

Audit Plan

Year end 31 March 2014

South Bucks District Council

March 2014

Ernst & Young LLP



Audit Committee
South Bucks District Council
Capswood
Oxford Road
Denham
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14 March 2014

Dear Members

Audit Plan

We are pleased to attach our Audit Plan, which sets out how we intend to carry out our responsibilities as your auditor. The purpose of this report is to provide the Audit Committee with a basis for reviewing our proposed audit approach and scope for the 2013-14 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements. It also ensures that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 27 March 2014, as well as to understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Maria Grindley
For and behalf of Ernst & Young LLP
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1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ Our audit opinion on whether the financial statements of South Bucks District Council give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended; and
- ▶ A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return, to the extent and in the form required by them.

In planning the audit we take into account several key inputs:

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ any changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

This means that our audit is focused on the areas that matter, and so our feedback is more likely to be relevant to you.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

We have identified a significant risk to the opinion on the financial statements, the risk of management override. This is set out in detail in part 2 of this report. We will provide an update to the Audit Committee on the results of our work on this in our report to those charged with governance. This is scheduled for delivery in September 2014.

Our process and strategy

▶ Financial Statement Audit

We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. We set our materiality based on the Council's level of gross expenditure. We also consider the size of useable reserves, the Council's financial position, its public profile and the reporting and challenge history. Our audit is designed to identify errors above materiality.

- ▶ We aim to rely on the Council's internal controls in the key financial systems to the fullest extent allowed by auditing standards. We identify the controls we consider important and seek to place reliance on internal audit's testing of those controls. Where control failures are identified we consider the most appropriate steps to take.
- ▶ We seek to place reliance on the work of internal audit wherever possible. We have already liaised with Internal Audit and have begun our review and re-performance of their work.
- ▶ The key members of our audit team are Maria Grindley, Director; Susan Gill, Manager; and Clare Hodges, Team Leader. Clare has just taken on the role of Team Leader at Chiltern District Council as well, which means we have team consistency across the audits of South Bucks and Chiltern District Councils.

▶ Arrangements for securing Economy, Efficiency and Effectiveness

We adopt an integrated audit approach: our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

We have not identified any specific risk areas which require us to undertake any additional work to address theme.

2. Financial Statement Risks

We outline below our assessment of the financial statement risks facing you, identified through our knowledge of your operations and discussion with members and officers.

We aim to validate these with you at our meeting.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
<p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud. This is because of its ability to manipulate accounting records (directly or indirectly) and to prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries in the general ledger and other adjustments made in the preparation of the financial statements; ▶ reviewing accounting estimates for evidence of management bias; and ▶ evaluating the business rationale for significant unusual transactions.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements caused by either error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility of a material misstatement due to fraud, and design the appropriate procedures to consider such a risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages.
- ▶ asking management about the risks of fraud and controls to address those risks.
- ▶ understanding how those charged with governance oversee management's processes over fraud.
- ▶ considering the effectiveness of management's controls designed to address the risk of fraud.
- ▶ determining an appropriate strategy to address those risks.
- ▶ performing mandatory procedures, regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may refer to it in our report.

3. Economy, Efficiency & Effectiveness

Our work will focus on:

1. Whether there are proper arrangements for securing financial resilience at South Bucks District Council; and
2. Whether there are proper arrangements at the Council to secure economy, efficiency and effectiveness in the use of resources.

In line with our statutory duty, we are required to conclude whether or not there are any matters arising from our value for money work that we need to report.

We have identified no significant risks requiring us to undertake any specific risk-based work. If there should be any changes to our risk assessment we will in the first instance discuss them with the Head of Finance.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, your:

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in your use of resources.

We issue a two-part audit report covering both of these objectives.

i) Financial Statement Audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, as far as possible we will place reliance on the reported results of other statutory inspectorates on corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and improving efficiency and productivity.

4.2 Audit process overview

Our audit involves:

- ▶ assessing the key internal controls in place and testing the operation of these controls;
- ▶ review and re-performance of the work of your internal auditors;
- ▶ reliance on the work of other auditors where appropriate;
- ▶ reliance on the work of experts in relation to areas such as pensions and valuations; and
- ▶ substantive tests of detail of transactions and amounts.

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT:

- Accounts receivable
- Procure to pay
- Cash and bank
- Business rates
- Council tax
- Housing Benefits
- Payroll
- Financial closedown procedures

As the payroll process is outsourced to Aylesbury Vale District Council, we will get assurance from their auditors.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular for payroll, cash payments and receipts and journal entries. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

As in previous years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports - together with reports from other work completed in the year - in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements.

Use of experts

We will use specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions, valuations, and financial reporting.

Mandatory procedures required by auditing standards

In addition to the financial statement risks outlined in section 2, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

- ▶ Addressing the risk of fraud and error. Significant disclosures included in the financial statements.
- ▶ Entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.

- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.
- ▶ Reviewing, and where appropriate examining, evidence relevant to your corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We are happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are “clearly trivial”. We intend to treat misstatements less than £33,600 as clearly trivial. All uncorrected misstatements found above this amount will be presented to you in our year-end report.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Council is £55,632, the same figure as in 2012/13.

The Commission has also set a separate scale fee of £33,900 for our work on grant certification: The scale fee for 2012/13 was £26,350, however an additional scale fee variation was agreed by the Audit Commission of £7,965 making the total fee for 2012/13 £34,315.

4.5 Your audit team

The engagement team is led by Maria Grindley, who has significant experience of public sector auditing, including South Bucks District Council. Maria is supported by Susan Gill, who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the chief accountant.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government accounts; and the deliverables we have agreed to provide to you through the audit committee cycle in 2013-14. These dates are determined to ensure our alignment with the Audit Commission’s rolling calendar of deadlines.

We will provide a formal report to the Audit Committee in September 2014 on our year-end procedures. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter to communicate to you and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning:	December-February	April 2013	Audit Fee letter
Risk assessment and setting of scopes	December-February	March 2014	Audit Plan
Testing of routine processes and controls	February-March		Interim results report (if required)
Year-end audit	August – September		
		September 2014	Report to those charged with governance
			Audit report (including our opinion on the financial statements and a conclusion as to whether you have proper arrangements for securing economy, efficiency and effectiveness in your use of resources).
			Audit completion certificate
	Oct		Annual Audit Letter
Grant claim certification	Nov	January 2015	Report to those charged with governance

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self- interest threats

A self- interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that comply with the Audit Commission's Standing Guidance.

A self- interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

There are no other self- interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of the management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall, we consider that the safeguards adopted appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley, your audit engagement partner, and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 28 June 2013 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2013>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013-14	Actual Fee 2012-13	Explanation of variance
	£'000	£'000	
Total Audit Fee – Code work	55,632	55,632	
Certification of claims and returns*	33,900	34,315*	
Non-audit work (provide details)	0	0	

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables
- ▶ We are able to place reliance on the work of internal audit, as originally planned
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year
- ▶ No significant changes are made by the Audit Commission to the use of resources criteria on which our conclusion will be based
- ▶ Our accounts opinion and use of resources conclusion are unqualified
- ▶ Appropriate quality of documentation is provided by the audited body
- ▶ There is an effective control environment

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

*Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission of £26,350 plus a scale fee variation of £7,965 making a total fee for 2012/13 of £34,315..

Appendix B UK required communications with those charged with governance.

There are certain communications that we must provide to the audit committee of audited clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Report to those charged with governance
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Report to those charged with governance
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Report to those charged with governance
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry to the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements that they may be aware of 	Report to those charged with governance
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity</p>	Audit Plan Report to those charged

Required communication	Reference
<p>and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the audited body and senior management ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the ethical standards ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	with governance
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	Report to those charged with governance
<p>[Opening Balances (initial audits)]</p> <ul style="list-style-type: none"> ▶ Findings and issues regarding the opening balance of initial audits 	Report to those charged with governance
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Grant certification report to those charged with governance, and Annual Audit Letter if necessary
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan</p> <p>Report to those charged with governance and Annual Audit Letter if necessary</p>

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