



Audit and Standards Committee (SBDC)

Monday, 23 July 2018 at 6.00 pm

Room 6, Capswood, Oxford Road, Denham

A G E N D A

Item

15. External Audit Annual Results Report (*Pages 3 - 52*)

Note: All reports will be updated orally at the meeting if appropriate and may be supplemented by additional reports at the Chairman's discretion.

Membership: Audit and Standards Committee (SBDC)

Councillors: D Anthony (Chairman)
G Hollis (Vice-Chairman)
P Griffin
L Hazell
P Hogan
R Sangster
T Dobson
G Hopkins

Date of next meeting – Thursday, 27 September 2018

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South Bucks District
Council

Audit results report
Year ended 31 March 2018

23 July 2018



Building a better
working world



Private and Confidential

23 July 2018

Dear Audit and Standards Committee Members

We have substantially completed our audit of South Bucks DC (the Authority) for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 4, before the statutory deadline of 31 July 2018. We also have no matters to report on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources

This report is intended solely for the use of the Audit and Standards Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Standards Committee meeting on 23 July 2018.

Yours faithfully

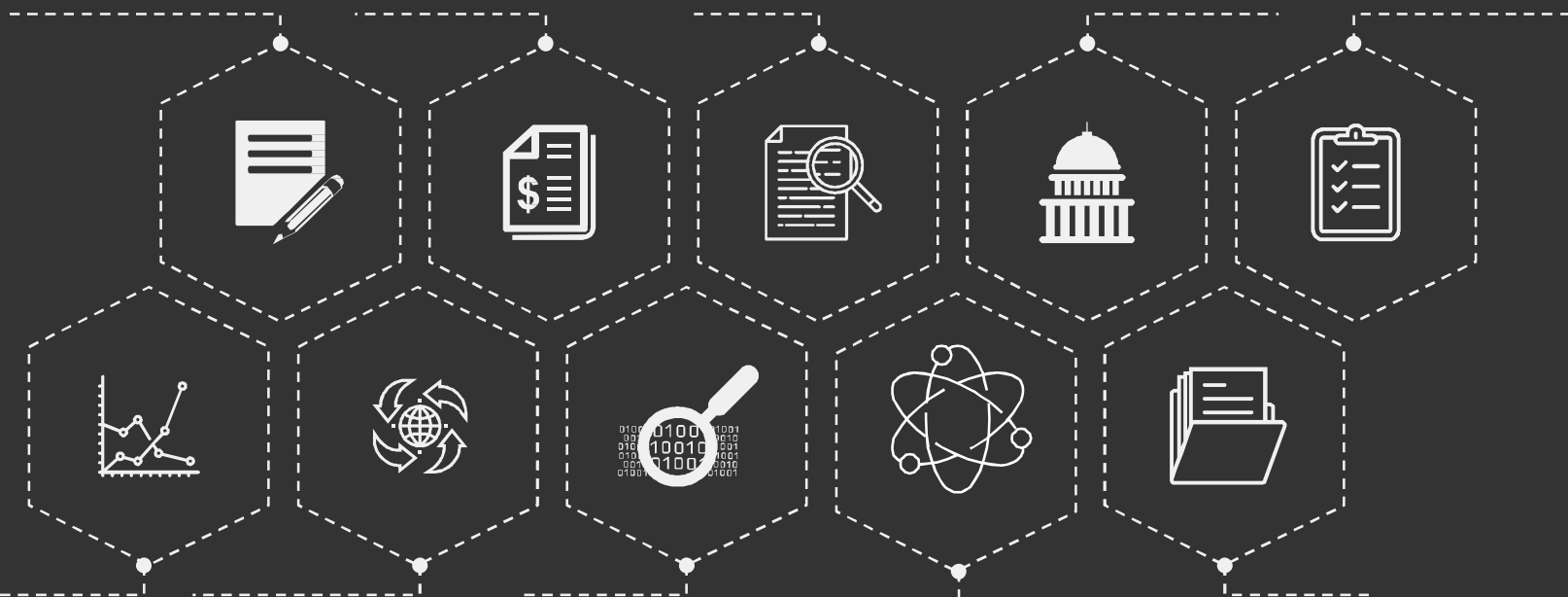
Andrew Brittain

For and on behalf of Ernst & Young LLP

Encl

Contents

- 01 Executive Summary
- 02 Understanding Financial Statements
- 03 Areas of Audit Focus
- 04 Audit Report
- 05 Audit Differences
- 06 Value for Money



- 07 Other reporting issues
- 08 Assessment of Control Environment
- 09 Data Analytics
- 10 Independence
- 11 Appendices

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Standards Committee and management of South Bucks DC in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Standards Committee, and management of South Bucks DC those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Standards Committee and management of South Bucks DC for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary



Executive Summary

Scope update

In our audit planning report to the 18 January 2018 Audit and Standards Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality. We updated our assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £0.715m (Audit Planning Report – £0.746m). This results in updated performance materiality of £0.536m at 75% of overall materiality, and an updated threshold for reporting misstatements of £36K.

There was no change in our assessment of significant risks.

Status of the audit

We have substantially completed our audit of South Bucks DC's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

Receipt of bank confirmations

Confirmation of housing benefit parameters

Pension scheme liabilities

Review of the final version of the financial statements

Completion of subsequent events review

Receipt of the signed management representation letter

Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

There is one unadjusted audit difference arising from our audit. This is in relation to IAS 19 Asset values and is £531K.

We identified a small number of minor audit disclosures which have been adjusted by management. None of them had an impact on the financial position.



Executive Summary

Objections

We have received no objections to the 2017/18 accounts from members of the public.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of South Bucks DC's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Standards Committee.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

Value for money

We have considered the Authority's arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified no significant risks.

We have no matters to report about these arrangements.



Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence. There were no issues arising during the audit.

02

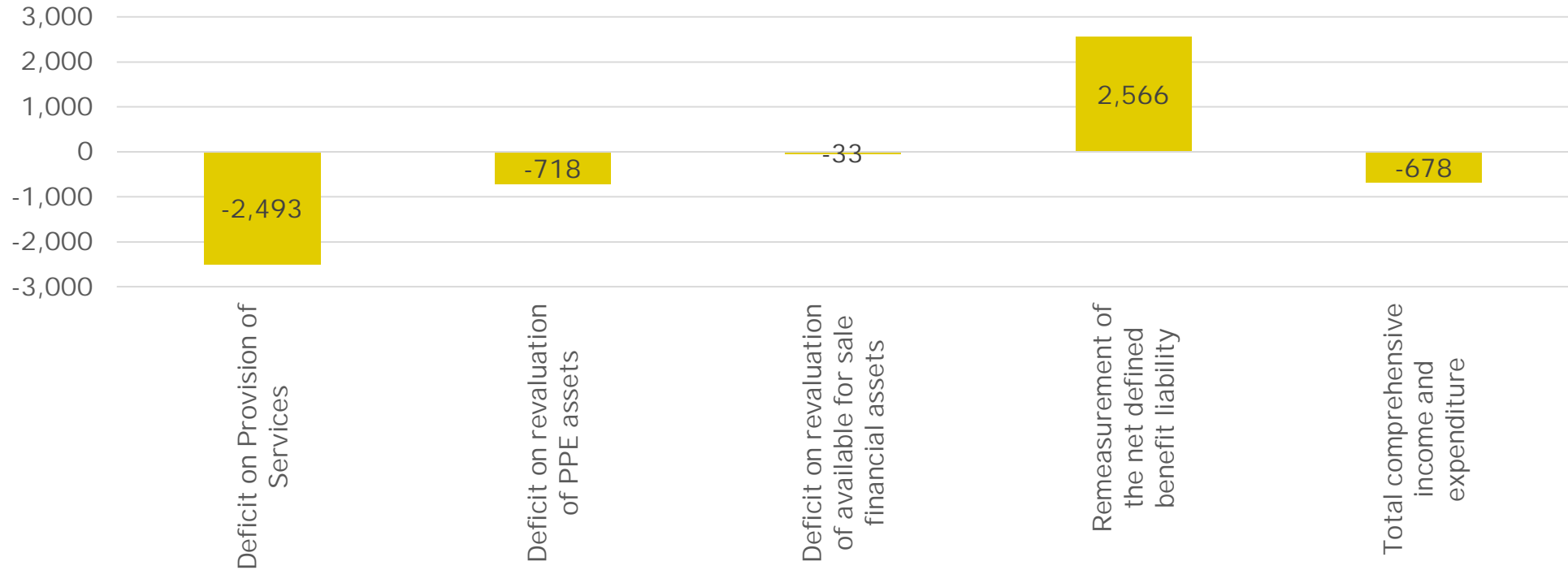
Understanding Financial Statements



Understanding Financial Statements

Key components of net expenditure

Net expenditure for the year ended 31 March 2018 was £2,493k deficit, an increase of £2,171k from the prior year. During the year no significant events have occurred with an impact on the underlying financial position of the Authority. The following provides an overview of the material items:



The main movement from the net cost of services to the total comprehensive income and expenditure was due to the remeasurement of the net defined benefit liability for pension obligations.



03 Areas of Audit Focus



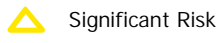
Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.



What judgements are we focused on?

As we reported in our 18 January Audit Plan, we focused on:

- those areas of revenue and expenditure recognition which involve significant estimates, which have a higher risk of management bias;
- cut-off procedures, to ensure income and expenditure is recorded in the correct year;
- forecast projections comparison with year-end actual

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

We were able to reach this conclusion by considering the work performed and its results (see following page for details).

What did we do?

See next page for details



Areas of Audit Focus

Significant risk



Further details on procedures/work performed

The work we carried out was as follows:

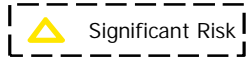
- We reviewed and tested revenue and expenditure recognition policies. We did not find any issues of concern in how the Authority decides on when to recognise income and expenditure. We did not find any individual transactions in our detailed testing which led us to believe that these policies were not in consistent use.
- We reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias. We specifically looked at key estimates on PPE valuation, IAS 19 requirements for pensions disclosure, and NNDR appeals. We did not find any issues of concern with these estimates, which are arrived at using the work of specialists on which we carried out our own procedures as appropriate.
- We developed a testing strategy to test material revenue and expenditure streams. We tested streams depending on their materiality and level of inherent risk. We did not find any issues of concern.
- We reviewed and tested revenue cut-off at the period end date. We tested year-end cut-off procedures to ensure that income and expenditure were accounted for in the correct year and that expenditure was not understated or income overstated in the year of audit. We did not find any issues of concern.
- We reviewed in-year financial projections and compare to year-end position. We used predictive analytical review in areas where income is predictable (e.g. NDR, Council Tax) to see if actual income was as expected. We found no issues of concern. We also reviewed budget monitoring reports against out-turn as part of our work on the Narrative Report. We found no issues of concern.
- We reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised, We did not find any issues of concern.



Areas of Audit Focus

Significant risk

Misstatements due to management override



What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately inflate income or understate expenditure, primarily:

- Material accounting estimates.
- Cash income, cash expenditure and payables cut-off.
- Revenue and expenditure recognition policies.
- Journal entries.
- Unusual transactions.

What did we do?

See next page for details.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.
We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

We were able to reach this conclusion by considering the work performed and its results (see following page for details).



Areas of Audit Focus

Significant risk



Further details on procedures/work performed

The work we carried out was as follows:

- We identified fraud risks during the planning stages, by considering our knowledge and experience of the audit, taking into account technical and sector issues raised during the year, and asking internal audit for their views. The risks identified fell under the headings of revenue recognition (see pp. 11-12)
- We asked management about risks of fraud and the controls to address those risks. We performed “walkthrough” of systems to confirm our understanding of the controls and how they operated during the year of audit. No issues of concern were identified.
- We ensured we understood the oversight given by those charged with governance of management’s processes over fraud. We were able to do this through attending Audit & Standards Committee meeting throughout the year, review of minutes, and follow-up procedures.
- We considered the effectiveness of management’s controls designed to address the risk of fraud. We did this through the walkthrough of processes as mentioned.
- We determined an appropriate strategy to address those identified risks of fraud. This included focusing risks on those parts of the accounts which are more likely to be estimates, using a lower threshold and/ or larger sample at which to test specific items, in order to address the risk of management bias. No issues of concern were identified.
- We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. We are required to do this in order to meet our own professional standards. No issues of concern were identified.
- We evaluated the business rationale for significant unusual transactions. No issues of concern were identified.



Areas of Audit Focus



Other areas of focus: valuation of land and buildings

Valuation of land and buildings	Work performed
<p>The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represents significant balances in the Council's accounts and is subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We considered the work performed by the Council's valuers (Wilks, Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; We sample tested key asset information used by the valuers in performing their valuation (e.g. building areas to support valuations based on price per square metre); We considered the annual cycle of valuations to ensure that assets have been valued within a five-year rolling programme as required by the Code for PPE, and annually for IP. We also considered any specific changes to assets communicated to the valuer; We reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base was not materially misstated; We considered changes to useful economic lives as a result of the most recent valuation; and We tested that accounting entries were correctly processed in the financial statements, No issues of concern were identified.</p>

Other areas of focus: pension asset valuation

Valuation of pension assets	Work performed
<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures in its financial statements about its membership of the Local Government Pension Scheme. The Council's pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary Barnett Waddingham. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We undertook IAS19 protocol procedures assisted by the pension fund audit team to obtain assurances over the information supplied to the actuary for South Bucks District Council. We assessed the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they used. We did this by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors - and considering any relevant reviews by the EY actuarial team. We assessed the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they used. We did this by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors - and considering any relevant reviews by the EY actuarial team. We reviewed and tested the accounting entries and disclosures made within the Council's financial statements for IAS19. We note that in their report to the Council, Barnett Waddingham have explicitly addressed the concerns raised by auditors last year about their methodology. In addition as part of our review of IAS 19 asset values we identified an issue with some differences between the estimated fund value applied by the actuary as at November 2017 and the actual outturn on the fund value of the Buckinghamshire Pension Fund as at 31 March 2018. This resulted in an overall difference of £26.6m from the actual fund value. The Council's estimated share of this difference is £531K. Rather than re-running all the IAS19 disclosures it was agreed that this would be accounted for as an unadjusted misstatement.</p>



Areas of Audit Focus



Other matters

For all entities, we are required to communicate, in writing, our current assessment of the entity's IFRS 15 implementation plan, as part of the year-end communications. Our view in the year of audit is that IFRS15 will not have a significant impact on the Council's position because other income streams are materially less than the income from taxation and grants, which is not affected by IFRS15.

Other matters include the following:

- Audit work and findings on significant accounts with higher inherent risk.
- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures.
- Going concern
- Any significant difficulties encountered during the audit
- Any significant matters arising from the audit that were discussed with management
- Other matters if any, significant to the oversight of the financial reporting process, including the strengths and weaknesses of the finance function and the quality of the financial statement preparation process. Any significant items raised in the EY FRG accounts pre-issuance clearance which have not been acted upon by the client MUST be included here as well.
- Any requested written representations
- Expected modifications to the audit report
- Related parties
- External confirmations
- Consideration of laws and regulations, including any significant matters involving actual or suspected non-compliance with laws and regulations or articles of association which were identified in the course of the audit, in so far as they are considered to be relevant in order to enable the Audit and Standards Committee to fulfil its tasks.
- Use of auditor's external specialists

We have no significant matters to report.



04 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH BUCKS DISTRICT COUNCIL

Opinion

We have audited the financial statements of South Bucks District Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

Movement in Reserves Statement,
Comprehensive Income and Expenditure Statement,
Balance Sheet,
Cash Flow Statement, and related notes 1 to 27
Collection Fund and the related notes 1 to 2.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:
give a true and fair view of the financial position of South Bucks District Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

the Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
the Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report [set out on pages], other than the financial statements and our auditor's report thereon. The Director of Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in August 2017, we are satisfied that, in all significant respects, South Bucks District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.



Audit Report

Draft audit report

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council; we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Director of Resources

As explained more fully in the Statement of the Director of Resources' Responsibilities set out on page 10, the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in August 2017, as to whether South Bucks District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether South Bucks District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the [name of body] had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Audit Report

Draft audit report

Our opinion on the financial statements

Certificate

We certify that we have completed the audit of the accounts of South Bucks District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of South Bucks District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Brittain (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading

The maintenance and integrity of the South Bucks District Council website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



05 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of differences

Unadjusted Differences:

We have identified one unadjusted misstatement. This arose when we completed our review of IAS Pension Liabilities. The misstatement is in relation to a difference in the value of Pension Fund assets as assessed by the actuary of the Pension Fund at Buckinghamshire County Council of which South Bucks District Council is an admitted body. We compared the Fund value as estimated by the actuary in November 2017 to the actual Fund value as at 31 March 2018 as reported in the draft financial statements, and noted a difference of £26 m. Adjusted for the Council’s share of the Fund this equated to a difference of £531K.

Adjusted amendments:

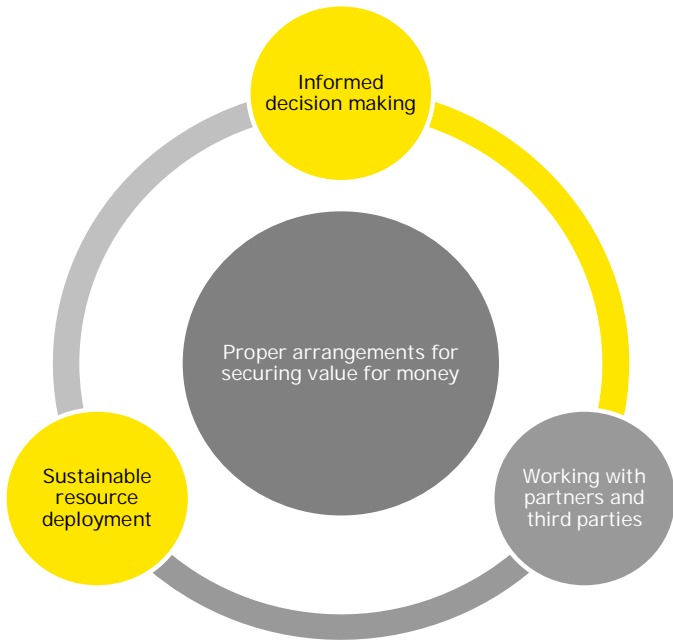
A number of amendments to disclosures were identified during the audit and amended by officers.



06

Value for Money





Background

We must consider whether the Council has 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- § take informed decisions;
- § deploy resources in a sustainable manner; and
- § work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We did not identify any significant risks around these criteria.

We therefore expect to have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



07 Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have no issues to raise.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have no matters to report.



08

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



09 Data Analytics



Use of Data Analytics in the Audit

- ▶ Data analytics – Revenue Recognition, Income & Expenditure, Employee Costs

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of the Council's financial data. These analysers:

- Help to identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Make identifying errors more likely than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all South Bucks DC financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us more effectively to identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

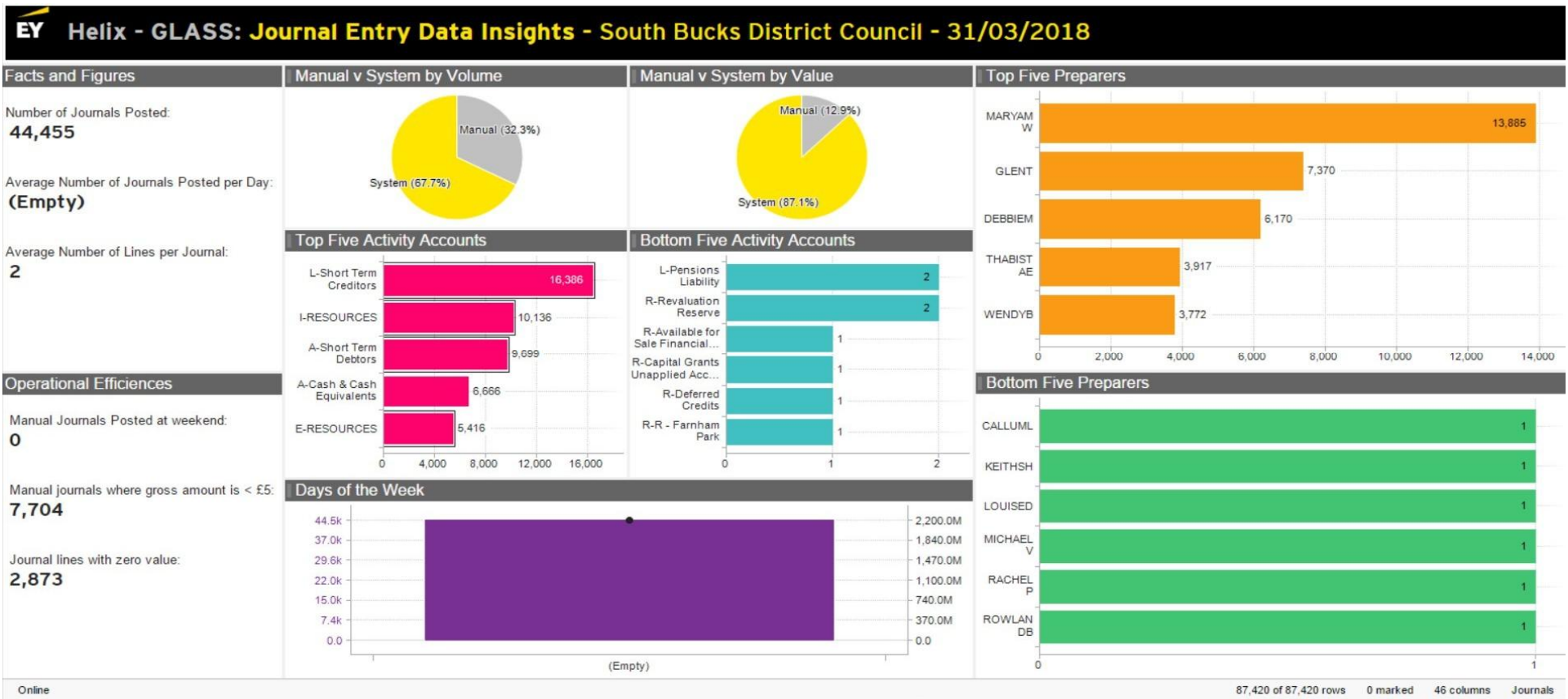


Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the South Bucks DC journal population for 2017/18. We review journals by certain risk-based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk-focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples. We have also shared this information with management to provide additional insight and value from our audit procedures.





Journal Entry Testing

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – South Bucks DC – 31st March 2018

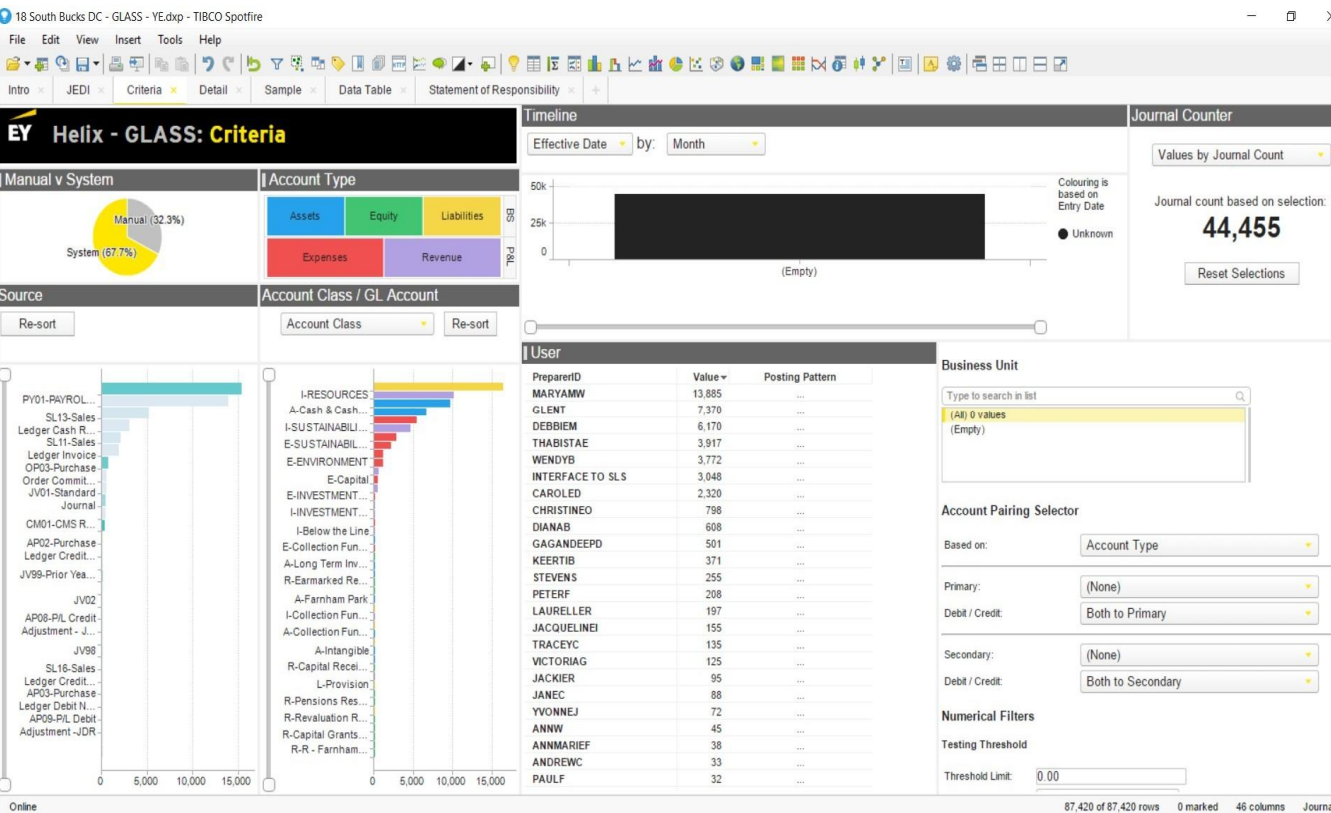
What judgements are we focused on?

Using our analysers we are able to take a risk-based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.



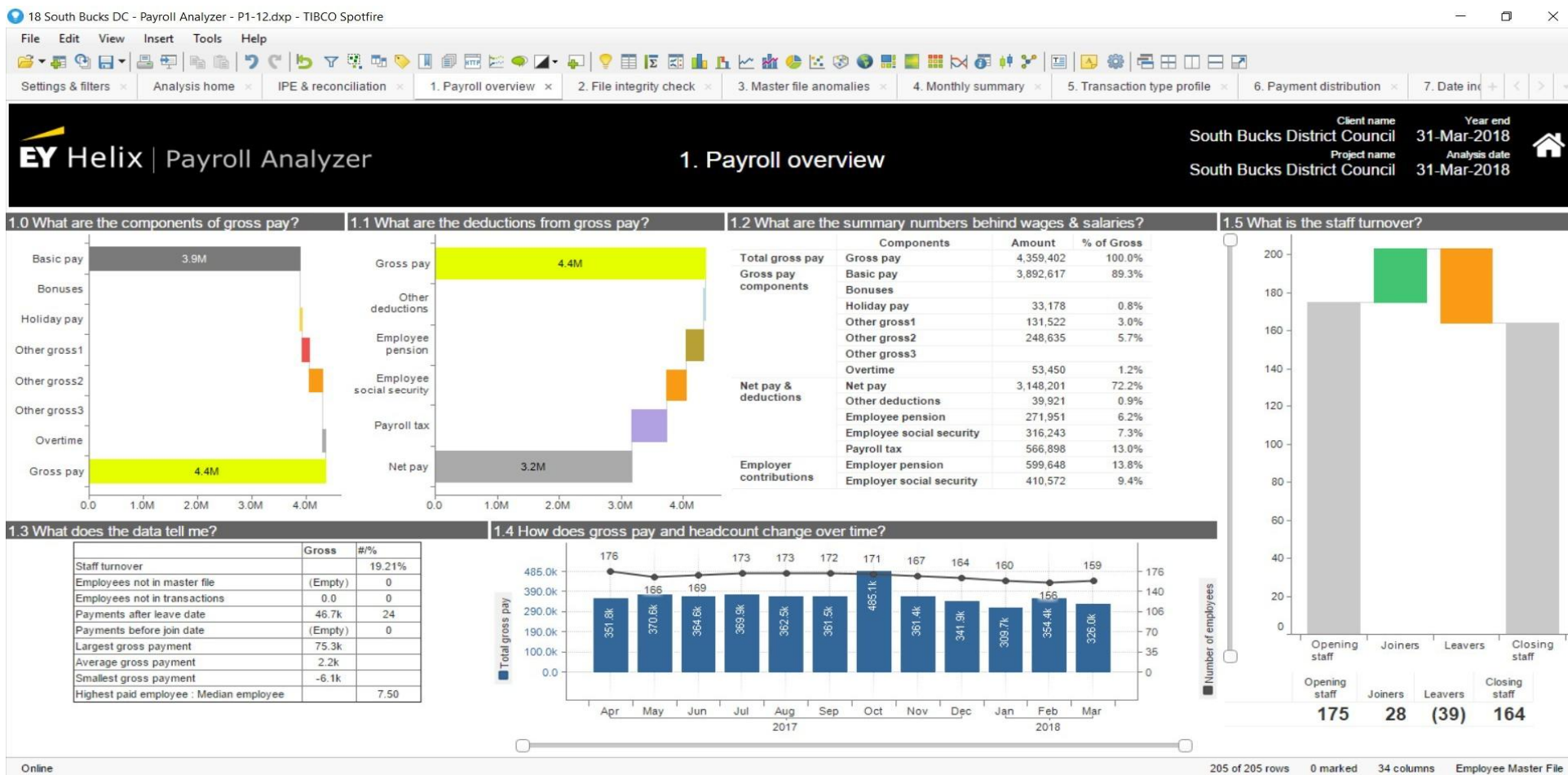
What are our conclusions?

We isolated a sub-set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



Payroll Analyser Insights

The graphic outlined below summarises the South Bucks DC payroll data for 2017/18. We review transactions for payroll at a more detailed level, which allows us to identify items more likely to contain material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk-focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random sample.





Payroll Testing

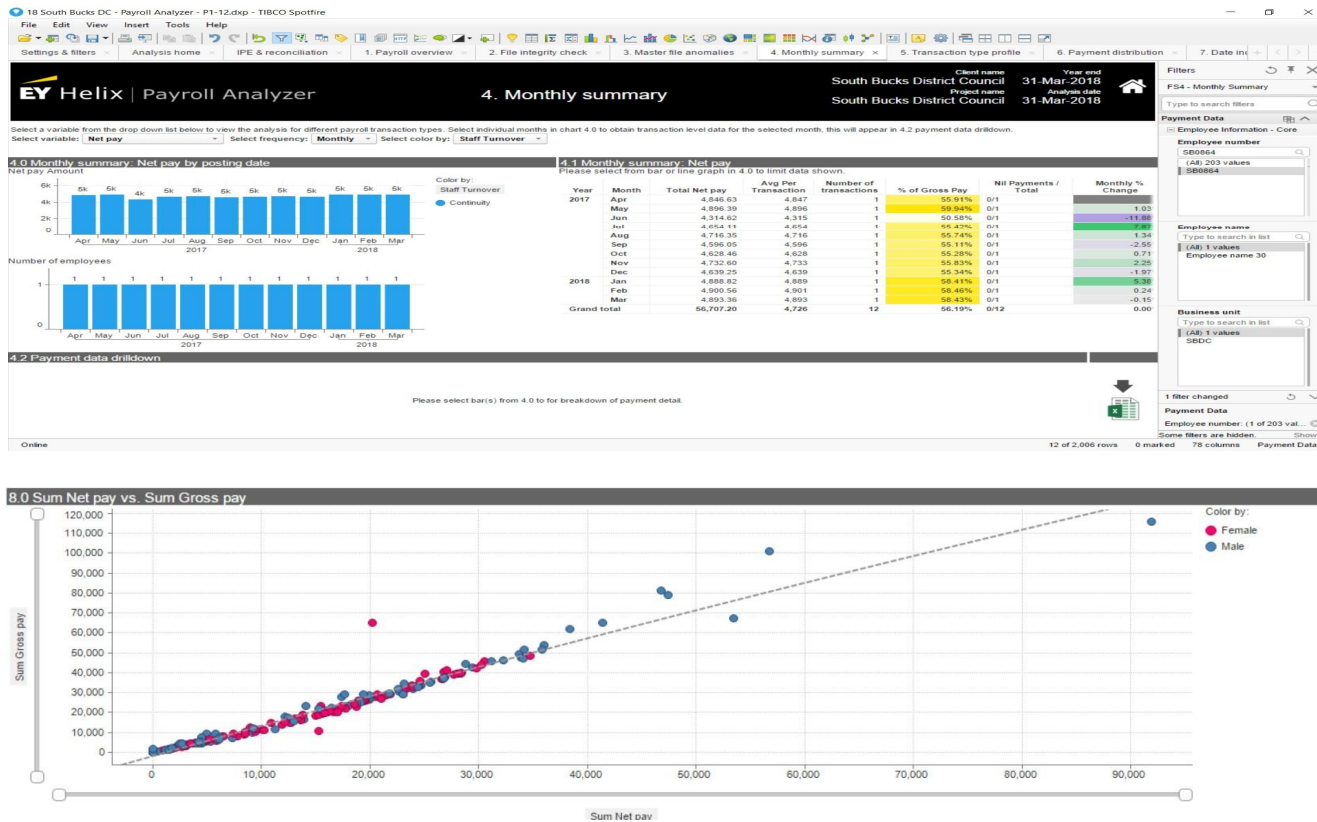
What is the risk?

Payroll is a low risk account at South Bucks DC.

What judgements are we focused on?

Using our analysers we are able to identify anomalies in the payroll data which allow us to focus our testing and enquires over unusual or unexpected transactions.

Payroll Data – South Bucks DC – 31 March 2018



What did we do?

We obtained payroll data for the period and have used our analysers to identify unusual payments based on expectations of average pay per designation, date inconsistencies where payments made to individuals after they have left the organisation or before they have joined and payments made in the year that appears anomalous compare to average monthly payments.

We then tested the anomalies to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub-set of anomalies for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



10

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit plan dated 18 January 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review as well as us. It is important that you and your Audit and Standards Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the Committee meeting on 23 July 2018.

We confirm we have not undertaken non-audit work outside the PSAA Code requirements.

Independence



Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, and its members and senior management, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that no services have been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted. We have provided a written proposal for the certification of the housing benefit claim in 2018/19. This was previously part of the PSAA regime but has been separated for 2018/19 onwards.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	42,399	42,399	42,399	42,399
Non-audit work [Grant claims]	TBC	19,280	19,280	24,985







11

Appendices

Appendix A

Required communications with the Audit and Standards Committee

There are certain communications that we must provide to the Audit and Standards Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Terms of engagement	Confirmation by the Audit and Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.		The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.		18 January 2018 Audit Plan
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.		18 January 2018 Audit Plan
Significant findings from the audit	<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 		Audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<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 	No conditions or events were identified, either individually or together, to raise any doubt about South Bucks DC’s ability to continue for the 12 months from the date of our report
Misstatements	<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 • Material misstatements corrected by management 	Audit results report
Subsequent events	<ul style="list-style-type: none"> • Where appropriate, asking the Audit and Standards Committee regarding whether any subsequent events have occurred that might affect the financial statements. 	We have asked management and those charged with governance. We have no matters to report
Fraud	<ul style="list-style-type: none"> • Asking the Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit and Standards Committee responsibility. 	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit

Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority'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 Authority 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity 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>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	18 January 2018 Audit plan and Audit results report

Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	<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. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Standards Committee may be aware of 	We have not identified any material instances or non-compliance with laws and regulations]
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit results report

Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations requested from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	18 January 2018 Audit plan Audit results report
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Certification Report Date TBC

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

This letter of representations is provided in connection with your audit of the financial statements of South Bucks District Council ("the Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the financial position of South Bucks District Council as of 31 March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the council's financial statements. We believe the council's financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. We have approved the council's financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the Council financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Council that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management representation letter

Management Rep Letter

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the Council's financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit and Standards Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 16 July 2018.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Management representation letter

Management Rep Letter

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the council's financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and confirm there are no guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Use of the Work of a Specialist

When the Council has used the work of a specialist, we may include the following representation:

We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

H. Estimates

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We confirm that the significant assumptions used in making accounting estimates appropriately reflect our intent and ability to carry out *specific courses of action* on behalf of the Council.

We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

I. Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the Council. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Director of Resources

Chairman of the Audit and Standards Committee

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