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**SOUTH BUCKS**  
District Council

## **Audit and Standards Committee**

**Thursday, 19 March 2020 at 6.00 pm**

**Room 6, Capswood, Oxford Road, Denham**

### **S U P P L E M E N T A R Y   A G E N D A**

Item

11. EY Audit Planning Report (*Pages 3 - 40*)

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

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South Bucks  
District Council  
Audit planning report  
Year ended 31 March 2020

March 2020



Building a better  
working world



Private and Confidential  
Members of the Audit and Standards  
Committee  
South Bucks District Council  
Capswood  
Denham UB9 4LH

March 2020

Dear Committee Members

#### Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Standards Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Provisional Audit Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks. Our planning procedures remain ongoing; we will inform the Audit and Standards Committee if there are any significant changes or revisions once we have completed these procedures, and provide an update to the members of the committee.

This report is intended solely for the information and use of the Audit and Standards Committee and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 19 March 2020, as well as to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Andrew Brittain

For and on behalf of Ernst & Young LLP

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" issued by PSAA sets out additional requirements with which auditors must comply, 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 District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we may tell the Audit and Standards Committee, and management of South Bucks District Council, the 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 District Council 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

# Overview of our 2019/20 audit strategy



# Overview of our 2019/20 audit strategy

The 'dashboard' below summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Standards Committee with an overview of our initial risk identification for the forthcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	No change in risk or focus	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.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Pension valuation	Inherent risk	No change in risk or focus	The material nature of the Council's net pension liability, and the basis on which it is valued, means that small changes in assumptions when valuing this liability can have a material impact on the financial statements. This means that the balance is susceptible to misstatement.
Property valuations	Inherent risk	No change in risk or focus	The material nature of the Council's non-current assets, and the basis on which they are valued, means that small changes in assumptions when valuing these assets can have a material impact on the financial statements. This means that the balances are susceptible to misstatement.
Unitary council formation	Inherent risk	New risk identified this year	The demise of the District Council on 31 March 2020 will affect the Council's staff capacity, with potential impact on its ability to produce a materially correct set of accounts. Also, in the approach to full unitary formation, there is a risk that focusing on the "shadow" unitary authority could have a negative impact on planned early audit work, which aims to reduce pressure during the peak workflow period in June.
Group accounting	Inherent risk	No change in risk or focus	The Council's wholly owned property subsidiary, Consilio (set up in 2017), begun trading in 2018/19. Whilst the 2018/19 consolidation was simple, we expect this to become more complex as Consilio enters into an increasing number of material transactions, thus making the preparation of the financial statements more complicated.

# Overview of our 2019/20 audit strategy

## Materiality

Planning  
materiality  
£906k

Materiality has been set at £905,800, which represents 2% of the prior year's gross expenditure on provision of services.

Performance  
materiality  
£679k

Performance materiality has been set at £679,350, which represents 75% of planning materiality.

Audit  
differences  
£45k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and collection fund) greater than £45,290. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Standards Committee.



# Overview of our 2019/20 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to provide you with:

- our audit opinion on whether the financial statements of South Bucks District Council (Group and council) give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

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

When 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;
- changes in the business and regulatory environment; and,
- management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as set out in this audit plan, our professional responsibilities require us to assess independently the risks associated with providing an audit opinion, and to undertake appropriate procedures in response. Our Terms of Appointment with PSAA allow them to vary the fee depending on "the auditors' assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on areas such as the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years, and the expansion of factors affecting the value for money conclusion. Therefore to the extent that any of these - or any other risks - are relevant in the context of South Bucks District Council's audit, we will discuss the impact on the scale fee with management.

There have been no changes to your audit team for the 2019/20 audit, with Andrew Brittain remaining as your Engagement Lead, and Malcolm Haines and Asad Khan as your Audit Manager and Senior Auditor.



02

# Audit risks



## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by \*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues identified during the audit.

<p>Misstatements due to fraud or error*</p>	<p><b>What is the risk?</b></p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK) 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.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p><b>What will we do?</b></p> <p>Our procedures include:</p> <ul style="list-style-type: none"> <li>• asking management about risks of fraud and the controls to address those risks;</li> <li>• understanding the oversight given by those charged with governance of management's processes over fraud; and</li> <li>• considering the effectiveness of management's controls designed to address the risk of fraud.</li> </ul> <p>We also perform mandatory procedures regardless of specifically identified fraud risks, including:</p> <ul style="list-style-type: none"> <li>• testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>• assessing accounting estimates for evidence of management bias; and</li> <li>• evaluating the business rationale for significant unusual transactions.</li> </ul> <p>As well as our overall response, we specifically consider where these risks may occur, and identify separate fraud risks as necessary.</p>
<p><b>Financial statement impact</b></p> <p>Misstatements that occur in relation to the risk of fraud and error could materially affect the income and expenditure accounts. While there are no statutory financial performance targets in local government, management remains under pressure to ensure that the Council balances its annual budgets as central funding continues to reduce.</p>		

## Our response to significant risks (continued)

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.

We consider the primary focus of this risk to be related to the inappropriate capitalisation of revenue expenditure. Our audit procedures will be focused on the Council's asset base and REFCUS (revenue expenditure funded from capital under statute) balances.

### What will we do?

We plan to:

- review and test revenue and expenditure recognition policies;
- review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- develop a testing strategy to test material revenue and expenditure streams, and review and test any material revenue cut-off at the year end;
- review in-year financial capital projections and compare them to the year-end position; and
- review capital expenditure on property, plant and equipment at the lower testing threshold to ensure that it meets the relevant accounting requirements for capitalisation.

### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. These accounts had the following balances in the 2018/19 accounts, and we expect similar gross totals in 2019/20.

Income Account: £19.9m

Expenditure Account: £30.3m

## Other areas of audit focus

We have identified other areas of the audit not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures. These may be key audit matters which we will include in our audit report.

### What is the risk/area of focus?

#### Valuation of Land and Buildings

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 must make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

### What will we do?

We will:

- consider any work performed by the Council's external valuers (Wilks, Head & Eve), including the adequacy of the scope of their work, their professional capabilities, and the results;
- sample test key asset information used by the valuers (e.g. building floor areas to support valuations based on price per square metre);
- consider using our valuation experts if necessary to gain the required assurance;
- consider 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 consider if there are any specific changes to assets communicated to the valuer;
- review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- consider changes to useful economic lives as a result of the most recent valuation; and
- test that accounting entries have been correctly processed in the financial statements,

We aim to audit as much of the asset balances as possible during March and April 2020, before the peak pressure period in June, and have a plan to deliver this. Should the Council be unable to facilitate this as planned, there is risk that we may not be able to give our audit opinion by the desired deadline, as Council staff depart or take up positions at the new unitary authority.

## Other areas of audit focus

We have identified other areas of the audit not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures. These may be key audit matters which we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><b>Pension Asset Valuation</b></p> <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 administered by Buckinghamshire County Council.</p> <p>The Council's pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on its balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by its actuary, Barnett Waddingham.</p> <p>Accounting for the scheme involves significant estimation and judgement, so management engages an actuary to perform the calculations on its behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and on the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• undertake 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;</li> <li>• assess the work of the Pension Fund actuary, including the assumptions used. We do this by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors - and considering relevant reviews by the EY actuarial team; and</li> <li>• review and test the accounting entries and disclosures made in the Council's financial statements for IAS19.</li> </ul>
<p><b>Group accounting</b></p> <p>The Council's wholly owned property subsidiary, Consilio (set up in 2017), begun trading in 2018/19, when the council produced consolidated group accounts for the first time; however, the accounting was straightforward given the low level of transactions, which essentially consisted of one material property purchase. If the level of activity has increased in 2019/20 then the financial statements will become more complex to produce, adding pressure on the Council's diminishing capacity.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Clarify the scope of group accounting for the financial statements;</li> <li>• Vouch directly any material transactions to gain assurance;</li> <li>• Audit the consolidation of Consilio Properties and the preparation of the Group financial statements; and</li> <li>• Liaise as appropriate with the auditors of Consilio Properties.</li> </ul>

## Other areas of audit focus

We have identified other areas of the audit not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures. These may be key audit matters which we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p>Formation of Bucks Unitary Council and demise of South Bucks District Council on 31 March 2020.</p> <p>The demise of the District Council on 31 March 2020 will affect the Council's staff capacity, with potential impact on its ability to produce a materially correct set of accounts. Also, in the approach to full unitary formation, there is a risk that focusing on the "shadow" unitary authority could have a negative impact on planned early audit work, which aims to reduce pressure during the peak workflow period in June.</p> <p>The Council currently has the level of resource required to deliver the financial statements and to respond to the audit team during its visit in June. However, there is very little room for manoeuvre in these arrangements should any key individuals leave their roles in the meantime. Planned early audit work has already slipped because of reduced staff capacity at the Council and there is now little room for manoeuvre in terms of contingency and mitigation. Both EY and the Council therefore need to ensure that necessary resources are available to deliver the audit by the end of July at the latest. After this, it will be difficult for the Unitary Authority to staff the work required to deliver the opinion.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• audit the balances of PPE (Property, Plant and Equipment) in mid-March, which means that only 'top up' procedures will be required in June;</li> <li>• arrange an audit visit in April to test the year-end balances on Debtors and Creditors, and Cash and Bank transactions. Cash and bank reconciliations are currently two months behind: they need to be up-to-date before we can carry out our testing;</li> <li>• complete work on income and expenditure balances started in February 2020 where we await responses to our initial testing samples and associated queries;</li> <li>• audit the Council's accounting policies and 2019/20 annual governance statement (AGS) before our year end visit;</li> <li>• audit any known exit packages in April, as soon as the information is available;</li> <li>• complete 'walkthroughs' of the business rates, cash, bank, payroll, housing benefits and council tax accounting systems. These have been started but queries are currently awaiting responses from key contacts;</li> <li>• audit the balances of government grants and precepts. Again, this work is under way but we await key contact responses; and</li> <li>• audit early any other balances that can be identified before our year-end visit. These will be identified by ongoing discussion between the Audit Manager and the Council's Accountancy Manager;</li> </ul> <p>Failure to deliver the above work before June could endanger our ability to give the audit opinion in line with the desired deadline.</p>



# 03

## Value for Money Risks







## Background

We are required to 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 2019/20 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 the Council's arrangements to:

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

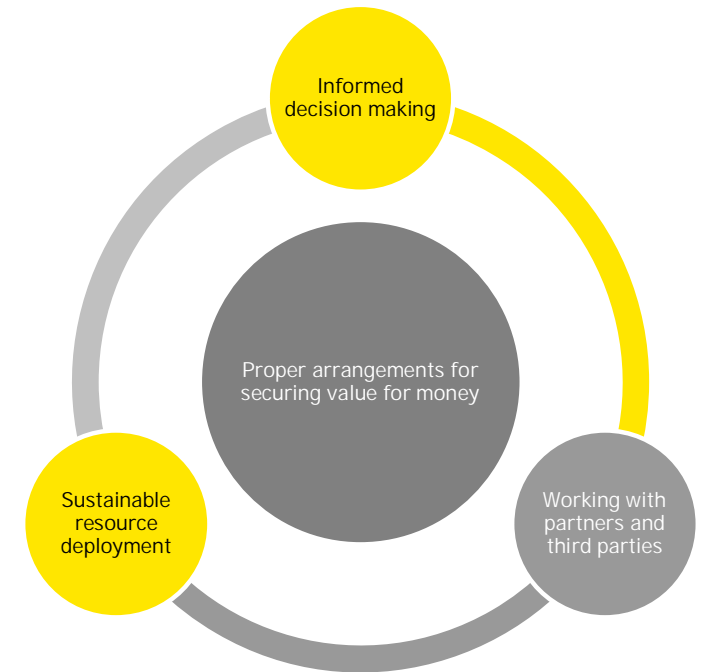
In considering the Council's proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that it is already required to have, and to report on through documents such as the annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money. It also enables us to determine the nature and extent of any further work necessary. If we do not identify any significant risks, we do not need to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues identified, and how likely the issue is to be of interest to local taxpayers, the Government and other stakeholders. We have identified no significant risks. However, assessing VFM risk is an ongoing process, and we will keep this provisional conclusion under review i.e. should the Council experience service delivery or significant capacity problems relating to the transition to the Unitary, then we will revisit our conclusion accordingly. Should our work identify any risk, we will issue a supplement to this plan to Management and those charged with governance.





04

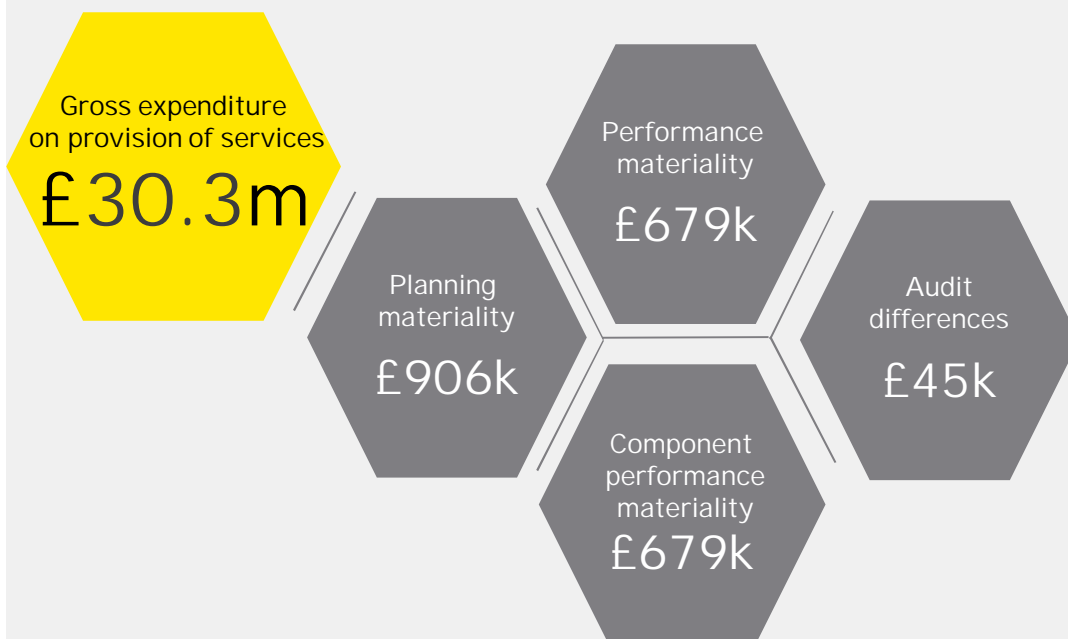
# Audit materiality



# Materiality

## Materiality

For planning purposes, materiality for 2019/20 has been set at £905,800. This represents 2% of the Council's prior year gross expenditure on provision of services (from the audited 2018/19 financial statements). It will be reassessed throughout the audit process. 2% is considered the sector 'norm' for a local government body with a similar risk profile to South Bucks District Council. We have provided supplemental information about audit materiality in Appendix D.



We request that the Audit and Standards Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality** – the amount above which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £679,350, which represents 75% of planning materiality.

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund where they have an effect on income or relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and any corrected misstatements, will be communicated insofar as they merit the attention of the Audit and Standards Committee, or are important from a qualitative perspective.

**Specific materiality** – We have set a materiality of £1k for remuneration disclosures, related party transactions, members' allowances, and exit packages. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements. We also note that the public interest in these areas dictates that misstatements are reported exactly.

**Group materiality** – we have initially set group materiality at the same level as our main audit performance materiality.



05

## Scope of our audit



# Our Audit Process and Strategy

## Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

### 1. Financial statement audit

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

We also 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.

#### Procedures required by standards

- 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; and
- auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We must consider whether the Council has 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- identifying and understanding the key processes and internal controls; and
- substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit. We have concluded that this is the most efficient way to obtain the level of audit assurance needed to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of the Council's financial data, in particular journal entries. These tools:

- help to identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Are more likely to identify 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 to the Audit and Standards Committee.

Internal audit:

We will meet the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports - together with reports from any other work completed in the year - in our detailed audit plan, if they raise issues that could have an impact on the financial statements.

## Scoping the group audit

### Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. Significant components: A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below. There is no longer a concept of 'out of scope' and we will design 'other procedures' over these locations that address the risk of material misstatement.

### Scoping by Entity

We have yet to scope the group audit and we will do so based upon the predicted year end balances of Consilio. We will then report to against the group risk as laid out at page 12 of this report.

### Scope definitions

**Full scope:** locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

**Specific scope:** locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

**Review scope:** locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

**Specified Procedures:** locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

**Other procedures:** For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.



06

Audit team





## Use of specialists

The core audit team is lead by Andrew Brittain, Associate Partner and Malcolm Haines as Manager. Asad Khan, Senior, will lead the fieldwork.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where we use EY or third party specialists for the current year are:

Area	Specialists
Valuation of Land and Buildings*	EY Valuations Team
Pensions disclosure	EY Actuaries PWC report for the NAO on the 4 LGPS actuaries
Management's specialists	External valuer: Wilks, Head and Eve Actuary: Barnett Waddingham NDR Appeals provision: Analyse Local Group Auditor: Wilkins Kennedy

\* We are currently waiting for the Council's land and buildings valuations and will employ our valuations team depending on any risk identified in those balances.

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- assess the reasonableness of the assumptions and methods used;
- consider the appropriateness of the timing of the specialist's work; and
- assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

# Audit timeline





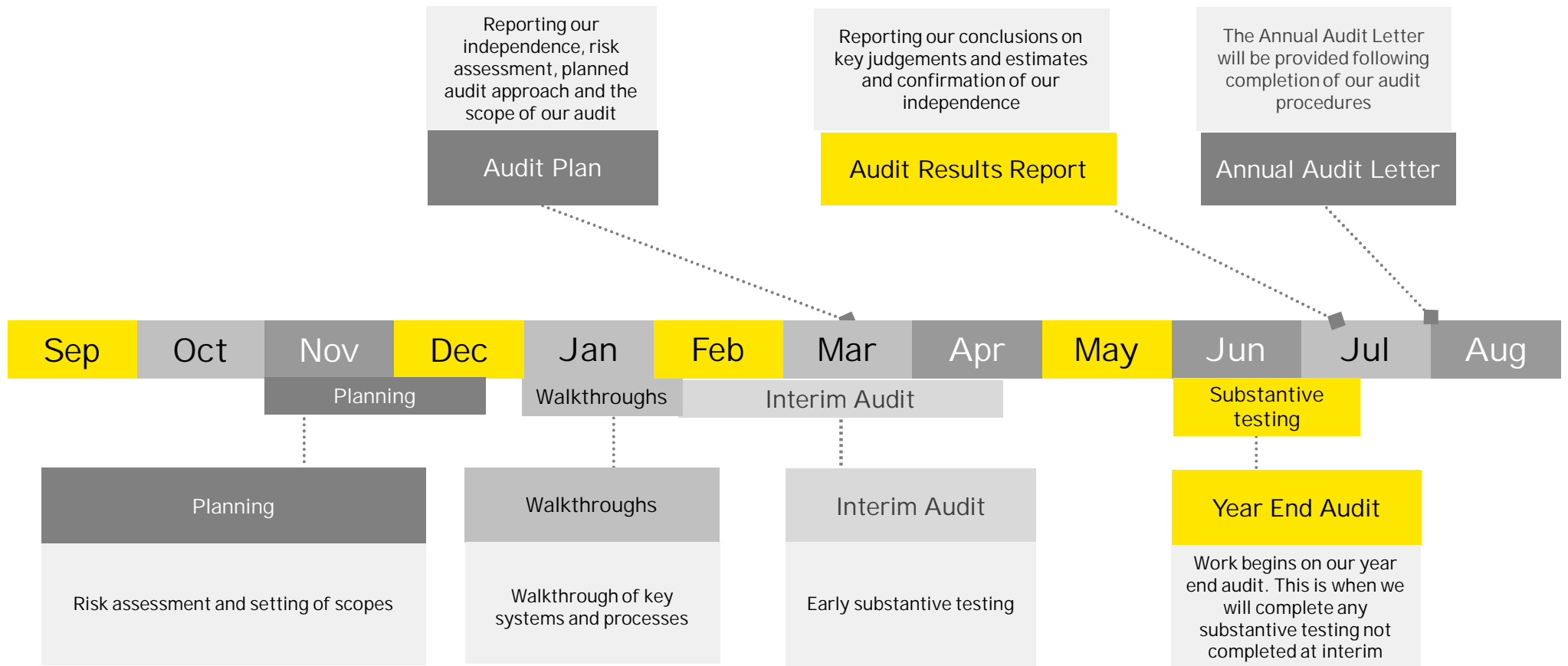
# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables that we have agreed to provide to the Committee through the 2019/20 audit cycle.

From time to time matters may arise that require immediate communication with the Audit and Standards Committee. We will discuss them with the Audit and Standards Committee Chairman as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





08

# Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you promptly on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires 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 the Council’s governance on matters in which it has an interest.

### Required communications

#### Planning stage

- ▶ Any principal threats to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the Council, its 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.
- ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]

#### Final stage

- ▶ In order for the Council to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose 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 the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Written confirmation that all covered persons are independent;
- ▶ Details of any inconsistencies between FRC Ethical Standard and the Council’s policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
- ▶ An opportunity to discuss auditor independence issues.

During the audit, we must communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of any safeguards, 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 contracted, and details of any written proposal to provide non-audit services submitted;

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

## 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 any principal threats. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with the Council's policy.

### Overall Assessment

Overall we consider that the safeguards adopted appropriately mitigate the principal threats identified, so we confirm that EY is independent and the objectivity and independence of Andrew Brittain - the audit engagement partner - and the audit engagement team have not been compromised.

### Self-interest threats

A self-interest threat arises when EY has financial or other interests in the Council. Examples include 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 the Council. 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 the Council has approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with the Council's policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%.

At the time of writing, no non-audit services have been undertaken, therefore the current ratio of non-audit fees to audit fees is zero. No additional safeguards are required.

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 the Council. 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, in compliance with Ethical Standard part 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.

## Relationships, services and related threats and safeguards

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which 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.

### EY Transparency Report 2019

Ernst & Young (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 30 June 2019:

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf)



09

# Appendices





# Appendix A

## Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£
Total Fee - Code work	32,647 (Note 3)	32,647	37,173 (Note 1)
Total audit	tbc	32,647	37,173
Non-audit services; certification of annual Housing Benefit form MPF720A	9,915	9,915	26,019 (Note 2)
Total fees	tbc	42,562	63,192 (tbc)

All fees exclude VAT

(1) The 18/19 Code work includes an additional fee of £4,536, which relates to additional work reviewing McCloud pension adjustments and extra work required to gain assurance over group disclosures and accounting. We have agreed the variation with officers, but are awaiting approval from PSAA

(2) The final fee includes the cost of extended testing (£16,104) which was required to gain sufficient assurance per DWP certification requirements. For 2019/20 the planned fee represents only the base fee, i.e. it does not include any extended testing.

(3) For 2019/20, the scale fee will be affected by a range of factors (see page 7) which will result in additional work. We highlight the following areas where we anticipate a variation to the scale fee:

- The additional risks presented by several areas of the Council's financial statements which require additional audit procedures and the potential need to engage specialists. This includes, but is not limited to work in relation to the valuation of PPE and the net pension liability.
- Additional work that will be required to address the value for money risks identified.
- In addition, we are in an unprecedented period of change. A combination of pressures are impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. As an illustration, 85 organisations within the PSAA regime had not yet received their 2018/19 audit opinion as at the end of January 2020.
- This in combination, is requiring us to revisit with PSAA the basis on which the scale fee was set. The factors behind this are explained in more detail on the following pages.

Any fee presented is based on the following assumptions:

- officers meeting the agreed timetable of deliverables;
- our accounts opinion and value for money conclusion being unqualified;
- appropriate quality of documentation is provided by the Council; and
- the Council has an effective control environment.

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

## Fees

A combination of factors mean that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. In order to assist you to understand the reasons behind this, we have summarised the key factors below.

### Summary of key factors

1. Status of sector. Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.
  - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.
2. Audit of estimates. There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.
  - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.
3. Regulatory environment. Other pressures come from the changing regulatory landscape and audit market dynamics:
  - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.
  - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

# Fees

## Summary of key factors (cont'd)

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.
  - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.
  - We acknowledge that all local authorities are also facing challenges to retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis. We noted specifically with respect to South Bucks, the impact and risk that the unitary authority process is having in this regard.




## Next steps

- In light of recent communication from PSAA, we will need to quantify the impact of the above to be able to accurately re-assess what the baseline fee is for the Council should be in the current environment. Once this is done we will be able to discuss at a more detailed level with you.

## Appendix B

# Required communications with the Audit and Standards Committee

We have detailed the communications that we must provide to the Audit and Standards Committee.



		 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.	Audit Planning Report (this report) and Audit Results Report (July 2020).  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	Audit Planning Report and Audit Results Report.  The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Any significant difficulties encountered during the audit</li> <li>• Any significant matters arising from the audit that were discussed with management</li> <li>• Written representations that we ask for</li> <li>• Expected modifications to the audit report</li> <li>• Any other matters significant to the oversight of the financial reporting process.</li> </ul>	Audit results report
Representations	Written representations requested from management and/or those charged with governance	Audit results report

## Appendix B

# Required communications with the Audit and Standards Committee (continued)





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"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request for any uncorrected misstatement to be corrected</li> <li>• Corrected misstatements where significant</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud identified by us, or information obtained that indicates that a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>	Audit results report
Related parties	<ul style="list-style-type: none"> <li>• Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report

## Appendix B

# Required communications with the Audit and Standards Committee (continued)

### Our Reporting to you

Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters bearing on EY's objectivity and independence, and that of all individuals involved in the audit,</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"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the Council to maintain objectivity and independence</li> </ul>	Audit Planning Report and Audit Results Report
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report (if applicable)
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Audit findings of non-compliance where this is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off"</li> <li>• Asking the Audit and Standards Committee about possible instances of non-compliance with laws and regulations where they may have a material effect on the financial statements and that the Audit and Standards Committee may know about</li> </ul>	Audit results report
Internal controls	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>• Breakdown of fee information when the audit plan is agreed</li> <li>• Breakdown of fee information at the completion of the audit</li> <li>• Any non-audit work</li> </ul>	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	HBAP Letter
Material inconsistencies and misstatements	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"> <li>• Any circumstances identified affecting the form and content of our auditor's report</li> </ul>	Audit results report

## Additional audit information

### Other required procedures during the course of the audit

As well as the key areas of audit focus outlined in section 2, we must perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below.

#### Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtaining audit evidence sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence on the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, whether the Audit and Standards Committee reporting process appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

## Additional audit information (continued)

### Purpose and evaluation of materiality

To determine whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate (and in light of the surrounding circumstances), could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with the Committee its expectations of our detection of misstatements in the financial statements.

Materiality determines:

- the locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, we cannot anticipate all the circumstances that could ultimately influence our judgement on materiality. At the end of the audit we will form our final opinion by considering 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.