

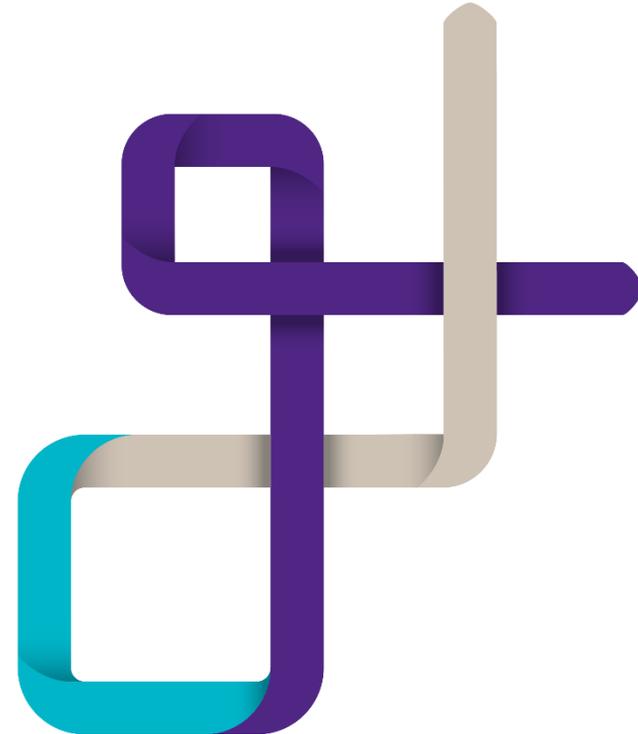
# External Audit Plan

*Year ending 31 March 2019*

Hastings Borough Council  
14 March 2019

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY





## Your key Grant Thornton team members are:

Darren Wells

**Engagement Lead**

T: 01293 554120

E: darren.j.wells@uk.gt.com

Andy Conlan

**Engagement Manager**

T: 02077 282492

E: andy.n.conlan@uk.gt.com

Harpaul Lachhar

**In-Charge**

T: 02078 652935

E: harpaul.s.Lachhar@uk.gt.com

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Hastings Borough Council ('the Authority') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Hastings Borough Council. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

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## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The revenue cycle includes fraudulent transactions;
- Management Override of Controls;
- Valuation of Pension Fund Net Liability;
- Valuation of Property, Plant, and Equipment.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

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## Materiality

We have determined planning materiality to be £1,685k for the Authority, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £84k.

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## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Medium term financial sustainability

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## Audit logistics

Our interim visit has taken place in January and February, and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £35,742 (PY: £46,418) for the Authority, subject to the Authority meeting our requirements set out on page 14.

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## Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

# Key matters impacting our audit

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## Factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Hastings Borough Council, in 2016/17 and 2017/18 years the Council had deficit financial results on its provision of services. At 31 March 2018 the usable reserves stood at £21.7m, a level which is considered by the Council to be sufficient to ensure the ongoing sustainability of the organisation. You are responding to funding challenges in a variety of ways, through identifying efficiencies & new sources of funding, working with partners, and engaging in service redesign.

The Council set a budget for a £1.7m deficit for the 2018/19 year, and the Medium Term Financial Strategy sets out expectations of funding gaps of between £2-3m for each of the subsequent 3 years before use of reserves. There are savings and income generation plans in place which will mitigate some of the impact, but the expected results will entail significant use of the Council's current usable reserves which will be difficult to replenish.

### Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

We will discuss the expected impact of these new standards on the 2018/19 financial statements with your finance team and obtain written support as to managements considerations in any judgemental accounting treatments.

### Brexit

You face the challenge of delivering services during significant political uncertainty on a national scale. With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on you, which you will need to plan for.

You have carried out some risk assessment of the specific impacts on the Council, local population and economy. The Council will need to review its arrangements and plans to mitigate risks arising from Brexit, including risks in areas such as workforce planning and supply chain analysis, as well as considering the impact on your finances, including investment and borrowing and any potential impact on the valuation of your assets.

## Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.
- As this is our first year as your new auditor we expect to carry out more extensive procedures to understand the methods and assumptions that underly your Medium Term Financial Strategy and to understand how the Authority assures itself that the usable reserves are sufficient to secure services going forward.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We identified an audit risk relating to the data migration from the previous Agresso enterprise resource planning (ERP) system to the new system Unit 4 Business World On – refer to page 8.
- We identified an audit risk relating to the potential preparation of group accounts. A wholly owned subsidiary Hastings Housing Company Ltd. has so far been considered by management to be immaterial to the authority accounts. This subsidiary is likely to be material to the authority accounts in 2018/19. We will understand management's own considerations and judgements around the consolidation decision, and if they consider consolidation to be necessary to the material correctness of the authority accounts. We will further consider what audit procedures we will need to carry out to obtain assurance that subsidiary balances and transactions are materially correct – refer to page 8.

# Significant risks identified

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Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>The revenue cycle includes fraudulent transactions</b></p>	<p>We have considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue.</p> <p>We have rebutted this presumed risk for revenue streams that are derived from Council Tax, Business Rates and Grants on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited.</p> <p>We have not deemed it appropriate to rebut this presumed risk for fees, charges and other service income as we do not have cumulative audit testing knowledge of these revenues being your new auditor, and the adoption of IFRS15 Revenue from Contracts with Customers could materially affect recognition of this income.</p> <p>We have therefore identified the occurrence and accuracy of these income streams and the existence of associated receivable balances as a significant risk of material misstatement.</p>	<p>For all material income streams where we have not rebutted the presumed risk of revenue recognition we will:</p> <ul style="list-style-type: none"> <li>• evaluate your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice</li> <li>• update our understanding of your system for accounting for income and evaluate the design of the associated controls</li> <li>• review and sample test income to supporting evidence</li> <li>• evaluate and challenge significant estimates and the judgments made by management</li> </ul>
<p><b>Management over-ride of controls</b></p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions</li> </ul>

# Significant risks identified

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Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of land, buildings and heritage assets</b>	<p><b>Land and Buildings</b></p> <p>The Authority revalues its land and buildings on a five-yearly rolling basis to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date. This valuation is carried out by the Council's internal valuers, professional valuers and independent property managing consultants contracted by the Council. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (approximately £120.3m at the 31 March 2018 balance sheet date) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.</p> <p><b>Heritage Assets</b></p> <p>Heritage assets were held at £15m at the 31 March 2018 balance sheet date. The Authority revalues heritage assets periodically based on market value as approximated by their insurance value. The insurance values are reviewed annually to ensure there have been no material changes, and where there are other indications of impairment their carrying amount will be reviewed.</p> <p>The valuations of heritage assets, particularly revaluations and impairments, is also a significant risk.</p> <p>The risk of misstatement in the valuations of land, buildings and heritage assets was one of the most significant assessed risks of material misstatements, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li><li>• evaluate the competence, capabilities and objectivity of the valuation expert</li><li>• write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code</li><li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li><li>• assess how management have challenged the valuations produced internally, by professional valuers and by and independent property managing consultants to assure themselves that these represent the materially correct current value</li><li>• test revaluations made during the year to see if they had been input correctly into the Authority's asset register</li><li>• evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value</li><li>• review the insurance valuations which are used as the basis for the estimation of the market value of heritage assets</li><li>• Review and challenge managements impairment review for heritage assets</li></ul>

# Significant risks identified

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Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of the pension fund net liability</b>	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (approximately £40.4 million in the Authority's balance sheet at the 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li><li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li><li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li><li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li><li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li><li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li><li>• obtain assurances from the auditor of East Sussex County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li></ul>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

# Other risks identified

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Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Migration of ERP system</b>	<p>During the 2018-19 accounting year management have undertaken a data migration from the previous Agresso enterprise resource planning (ERP) system to the new system Unit 4 Business World On ERP system.</p> <p>The migration took place at the beginning of April 2018. We regard this as a risk of material misstatement in the accounts as our experience of these types of system migrations has shown that the risk of error in data migration, either via system incompatibilities or via human error is high.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>document our understanding of and walkthrough the process for the system migration</li><li>reconcile the opening trial balance report from Agresso ERP to the opening balance on Unit 4 Business World On ERP and to the signed accounts to demonstrate the brought forward transactions and balances were equivalent and the same as the audited prior year closing position indicating the correct opening balances;</li><li>carry out testing to gain comfort over the correct transfer of historic data.</li></ul>
<b>Group Accounts preparation</b>	<p>A wholly owned subsidiary Hastings Housing Company Ltd. has so far been considered by management to be immaterial to the authority accounts. This subsidiary is likely to be material to the authority accounts in 2018/19. We will understand and challenge management's own considerations and judgements around the consolidation decision.</p> <p>In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Therefore if the subsidiary is consolidated, we will further consider what audit procedures we will need to carry out to obtain assurance that subsidiary balances and transactions are materially correct. This could require:</p> <ul style="list-style-type: none"><li>- audit of the financials of the component using component materiality;</li><li>- audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial;</li><li>- review of component's financial information; or</li><li>- analytical procedures at group level</li></ul>	<p>We will:</p> <ul style="list-style-type: none"><li>review and challenge management's considerations and judgements around the consolidation decision</li><li>review in detail the financials of the subsidiary and the accounting entries made to consolidate these into the group accounts to gain assurance over the correct accounting treatment</li><li>plan further audit procedures to obtain appropriate audit evidence over the consolidated subsidiary balances and transactions.</li></ul>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

# Materiality

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## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

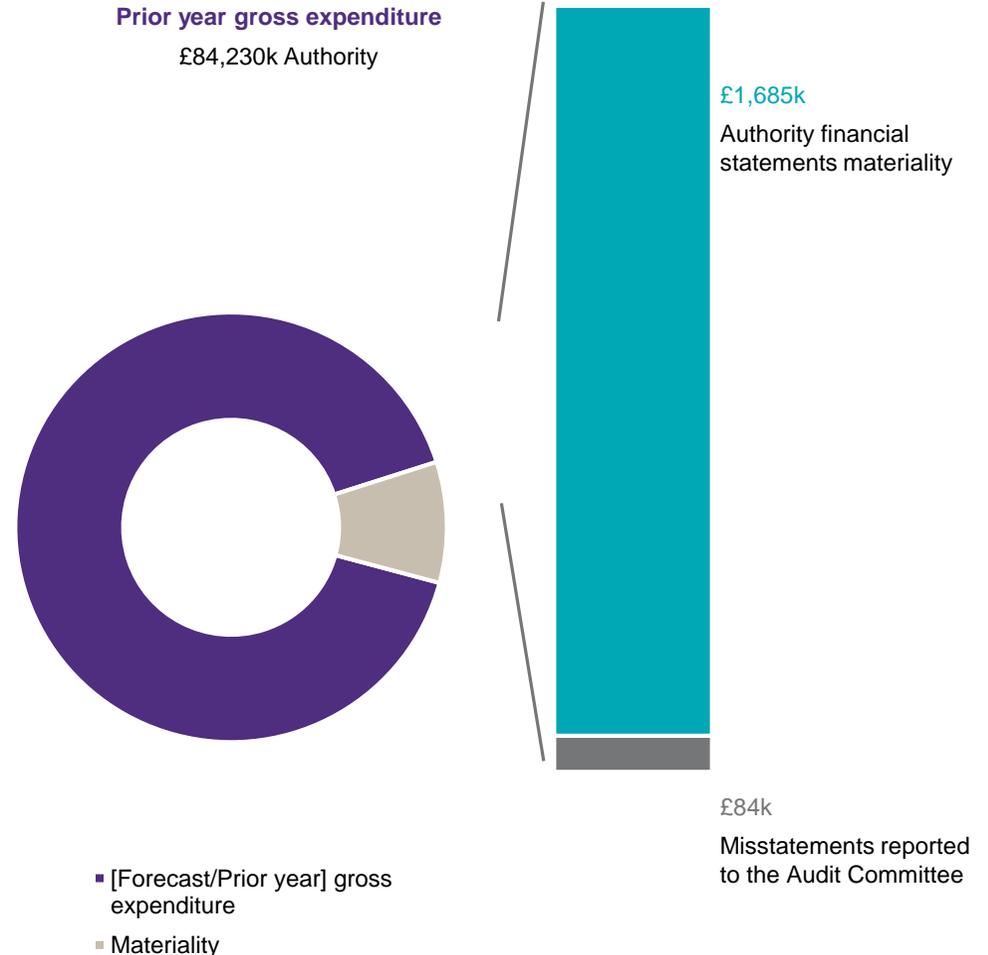
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. Materiality at the planning stage of our audit is £1,685k, which equates to 2% of your prior year gross expenditure for the year.

We reconsider planning 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.

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £84k.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



# Value for Money arrangements

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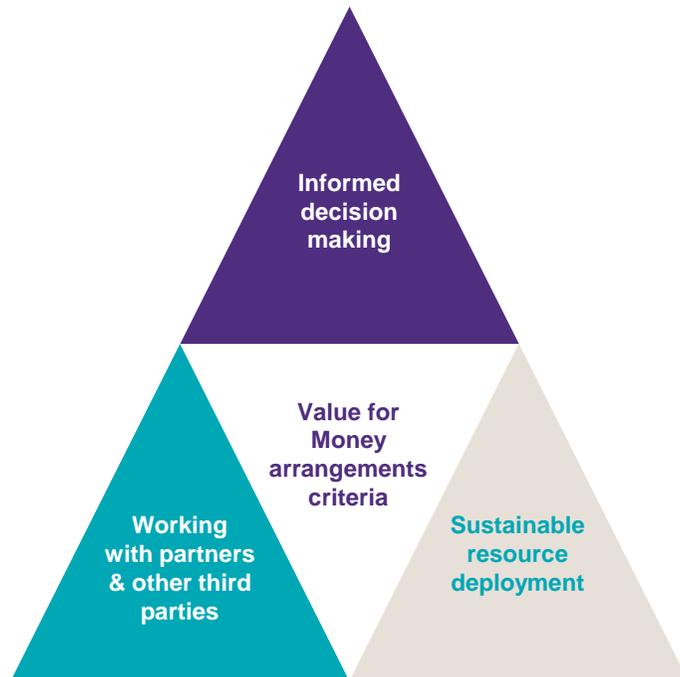
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:



## Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



### Medium Term Financial Sustainability

Across the Local Government sector medium to long term financial plans are under strain due to reductions in central government funding along with increases in demand. In the 2016/17 and 2017/18 years the Council had deficit financial results on its provision of services. At 31 March 2018 the usable reserves stood at £21.7m, a level which is considered by the Council to be sufficient to ensure the ongoing sustainability of the organisation. You are responding to funding challenges in a variety of ways, through identifying efficiencies & new sources of funding, working with partners, and engaging in service redesign.

The Council set a budget for a £1.7m deficit for the 2018/19 year, and the Medium Term Financial Strategy sets out expectations of funding gaps of between £2-3m for each of the subsequent 3 years before use of reserves. There are savings and income generation plans in place which will mitigate some of the impact, but the expected results will entail significant use of the Council's current usable reserves which will be difficult to replenish. The impact of Brexit on the local economy could also lead to a further deterioration in public finances.

Our work will primarily include:

- Reviewing management's methods/processes in drafting the budget and Medium Term Financial Strategy;
- Understanding and challenging the key assumptions and estimates, particularly those that are highly judgemental, and comparing these to other authorities and our overall sector knowledge; and
- Consideration of the financial issues arising from Brexit. These may include changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on your workforce.

# Audit logistics, team & fees

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## Darren Wells, Engagement Lead

Darren will be the main point of contact for the Chair and the Chief Executive and Board Members. Darren will share his knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Senior Board Members and the Policy and Resources Committee. Darren will ensure our audit is tailored specifically to you and is delivered efficiently. Darren will review all reports and the team's work focussing his time on the key risk areas to your audit.



## Andy Conlan, Audit Manager

Andy will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Andy will attend Policy and Resources Committees, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Andy will work with Internal Audit to secure efficiencies and avoid duplication.



## Harpaul Lachhar, Audit Incharge

Harpaul will lead the onsite team and will be the day to day contact for the audit. Harpaul will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Harpaul will undertake the more technical aspects of the audit, coach the junior members of the team and review the teams work.

## Audit fees

The planned audit fees are £35,742 (PY: £46,418) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change. We also have engaged to complete grant certification work for the Authority for the 2018/19 year with a planned fee of £10,500.

Where additional audit work is required to address risks relating to:

- the application of changes to International Financial Reporting Standard (IFRS) 9 – Financial Instruments and changes to the Authority's recognition and accounting treatment of financial assets and/or liabilities;
- the application of changes to International Financial Reporting Standard (IFRS) 15 – Revenue from contracts with customers and the Authority's recognition and accounting treatment of income from contracts;
- the migration of data and possible extension to our audit procedures necessary to gain assurance over this risk;
- the group consolidation of accounts and possible extension to our audit procedures necessary to gain assurance over this risk
- other audit issues/risks which have not been disclosed to us in our risk assessment.

we will consider the need to charge fees in addition to the audit fee on a case by case basis. Any additional fees will be discussed and agreed with management and would require PSAA approval.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

## Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 13. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

# Independence & non-audit services

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## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified:

Service	£	Threats	Safeguards
<b>Non-audit related</b>			
CFO Insights	£5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £35,742 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Management	We are not taking any managerial responsibilities at the client. The scope of work does not include making decisions on behalf of management.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

# Audit approach

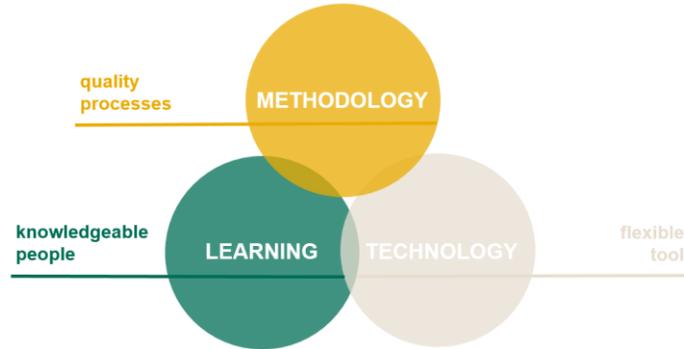
## Use of audit, data interrogation and analytics software

### LEAP



#### Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



### IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

### Appian



#### Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

### Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



#### REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



#### ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



#### VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



#### INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



#### FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



#### INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

# DRAFT



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