Medium Term Financial Plan.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- We identified a significant Value for Money risk relating to your adults transformation programme, your preparations for the transition to unitary status and your response to the Ofsted findings around your children’s services, which we will consider as part of our audit work. See page 10 for details of the work that we have planned in respect of this risk.
- We will keep ourselves updated on recent developments in your children’s, adults transformation and your preparations for the transition to unitary status.

# 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
<b>Revenues include fraudulent transactions</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition as the majority of your income is derived from grants or formula based income from central government and tax payers;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Buckinghamshire County Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk for your audit.</p>
<b>Management over-ride of controls</b>	<p>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.</p> <p>You face external scrutiny of your spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• on a risk-based basis, test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Property, plant and equipment - valuation of land and buildings (rolling revaluation)</b>	<p>You revalue your land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.3 billion as at 31 March 2018) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in your financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>.</p> <p>We therefore identified valuation of property, plant and equipment land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li><li>• evaluate the competence, capabilities and objectivity of the valuation expert;</li><li>• write to the valuer to confirm the basis on which the valuation was carried out;</li><li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li><li>• test revaluations made during the year to see if they had been input correctly into the your asset register; and</li><li>• evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li></ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of the pension fund net liability</b>	<p>Your pension fund net liability, as reflected on your balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£743 million in your balance sheet as at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of your pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• update our understanding of the processes and controls put in place by management to ensure that your pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li><li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li><li>• assess the competence, capabilities and objectivity of the actuary who carried out your pension fund valuation;</li><li>• assess the accuracy and completeness of the information provided to the actuary to estimate the liability;</li><li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li><li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li><li>• obtain assurances to the controls in place for Buckinghamshire Pension Fund surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li></ul>

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# 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 read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- 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 legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- 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 Authority'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 have determined financial statement materiality based on a proportion of the gross expenditure for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £17.2m (Prior Year: £16.5m), which equates to 2% of your prior year gross expenditure for the year ended 31 March 2018. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £12.0m

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 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 Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.9m (Prior Year: £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.

## Prior year gross expenditure

£859m



- Prior year gross expenditure
- Materiality

# Value for Money arrangements

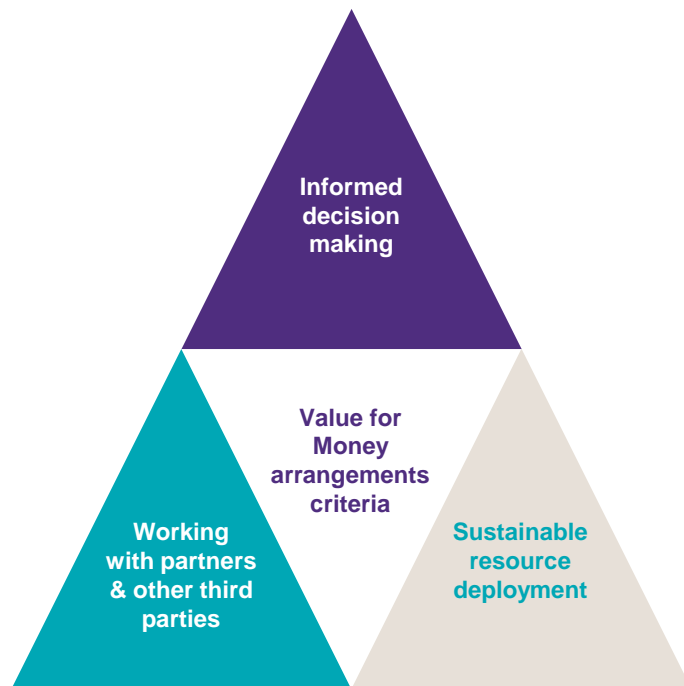
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

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 audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



### Ofsted inspection of children's services

Ofsted issued a report on your children's services in January 2018 which gave you a 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.



### Transformation of adult social care services

You are currently transforming the way that adult social care is delivered in Buckinghamshire, through greater health and social care integration and the implementation of your "Better Lives" strategy.

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.



### Funding pressures

In light of the increasing funding pressures that you face, there is a risk that it 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.

We will review recent performance against the budget and consider the reasonableness of the assumptions upon which the Medium Term Financial Plan is based.



### Creation of a unitary authority in Buckinghamshire

In April 2020, your services and those of the four Buckinghamshire district councils are due to transfer to a new unitary authority. You are working closely with your district council colleagues to prepare for this transition.

We will review your programme, planning and risk management arrangements that you have put in place to prepare for this transition.

# Audit logistics, team & fees



## Iain Murray, Engagement Lead

Iain is the main point of contact for your senior officers and members. Iain will share with you his wealth of knowledge and experience across the local government sector, providing challenge and sharing good practice. Iain will ensure that our audit is specifically tailored to you and is delivered efficiently. Iain will review the work of the audit team and all reports presented to you.



## Simon Turner, Audit Manager

Simon will oversee the management of the audit and will work closely with your senior finance staff to ensure the delivery of audit testing and resolution of any accounting issues on a timely basis. Simon will attend meetings of the Regulatory and Audit Committee and will undertake review of the work of the audit team. Simon will also lead on the delivery of our Value for Money audit work.

## Cherise Douglas, In-Charge Accountant

Cherise will lead the on-site audit team and will be the day to day contact for the audit. Cherise will liaise with your finance team to ensure the smooth progression of the audit and to highlight early any significant issues and adjustments identified from our work.

## Audit fees

The planned audit fees are £66,066 (Prior Year: £88,088 for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we will detail for your officers our expectations and requirements for completing the audit. If these requirements are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

# 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 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.

We confirm that we have implemented policies and procedures to meet the requirements of 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 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified:

Service	Fees £	Threats	Safeguards
<b>Audit related</b>			
Teachers Pensions certification (in respect of 2017/18)	£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 £66,066 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.
Education and Skills Funding Agency certification (in respect of 2017/18)	£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 £66,066 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

No non-audit related services have been provided to you by Grant Thornton UK LLP for the year ended 31 March 2019.

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. 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.

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# PSAA contract monitoring

Buckinghamshire County Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts in 2018/19. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, [www.psa.co.uk](http://www.psa.co.uk).

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the separate document titled 'Local Government audits 2018/19 and beyond. Grant Thornton's External Audit commitment'. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.



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