

# External Audit Plan

*Year ending 31 March 2019*

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Kirklees Metropolitan Council

26 February 2019



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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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# 1. Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Kirklees Metropolitan 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'). The Code 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 Kirklees Metropolitan 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 and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Governance and 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 Corporate Governance and 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.

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<b>Group Accounts</b>	The Authority is required to prepare group financial statements that consolidate the financial information of Kirklees Neighbourhood Housing Limited.
<b>Significant risks</b>	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: <ul style="list-style-type: none"><li>• Management override of controls</li><li>• Valuation of the pension fund net liability</li><li>• Valuation of land and buildings</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.
<b>Materiality</b>	We have determined planning materiality to be £17.3m (PY £15m) for the group and £17.2m (PY £11.5m) for the Council, which equates to 1.75% of your prior year gross expenditure. 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 £0.86m (PY £0.75m).
<b>Value for Money arrangements</b>	Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks: <ul style="list-style-type: none"><li>• Financial Sustainability</li><li>• Children's Services Arrangements</li></ul>
<b>Audit logistics</b>	Our interim visit will take place in February/March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be £122,221 (PY: £158,729), subject to the Council meeting our requirements set out on page 12.
<b>Independence</b>	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.

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## 2. Key matters impacting our audit

### External Factors

#### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. In 2017/18 Kirklees Metropolitan Council delivered an underspend of £1.6m against its revised net expenditure budget of £286.4m. There were significant overspends in Children's Services of £11.3m however £5.8m of this was due to priority Investment in the Children's Improvement Plan. The Council also achieved 89% of its £54m savings programme through transformation activity and service changes, with the remainder being achieved from non-recurrent additional savings.

For 2018/19 the Council originally set a net expenditure budget of £291.2m which recognised increases in the budgets for Children's Services and Adult's Services offset by a requirement to make savings of £16m. At Quarter 2 the Council is forecasting an overspend of £4.8m against the revised budget. The Council's MTFP highlights a budget gap of £26.9m over the 3 year period 2019 to 2022

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

#### 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.

### Internal Factors

#### Regulatory reviews of Children's Services

On 25 November 2016 Ofsted published its report from its Inspection of services for children in need of help and protection children looked after and care leavers, and its review of the effectiveness of the Local Safeguarding Children Board. The report rated Children's Services in Kirklees as 'Inadequate'. Following the issue of a statutory direction in January 2018, the Council formalised its partnership arrangements with Leeds City Council in a strategic partnership agreement in March 2018. The Action Plan in response to Ofsted's recommendations is monitored by the Kirklees Safeguarding Children's Board and Ofsted's monitoring reports have acknowledged that improvements continue to be made.

We note the publication of the latest monitoring visit assessment which highlighted the 'significant progress' that has been made in improving the Council's initial response to children and young people who need help and protection.

### 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 group and will review related disclosures in the financial statements.
- We will continue to meet with senior management and consider the Council's financial position and delivery of the savings programme

- 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.

As part of our VFM work, we will:

- consider the arrangements, governance structures and internal monitoring processes in place at the Council to maintain and achieve continued improvements in Children's services
- consider the range of reports and information published and available from third parties including Ofsted.
- continue to meet with senior management to understand the latest position on regulatory inspections and the Council's responses.

### 3. Group audit scope and risk assessment

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.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
<b>Kirklees Metropolitan Council</b>	Yes		<ul style="list-style-type: none"> <li>Please refer to the significant risks identified in section 4 of this Plan on pages 6 to 8.</li> </ul>	Full scope UK statutory audit performed by Grant Thornton UK LLP
<b>Kirklees Neighbourhood Housing Limited (wholly owned subsidiary)</b>	No		<ul style="list-style-type: none"> <li>Incomplete or incorrect consolidation of material balance for KNHL's net pension fund liability</li> </ul>	<p>Specific scope procedures on the subsidiary's net pension fund liability and relevant disclosures.</p> <p>These procedures will be performed by the Grant Thornton group audit engagement team, to be concluded by 31 July 2019.</p>
<b>Kirklees Stadium Development Limited (joint venture)</b>	No		<ul style="list-style-type: none"> <li>No specific significant risks identified at the planning stage</li> </ul>	Analytical procedures at Group level

#### Key changes within the group:

Up to the time this plan was prepared there have been no significant changes within the Group. Should this change before the year end we will re-assess the components and provide an update to the Corporate Governance and Audit Committee.

#### Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

## 4. Significant risks identified

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
<b>Fraudulent revenue transactions</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• the culture and ethical frameworks of local authorities, including Kirklees Metropolitan Council, mean that all forms of fraud are seen as unacceptable</li></ul> <p>Therefore we do not consider this to be a significant risk for Kirklees Metropolitan Council.</p>	<p>As we do not consider this to be a significant risk for the Council, we will not be undertaking any specific work in this area other than our normal audit procedures, including validating total revenues to council tax, non-domestic rates and central government grants income.</p>
<b>Management over-ride of controls</b>	<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 Council continues to face financial pressures 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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of land and buildings (rolling valuation).</b>	<p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, the Council needs to ensure the carrying value of land and buildings in the Council's financial statements is not materially different from the current value or the fair value at the financial statements date, where a rolling programme is used.</p> <p>Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing. The Social Housing adjustment factor is prescribed in DCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuer's assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence indicating that the standard social housing factor is not appropriate to use.</p> <p>We have therefore identified valuation of land and buildings, particularly revaluations, impairments and for dwellings the use of the social housing factor, as a significant risk 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 valuers to confirm the basis on which the valuations were carried out.</li><li>• challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding</li><li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register</li><li>• evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end; and</li></ul>

# Significant risks identified

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 pension fund net liability, as reflected in the group balance sheet as the retirement benefit obligations, represents a significant estimate in the financial statements and group accounts.</p> <p>The group's pension fund net liability is considered a significant estimate</p> <p>We therefore identified valuation of the group and Council's pension fund net liability as a significant risk 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;</li><li>• obtain assurances from the auditor of the West Yorkshire 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; and</li><li>• assess management's arrangements for identifying and evaluating the impact of any subsequent events such as Brexit on asset valuations.</li></ul>

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



## 5. Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>PFI schemes</b>	<p>The Council has a number of assets that are financed under PFI arrangements.</p> <p>PFI schemes are complex and material accounting transactions arising from these schemes are derived from detailed financial models in particular:</p> <ul style="list-style-type: none"><li>• accounting treatment of the unitary charge</li><li>• derivation of PFI Liabilities and accounting disclosures</li></ul> <p>As this is Grant Thornton's first year of the audit of Kirklees Metropolitan Council we recognise this as a risk to be addressed in 2018/19.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• review the accounting models for the four PFI schemes to confirm the appropriateness of each model in reflecting individual scheme arrangements.</li><li>• review material transactions, balances and disclosures within the financial statements and confirm consistency with financial models.</li></ul>

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## 6. Other matters

### 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 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 group'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.

# 7. Materiality

## 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 group and Authority for the financial year. In the prior year your previous auditors used the same benchmark and we have discussed with them the outcome of their prior year work and its implications on materiality for 2018/19.

Materiality at the planning stage of our audit is £17.3m (PY £15m) for the group and £17.2m (PY £11.5m) for the Authority, which equates to 1.75% of your prior year gross expenditure.

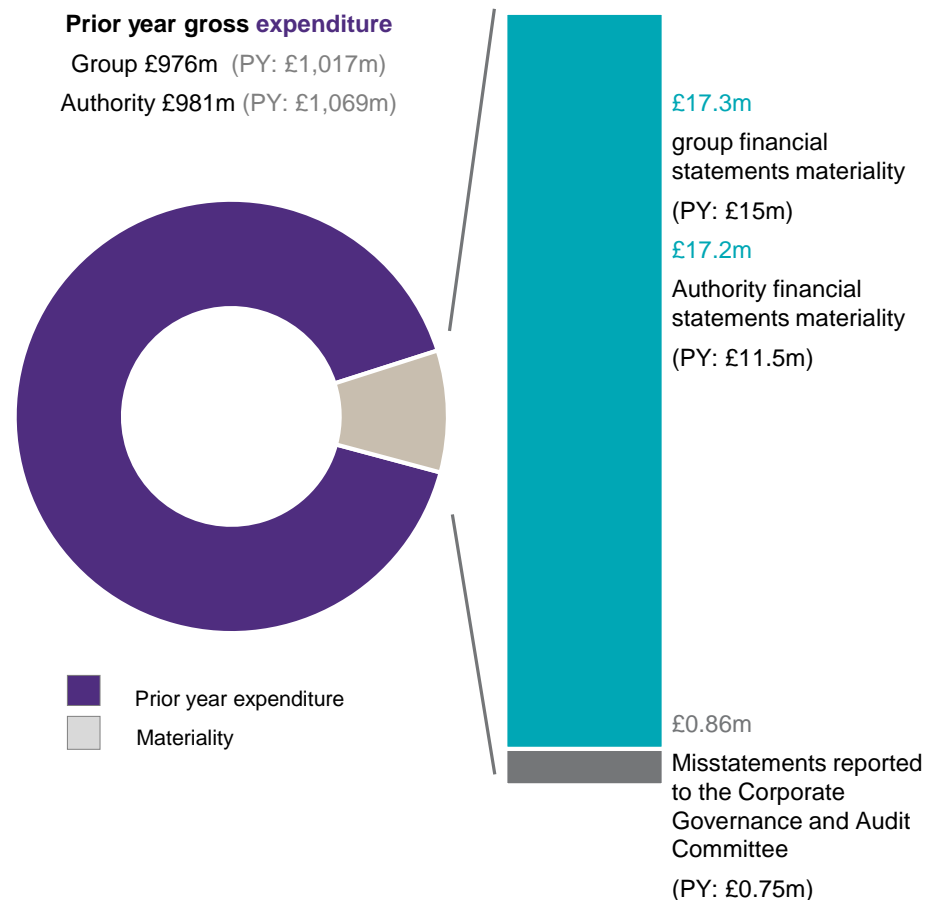
We design our procedures to detect errors in specific accounts at a lower level of precision. The senior officer remuneration disclosure in the financial statements has been identified as an area requiring lower level of materiality of £20,000, due to the sensitive nature of the disclosure.

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 group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.86m (PY £0.75m).

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



# 8. Value for Money arrangements

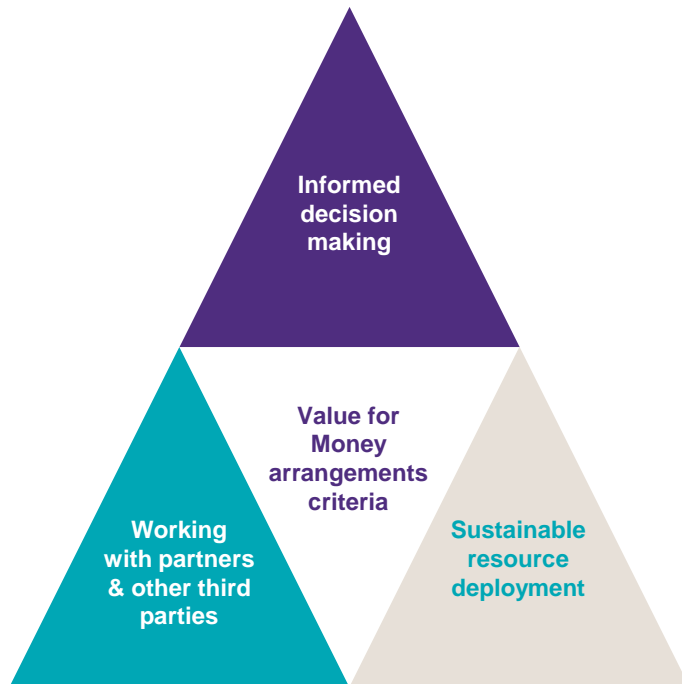
## Background to our VFM approach

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.



**Financial sustainability** – delivery of the 2018-19 budget and savings plan and achievement of Medium Term Financial Plan (MTFP)

The Council, in line with other local authorities, continues to operate under significant financial pressures. For 2018-19, the Council is planning to deliver a balanced outturn position but to achieve this, needs to deliver savings, whilst managing cost pressures within Child Protection and Family Support and Adult Social Care at a time of reduced funding. The Council's latest financial projections indicate it is expecting to deliver on budget.

We will review the arrangements the Council has in place to ensure financial resilience, specifically that the Medium Term Financial Plan and saving plans appropriately recognises the financial risks and pressures facing the Council, assumptions are realistic and planned mitigations are robust.



**Children's Services**

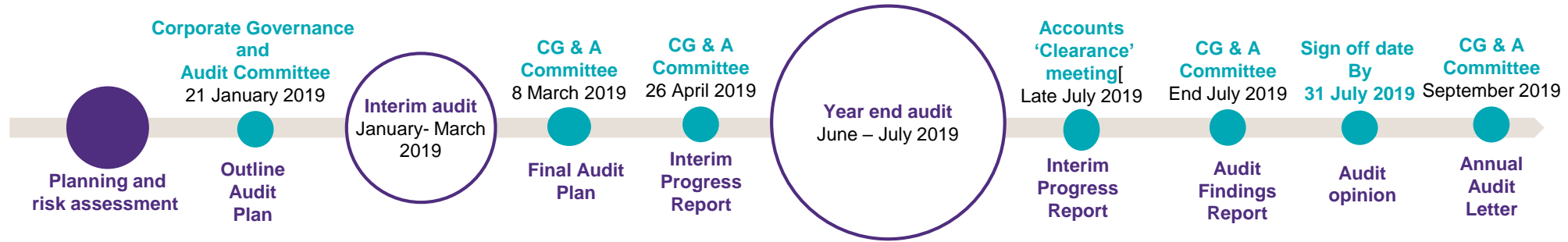
On 25 November 2016 Ofsted published its report from its Inspection of services for children in need of help and protection children looked after and care leavers, and its review of the effectiveness of the Local Safeguarding Children Board. The report rated Children's Services overall in Kirklees as Inadequate. Following the issue of a statutory direction in January 2018, the Council formalised its developing partnership arrangements with Leeds City Council in a strategic partnership agreement in March 2018. The Action Plan in response to Ofsted's recommendations is monitored by the Kirklees Safeguarding Children's Board and Ofsted's monitoring reports have acknowledged that improvements continue to be made.

We will:

- consider the range of reports and information published and available from third parties including Ofsted.
- review the up-to-date responses to the Action Plan to gain assurance that progress continues to be made and improvements embedded.

We note the publication of the latest monitoring visit assessment which highlighted the 'significant progress' that has been made in improving the Council's initial response to children and young people who need help and protection.

# 9. Audit logistics, team & fees



### Robin Baker, Engagement Lead

Robin leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring highest professional standards are maintained and a commitment to add value to the Council.



### Marianne Dixon, Audit Manager

Marianne plans, manages and leads the delivery of the audit. She is the first point of contact for your finance team for discussing any emerging issues.



### Andrew McNeil, Executive In charge

Andrew's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on site audit team.

### Audit fees

The planned audit fee is £122,221 (PY: £158,729) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA.

Kirklees is classified as a Public Interest Entity due to existence of listed debts and as a result we are required to undertake additional procedures and issue a longer form audit report. We are currently considering a small increase in the fee for audits classified as Public Interest Entities (PIEs) due to the additional planning and reporting requirements. If approved by PSAA this will apply to Kirklees Metropolitan Council.

In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

### 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.

Any proposed fee variations will need to be approved by PSAA.

# 10. Early close

## Meeting the 31 July audit timeframe

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.

## Regular liaison

We consider it important to meet on a regular basis to understand the Council's plans and developments, as well as any emerging issues which may impact on the financial statements and our audit work. To this end, we have met with the Chief Executive and Senior Officers. We have also held meetings with senior finance managers on a number of occasions to consider the approach to the 2018/19 audit, specific issues, We will continue to meet on a regular basis throughout the audit process.

## Client and audit responsibilities

To minimise the risk of a delayed audit or additional audit fees, we will work together with you so that you are able to meet your responsibilities to:

- 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.

# 11. Independence & non-audit services

## 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 services have been identified for 2018/19.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Housing Benefit certification	£12,000 + £2,130 per 40+ workbook	Self interest (as 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 a fixed fee of £12,000, with variable fees of £2,130 per additional 40+ workbook and not significant in comparison to the total fee for the audit of £122,221 and in particular to Grant Thornton UK LLP's overall turnover. Further there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
CFO Insights	£10,000 - £12,500 per annum	Self Interest (as this is a recurring fee)	This is an online software subscription service that enable users to rapidly analyse data sets. CFO Insights is a Grant Thornton & CIPFA collaboration giving instant access to financial performance, service outcomes and socio-economic indicators for local authorities.  It is the responsibility of management to interpret the information. The scope of our service does not include making decisions on behalf of management or recommending or suggesting a particular course of action. These factors mitigate the perceived self-interest threat. The fee for the work is negligible in comparison to the total fee for the audit.
PFI Contract Payment Mechanism	£8,096	None	This is the review of the payment mechanism on an established PFI contract and is a backward looking engagement. It relates to a non-controversial element of the accounts and the amounts involved are not material. No significant threats have been identified.

We have not provided any other services to the Council in 2017-18 prior to our appointment as external auditors to the Council.

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# Appendices

## A. Audit Approach



# Audit approach

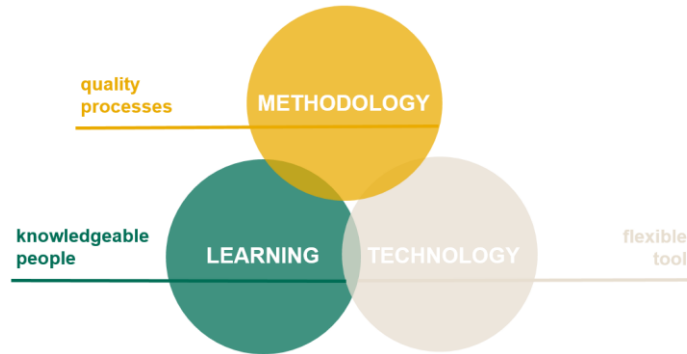
## Use of audit, data interrogation and analytics software

### 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



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