



# CAMBRIDGESHIRE COUNTY COUNCIL

## AUDIT PLAN

Audit for the year ending 31 March 2017

Date of issue: 3 March 2017

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# INTRODUCTION

## PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of Cambridgeshire County Council (the Council) for the year ending 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Accounts Committee. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

## YOUR BDO TEAM

Core team	Name	Contact details	Key responsibilities
<div>Lisa Clampin Engagement Lead</div>	<b>Lisa Clampin</b> Engagement Lead	Tel: 01473 320 716 lisa.clampin@bdo.co.uk	Oversee the audit and sign the audit report
<div>Barry Pryke Engagement Manager</div>	<b>Barry Pryke</b> Engagement Manager	Tel: 01473 320 793 barry.pryke@bdo.co.uk	Management of the audit
<div>Tim Byford Assistant Manager</div>	<b>Tim Byford</b> Assistant Manager	Tel: 01473 320 724 tim.byford@bdo.co.uk	Day to day management and supervision of the audit
<div>Ross Beard Senior Auditor</div>	<b>Ross Beard</b> Senior Auditor	Tel: 01473 320 785 ross.beard@bdo.co.uk	Day to day supervision of the on-site audit

Lisa Clampin is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

In meeting this responsibility, she will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

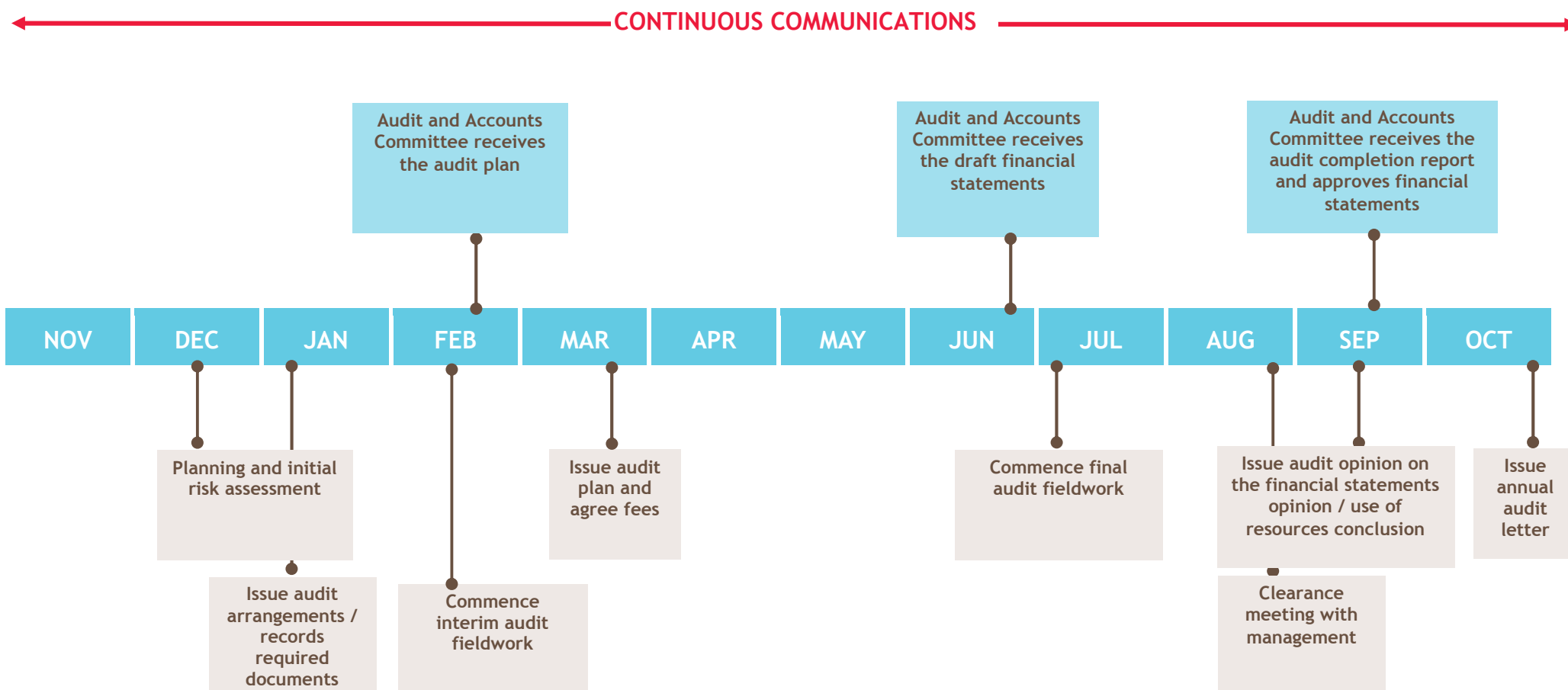
- the financial statements are free from material misstatement, whether due to fraud or error
- the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Lisa is also responsible for the overall quality of the engagement.

# ENGAGEMENT TIMETABLE

## TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit Office (NAO) Code of Audit Practice (the Code), International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

Our audit objective is to form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<b>1</b> The financial statements give a true and fair view of the financial position of the Council and its expenditure and income for the period in question.	<b>2</b> The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.	<b>3</b> Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).	<b>4</b> The return required to facilitate the preparation of Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.	<b>5</b> The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## ADDITIONAL POWERS AND DUTIES

- |   |   |
|---|---|
| <p><b>6</b> Where necessary:</p> <ul style="list-style-type: none"> <li>consider the issue of a report in the public interest</li> <li>make a written recommendation to the authority.</li> </ul> | <p><b>7</b> Where necessary:</p> <ul style="list-style-type: none"> <li>consider electors' questions about the accounts and consider objections</li> <li>apply to the court for a declaration that an item of account is contrary to law</li> <li>consider whether to issue an advisory notice or make an application for judicial review.</li> </ul> |
|---|---|

# MATERIALITY

## COUNCIL MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Cambridgeshire County Council	£16,300,000	£326,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the Council has been based initially on 1.75% of prior year gross expenditure. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

# OVERALL AUDIT STRATEGY

## **We will perform a risk based audit on the Council's financial statements and use of resources**

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the Council's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk to gain an understanding of the Council's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to audit risks.

### **Audit risks and planned audit responses**

For the financial statements audit, under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties

- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the authority in forming our risk assessment and audit strategy.

### **Internal audit**

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit planning and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.



# KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

## AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<b>Management override</b>	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing standards there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>• Review accounting estimates for evidence of management bias and evaluate whether this represents a risk of material misstatement.</li> <li>• Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</li> </ul>	Not applicable.
<b>Revenue recognition</b>	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk.</p> <p>In particular, we consider there to be a significant risk in respect of the existence (recognition) and accuracy of the revenue and capital grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p> <p>We also consider there to be a significant risk in relation to the existence of fees and charges income recorded in the CIES.</p>	<p>We will test an increased sample of grants subject to performance and / or conditions to confirm that the conditions of the grant have been met before the income is recognised in the CIES.</p> <p>We will test an increased sample of fees and charges income to ensure income has been recorded in the correct period.</p>	Government grant funding will be agreed to information published by the sponsoring Department.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Property, plant and equipment valuations	Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.	We will review the instructions provided to the external valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.	We will review independent data that shows indices and price movements for classes of assets against the percentage movements recognised by the Council.
	Management engages external valuers to undertake a rolling revaluation programme which ensures that all assets are revalued at least once every five years. Assets are valued as at 1 April of the financial year in question.	We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage.	
	The Council has engaged a new external valuer for 2016/17. There is a risk over the valuation of land and buildings where valuations are based on assumptions which are different from those applied in the prior year.		

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Changes in presentation of the financial statements	<p>CIPFA's Code of Practice on Local Authority Accounting requires a change to the presentation of some areas of the financial statements. This includes:</p> <ul style="list-style-type: none"> <li>• Change to the format of the Comprehensive Income and Expenditure Statement (CIES)</li> <li>• Change to the format of the Movement in Reserves Statement (MIRS)</li> <li>• New Expenditure and Funding Analysis (EFA) note</li> <li>• Change to the Segmental Reporting note</li> <li>• New Expenditure and Income analysis note.</li> </ul> <p>These changes will require a restatement of the 2015/16 CIES.</p> <p>There is a risk that these presentational changes are not correctly applied in the financial statements.</p>	<p>We will review the draft financial statements and check these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.</p> <p>We will review the Council's methodology for allocating income and expenditure transactions to new CIES headings to ensure that they are consistent with the requirements of the Code of Practice on Local Authority Accounting.</p> <p>We will review the Council's restatement of the prior year CIES and confirm that restated items reconcile to the audited 2015/16 financial statements.</p>	Not applicable.
Treatment of revenue expenditure funded from capital under statute (REFCUS)	<p>In the prior year, our audit identified that the value of REFCUS transactions were being netted off against net cost of services income and expenditure in the CIES.</p> <p>The introduction of the new layout of the CIES and the resulting changes in the presentation of income and expenditure increase the risk that REFCUS transactions may be incorrectly accounted for in the current year.</p>	We will test a sample of REFCUS transactions and confirm that they have been correctly recognised and presented in the CIES.	Not applicable.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions	<p>The net pension liability comprises the Council's share of the market value of assets held in the Cambridgeshire Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will agree the disclosures to the information provided by the pension fund actuary.</p> <p>As the auditors of the Cambridgeshire Pension Fund, we will review the controls for providing accurate membership data to the actuary.</p> <p>We will review the reasonableness of the assumptions used by the pension fund actuary.</p>	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>

AUDIT RISK AREAS - USE OF RESOURCES			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Sustainable finances	<p>The updated Medium Term Financial Strategy, to 2021/22, forecasts that the Council will need to make £101m of savings over the next five years, driven by inflationary, demographic and service pressures alongside reductions in central government funding.</p> <p>In response to this, the Council has embarked upon a Transformation Programme to change the way that it delivers its services. This is still in its early stages but its success will underpin the Council's ability to maintain financial sustainability in the medium term.</p>	<p>We will review the reasonableness of the assumptions used in the Medium Term Financial Strategy and consider the reasonableness of the assumptions applied in the forecasts in respect of cost pressures and government grant reductions.</p> <p>We will review the progress being made in respect of the Transformation Programme, including how the programme is being managed in the context of the new arrangements associated with devolution.</p>	Not applicable

# INDEPENDENCE

## INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Accounts Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2017.

We have not identified any potential threats to our independence as auditors.

On the following page, we have recorded details of non audit services we plan to deliver.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation after 5 and 10 years respectively. The table below sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

## INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Lisa Clampin - Engagement lead	2	2020/21
Barry Pryke - Engagement manager	2	2026/27

## INDEPENDENCE - ENGAGEMENT QUALITY CONTROL REVIEWER

NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
2	2020/21

# FEES

## FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2017 are:

	2016/17 Planned £	2015/16 Actual £
Code audit fee	94,061	94,061
Fees for non audit services - audit related (see below)	3,650	7,925
Fees for non audit services - other	Nil	Nil
<b>TOTAL FEES</b>	<b>97,711</b>	<b>101,986</b>

### NON AUDIT SERVICES FEES ANALYSIS

#### Non audit services:

	£	£
Skills Funding Agency subcontracting grant certification	3,650	3,794
Local Transport Major Projects grant certification	Nil	4,131
<b>Total</b>	<b>3,650</b>	<b>7,925</b>

Code audit fee invoices have been raised as set out below:

- First instalment £52,030.50 in July 2016
- Second instalment £42,030.50 in January 2017

The fee invoice for the Local Transport Major Projects grant certification was raised in January 2017.

The fee invoice for the Skills Funding Agency subcontracting grant certification was raised in February 2017.

#### Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

# APPENDIX I: MATERIALITY

## CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
  - Narrative disclosure e.g. accounting policies, going concern
  - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the authority, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
  - Assist in establishing the scope of our audit engagement and audit tests
  - Calculate sample sizes
  - Assist in evaluating the effect of known and likely misstatements on the financial statements.

# APPENDIX I: MATERIALITY

## Continued


### REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

### UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit and Accounts Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Audit and Accounts Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
  - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
  - Other misstatements that we believe are material or clearly wrong.





The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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