

South Bucks District Council

Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

24 September 2015



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Section 1

Executive summary

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/2015 audit which is substantially complete. It includes the messages arising from our audit of the Council's financial statements and the results of our work to assess its arrangements to secure value for money in its use of resources.

Financial statements

- ▶ As at 24 September 2015 we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate that the Council has prepared its financial statements adequately, as we only have a few matters to communicate.

Value for money

- ▶ We expect to conclude that the Council has made appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Whole of Government Accounts (WGA)

- ▶ Subject to completion of our WGA review we do not propose to report any significant matters to the National Audit Office (NAO) on the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Code have been discharged for the relevant audit year. We expect to issue the certificate at the same time as the audit opinion.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and any planned changes in the coming period.
- ▶ The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ express an opinion on the 2014/2015 financial statements and the consistency of other information published with them;
 - ▶ report on an exception basis on the Annual Governance Statement;
 - ▶ consider and report any matters that prevent us being satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion); and
 - ▶ discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

This report also contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

As the Council is considered a component of the Whole of Government Accounts (for the whole public sector) and we are the component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to both the NAO and to the Council.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

We identified the following audit risk during the planning phase of our audit, and reported this in our Audit Plan. We set out here how we have gained audit assurance over this issue.

In the context of auditing the financial statements, we define a significant audit risk as an inherent risk which is both more likely to happen and has a more serious effect if it does happen, and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's relevant controls and assess their design and implementation.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risk (including fraud risk)</p> <p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and 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 focused on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded 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. 	<p>We found no issues of concern in these areas.</p>

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- ▶ We still need to complete the following areas of our work programme. We will provide an update of progress at the Audit Committee meeting:
 - ▶ Non-material notes; and
 - ▶ receipt of a Letter of Representation.
- ▶ Subject to these being resolved satisfactorily, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- ▶ We have identified no misstatements to date in the draft financial statements which management has chosen not to adjust.

Corrected misstatements

- ▶ Our audit identified a small number of disclosure errors which our team has highlighted to management for amendment. These have been corrected during the audit.
- ▶ The following two misstatements were above the value we agreed to report to you. They are both minor errors where incorrect figures have been picked up:
 - ▶ the value of Farnham Park assets was incorrect in note 21 – the draft showed £3.96m, which should have been £4.196m
 - ▶ the precepts in the Collection Fund had been “swapped” between bodies, although the total was correct.

Both of these have been amended.

Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must communicate to the Committee significant findings from the audit and other matters significant to the oversight of the Council’s financial reporting process. These include the following:
 - ▶ qualitative aspects of accounting practices; estimates and disclosures;
 - ▶ matters specifically required by other auditing standards to be communicated to those charged with governance, e.g. issues around fraud, compliance with laws and regulations, external confirmations, and related party transactions;
 - ▶ any significant difficulties during the audit; and
 - ▶ any other audit matters of governance interest.

We have no matters we wish to report.

Financial statements audit – application of materiality

Our application of materiality

- ▶ When establishing our overall audit strategy, we set the level of uncorrected misstatements we considered to be material for the financial statements as a whole.

Item	
<p>Planning Materiality and Tolerable error</p>	<p>We set planning materiality at £642,000 (2013/14: £610,000), which is 2% of gross expenditure in the accounts of £32.1 million.</p> <p>We also set a tolerable error (TE) for the audit. This is how we apply planning materiality at the more detailed level of an individual account or balance. Its purpose is to make reasonably sure that the total of all uncorrected and undetected misstatements is unlikely to exceed planning materiality. The level of TE drives how much detailed audit testing we need to support our opinion.</p> <p>We set TE at the upper level of the available range because in the previous year we found only two uncorrected misstatements totalling of £123,000 and three corrected errors, none of which affected the Council's financial position.</p>
<p>Reporting Threshold</p>	<p>We agreed with the Audit Committee that we would report to them all audit differences in excess of £30,476 (2013/14: £33,600)</p>

We also identified areas where we used a lower level of materiality level, as it might influence the reader. For these areas we developed a specific audit strategy. These include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. Strategy applied: substantive testing of disclosures.
- Related party transactions. Strategy applied: substantive testing of disclosures.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above; we also take into account any other relevant qualitative considerations.

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ It is the Council's responsibility to develop and implement systems of internal financial control and to have proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as the Council's auditor is to consider whether the Council has adequate arrangements to satisfy itself that this is indeed the case.
- ▶ We have tested the controls of the Council only to the extent needed to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
 - ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework, and
 - ▶ it is consistent with other information we know from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control, which the Council does not know about, that might result in a material misstatement in the financial statements.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation on a number of matters; to date these are standard representations.

Whole of Government Accounts

- ▶ As well as our work on the financial statements, we also review and report to the National Audit Office on the Council's Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- ▶ We are currently concluding our work in this area and will report any matters arising to the Audit Committee.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that South Bucks DC has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and focus specified by the Audit Commission.

Criterion 1 – arrangements for securing financial resilience

'Whether the Authority 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'

- ▶ During the audit we identified a significant risk under this criterion, which we reported to you in our 27 August Audit Plan Update.

Significant risk (impacts arrangements for securing financial resilience)

Our audit approach

Findings

Medium term financial planning

The Council continues to face financial challenges, with a savings requirement of £0.2m in 2016/17. The current medium term financial plan has a cumulative budget gap of £3.65m in 2017/18 (if new homes grant is not confirmed), with a savings gap of at least £0.4m per year from 2018/19.

The medium term financial plan sets out the Council's strategic approach for closing the budget gap and key deliverables that are critical to the future financial sustainability of the Council.

Our approach focused on:

- reviewing the achievement of the planned savings in 2014/15;
- reviewing the Council's ongoing identification of savings or alternative income streams to reduce the budget gap in 2016/17, and
- reviewing the Council's medium term financial planning and assumptions to 2017/18.

We have reviewed the Council's financial planning to date and the latest proposed update of the medium-term financial plan.

We have reviewed the assumptions made by the Council in drawing up the revised plan. Although the Council's financial planning is largely reliant on the New Homes Bonus, its analysis agrees with the profile of funding on the CLG website and does not rely on any new funding post-2105/16.

The Council's strategic plan appears to be reasonable.

- ▶ We have no issues to report under this criterion.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that South Bucks DC has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and focus specified by the Audit Commission.

Criterion 2 – arrangements for securing economy, efficiency and effectiveness

'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'

- ▶ We did not identify any significant risks under this criterion.
- ▶ We have no issues to report under this criterion.

Our work did not identify any other matters on aspects of the Council's corporate performance and financial management framework not covered by the scope of these criteria.

Section 6

Challenges for the coming year

Challenges for the coming year

Highways Network Asset (formerly Transport Infrastructure Assets):

The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.

This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.

This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.

Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.

Potential impact

The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirements may still have an impact if it is responsible for assets such as:

- footways;
- unadopted roads on industrial estates;
- cycleways; or
- street furniture.

Section 7

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since the confirmation in our Audit Plan dated 2 March 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent, and the objectivity of the audit engagement partner and staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm and that we are required by auditing and ethical standards to report to the Council.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both the Council and us. It is therefore important to consider the facts of which the Council is aware and come to a view. If the Committee wish to discuss any matters concerning our independence, we will be pleased to do so at the meeting on 24 September 2015.

Reporting to Those Charged With Governance

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our plan to meet these requirements were set out in our Audit Plan of 2 March 2015.

Audit fees

- ▶ The table below sets out the original scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	56,532	56,532	N/A
Certification of claims and returns	TBC	27,860	

- ▶ Our actual fee is provisionally in line with the agreed fee, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside the Audit Commission's Audit Code requirements.

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ED None

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