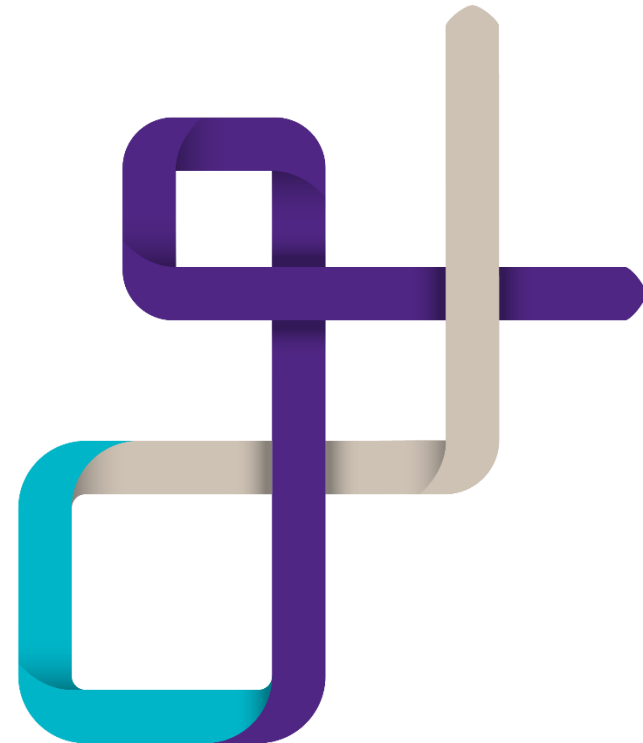




External Audit Plan

Year ending 31 March 2018

Warwick District Council
6 March 2018



Contents



Your key Grant Thornton
team members are:

Grant Patterson

Director

T: +44 121 232 5296

E: grant.b.patterson@uk.gt.com

Helen Lillington

Manager

T: +44 121 232 5312

E: helen.m.lillington@uk.gt.com

| Section | Page |
|---|------|
| 1. Introduction & headlines | 3 |
| 2. Deep business understanding | 4 |
| 3. Significant risks identified | 5 |
| 4. Reasonably possible risks identified | 8 |
| 5. Other matters | 9 |
| 6. Materiality | 10 |
| 7. Group audit scope and risk assessment | 11 |
| 8. Matters discussed with management during the interim visit | 12 |
| 9. Value for Money arrangements | 14 |
| 10. Audit logistics, team & audit fees | 15 |
| 11. Early close | 16 |
| 12. Independence & non-audit services | 17 |
| Appendices | |
| A. Revised ISAs | |
| B. Detailed working paper requirements for interim | |

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 Council or any 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Warwick District Council ('the Council') for those charged with governance. We will report any updates or changes to our risk assessments arising from our interim audit visits as part of our 'Interim Progress Report'.

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 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 Warwick District 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:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Finance and Audit Scrutiny committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Finance and Audit Scrutiny Committee of your responsibilities. It is the responsibility of the Council 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 Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

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

- Management override of controls
- Valuation of the pension liability
- Valuation of property, plant and equipment, and
- Disclosure of accounting entries in relation to group accounts

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.

Materiality

We have determined planning materiality to be £1.2m (PY £1.3m), which equates to 2% of your forecast 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 £60k (PY £63k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any significant VFM risks

Audit logistics

Our interim visits will take place in February and March and our final visits 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 no less than £53,623 (PY: £53,623) for the Council.

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

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. For Warwick District Council, this includes the joint venture with PSP Warwick LLP, where potential group accounting arrangements are required, and the engagement of two new fund managers to manage £6m of investment assets.

Devolution

The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas. While the Council continues to work in partnership with the County Council and other Local Authorities there are no current plans for any formal arrangements.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Housing Revenue Account (HRA)

DCLG has issued revised guidance on the calculation of the Item 8 Determination for 2017/18, which :

- extends transitional arrangements for reversing impairment charges and revaluation losses on dwelling assets and applies this principle to non-dwelling assets from 2017/18,
- confirms arrangements for charging depreciation to the HRA and permitting revaluation gains that reverse previous impairment and revaluation losses to be adjusted against the HRA.

Key challenges

Financial pressures

Historically the Council has a strong track record of delivering against its financial objectives, with a £0.5m surplus being achieved in 2016/17 against a £12m budget. The most recent budget monitoring reports for Councillors show a predicted £812k surplus at the end of 2017/18, with early work on the base budget for 2018/19 demonstrating a potential surplus of £39k. Work on the medium term financial plan has shown that savings of £385k are still to be identified over the period until 2022/23, however this compares favourably to other similar Councils.

Changes in finance team

The Council have benefited from a stable and experienced finance team in previous years, however the retirement of the capital accountant during 2016/17, and the retirement of the revenue accountant during 2017/18 will place increased demands on the remaining team during the financial accounts production and audit period. It is essential that interim staff are managed and supervised appropriately and that there is clear oversight and management of the final accounts to ensure that the earlier statutory deadline will be met.

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 uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 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 2017/18 CIPFA Code, revised Item 8 guidance for the HRA and the impact of impairment assessments and the adequacy of provisions in relation to essential work on high rise buildings.
- As part of our ongoing planning and work with the Council we have held a detailed 'wash-up' session with officers to identify areas where they could improve their processes and eliminate the issues experienced last year. In addition, we have provided detailed working paper requirements for the interim visit to help officers ensure that work is completed as early as possible. This is included at Appendix B. We will report back to both the Head of Finance and members where slippages in the work programme are identified.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|--|
| The revenue cycle includes fraudulent transactions | 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. | 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: <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Warwick District Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Warwick District Council. |
| Management over-ride of controls | 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. Management over-ride of controls is a risk requiring special audit consideration. | We will: <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions. |

Significant risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| Valuation of property, plant and equipment | <p>The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p> | <p>Tests to be performed on valuation of revaluations and any associated impairments include:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • Consideration of the competence, expertise and objectivity of any management experts used. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of 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. |
| Valuation of pension fund net liability | <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out • Undertake procedures to confirm the reasonableness of the actuarial assumptions made. • Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary |

Significant risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|--|---|---|
| Disclosure of entries in relation to Group Accounting. | <p>The Council have advised us that Group Accounts are likely to be necessary for the first time in 2017/18, however they are yet to produce a group account assessment and form a judgement on whether these additional disclosures are required.</p> <p>Given the judgements, estimates and likely disclosures required in this first year of implementation we have identified this as a risk requiring special audit consideration.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Review the assessment made by officers and supporting evidence provided • Where estimates have been used, we will review management's processes and assumptions for the formulation of those estimates • Where third party information has been used, we will consider the arrangements the Council has in place to assure itself that the information provided is robust • If group accounts are required, we will review the disclosure made within the financial statements and the basis of those disclosures. |

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 2018.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|------------------------------|---|---|
| Employee remuneration | <p>Payroll expenditure represents a significant percentage (43%) of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p> | <p>We will:</p> <ul style="list-style-type: none"> evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness; gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; obtain year-end payroll reconciliation and ensure amount in accounts can be reconciled to ledger and through to payroll reports agree payroll related accruals to supporting documents and review any estimates for reasonableness perform substantive analytical review procedures |
| Operating expenses | <p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p> | <p>We will:</p> <ul style="list-style-type: none"> evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; review the accruals process and the controls management have put in place obtain a listing from the cash book of non-pay payments made in April and test on a sample basis to ensure that they have been charged to the appropriate year |
| Level two investments | <p>The Council have invested a total of £6m with two investment managers during 2017/18. The Council have currently classified these investments as Level two investments, which means that the fund manager uses valuation techniques to determine the fair value of the investment and that these techniques use inputs that are based significantly on observable market data.</p> <p>We identified the valuation of these investments as a risk requiring particular audit attention.</p> | <p>We will</p> <ul style="list-style-type: none"> evaluate the Council's accounting policy for recognition of level two investments for appropriateness; gain an understanding of the Council's system for accounting for level two investments and evaluate the design of the associated controls; review the qualifications of the fund managers as experts to value these investments at year end and gain an understanding of how the valuation of these investments has been reached; review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. |

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 carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- 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 the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State.
- 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 entity'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

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 propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £1.2m (PY £1.3m), which equates to 2% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

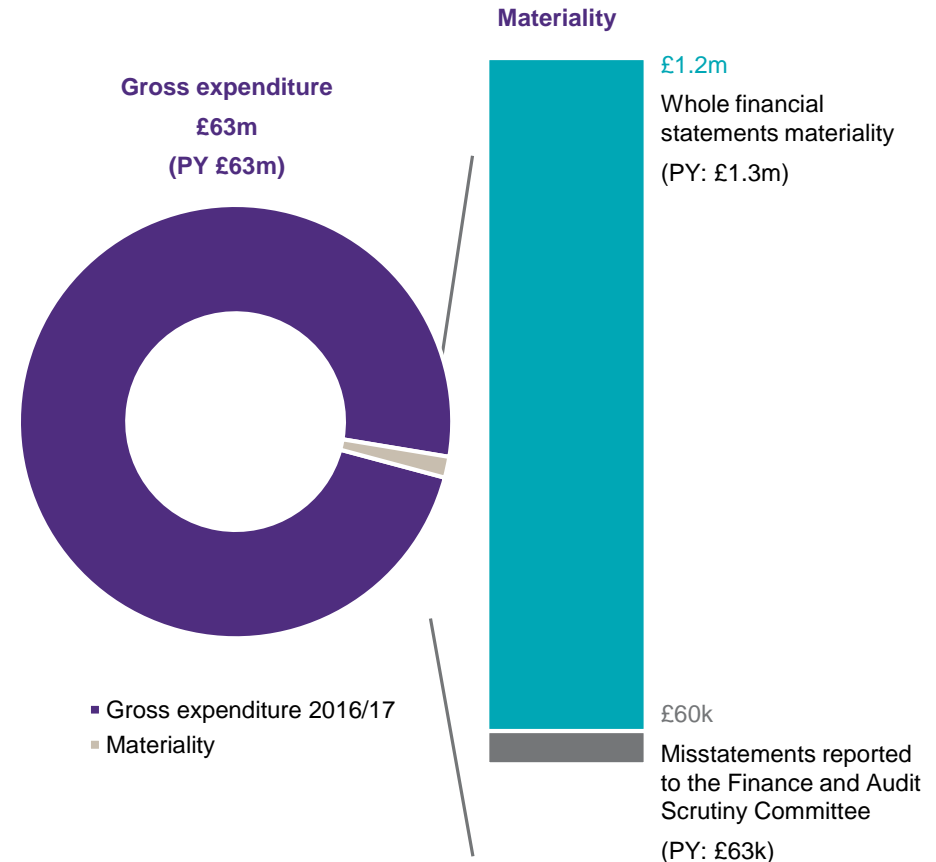
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

ISA (UK and Ireland) 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, 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'. We have decided to have a lower level of materiality for £100k for the disclosure of senior manager salaries and allowances in the remuneration disclosures due to the public interest in these disclosures and the statutory requirement for these to be made.

Matters we will report to the Finance and Audit Scrutiny 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 Finance and Audit Scrutiny 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 Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £60k (PY £63k).

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



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.

To date officers have highlighted that it may be necessary to produce group accounts in respect of PSP Warwick LLP, however they are yet to provide a detailed assessment and therefore it has not been possible to complete our planning in this area. We have requested that officers consider this area as a matter of urgency, as the impact of the assessment could lead to additional work in both the preparation and audit of the financial statements. If group accounts are required, officers will need to engage with PSP Warwick LLP to ensure that the appropriate information is available within the required reporting schedule, so that draft accounts can be produced by the statutory deadline of the 31 May 2018.

Matters discussed with management during the interim visit

As per the timeline agreed with management on page 15 we have already completed on interim audit visit. Prior to the visit we held discussions with officers and agreed the work that would be undertaken in both the audit visit in February and that planned for March. The table below highlights the key areas and actions required.

| Matter | Commentary |
|-------------------|---|
| 1. Working papers | <p>The working papers required for our February interim visit were discussed in detail and agreed with the Strategic Finance Manager during early January (this has been reproduced at Appendix B). Of the 15 areas agreed, there were 5 areas where working papers were either not provided, or the initial working paper provided contained insufficient detail to enable the audit team to commence the work. These have been discussed with the relevant officer while the audit team have been on site. For clarity, the key areas are set out below;</p> <ul style="list-style-type: none"> • Group accounts – While an assessment has been completed, the information provided doesn't clearly demonstrate whether group accounts are required. This is considered in further detail below. • Welfare benefits – It has been agreed between officers and auditors for this work to be carried out in March. • Information relating to the consideration and selection of the Level 2 investment manager • Detailed instructions sent to the valuer. This is considered in further detail below. • A working paper setting out the documented processes and controls for providing information to the pension fund and the actuary. This is considered in further detail below. <p>Following on from our 2016/17 Audit Findings Report we agreed that the Council would introduce a level of quality assurance (QA) prior to providing them to the audit team. A good working paper enables a suitably experienced individual to be able to re-perform the work and understand the judgements and conclusions made. In many cases a simple narrative paragraph with embedded evidence would improve the working papers provided. When providing audit evidence we would anticipate that source documentation is provided, in most cases a screen print of the ledger or an email trail is not sufficient. It is also key that where questions are asked these are responded to in full. Due to a lack of resources in the finance team the QA was not possible, which has contributed to the level of missing working papers and the quality of information provided.</p> <p>Action</p> <p>Completing as much audit work as possible at interim is key to both the Council and us meeting the early close deadline. We can hopefully get back up to pace in our March visit. In order for this to be achieved:</p> <ul style="list-style-type: none"> • The Strategic Finance Manager should ensure she has discussed our March audit visit requirements with the rest of the finance team and assured herself that all members are clear on the working papers expected and their content. • The audit team will continue to ensure that all requests for evidence are easy to understand and highlight the purpose of our request. Where queries are raised over what is required we will deal with these promptly and with flexibility if required. • The Head of Finance should ensure that the Council's arrangements will enable all of the outstanding working papers to be prepared, appropriately quality assured and made available for our March interim audit visit. |
| 2. Group accounts | <p>Officers have completed an assessment of the arrangement, however there are some unresolved issues around the reliability and understandability of the data provided by PSP. Until these are resolved there remains a lack of clarity around whether group accounts are required for the current financial year. Given the potential additional work that will be required at year end if group accounts are needed this should be resolved as soon as possible to not place the achievement of the earlier deadline at risk.</p> |

Matters discussed with management during the interim visit

| Matter | Commentary |
|--|--|
| 3. Instructions to the valuer | <p>The Council uses an external valuer to value its properties. This is a significant estimate in the accounts and it is key that instructions to the valuer are clear and well documented, so that they have the necessary information to be able to accurately value the properties on behalf of the Council so that they meet the requirements of proper accounting practice. Our review of the documentation to date, for both the rolling program of valuations and for investment properties has not identified any formal instructions, just various trails of email communication.</p> <p>Action</p> <ul style="list-style-type: none"> Officers should ensure that the final working papers provided clearly demonstrate the instructions to the valuer on what to value, that it meets the Code requirements and the format of the response required. We have requested that this is now included in the working papers for the March audit visit. Details of the information provided to the valuer should also be included, along with a narrative explaining the source of this information. Again, we have requested that this is now included in the working papers for the March audit visit. There should be clear challenge by officers on the information and assumptions provided from the valuer, to ensure that it is in line with expectations and any significant variances followed up. This was included as a recommendation in our Audit Findings Report last year. |
| 4. Information provided to the actuary | <p>Pension liabilities are a key estimate in the accounts. We are working with officers in finance to understand the arrangements for providing information to the actuary, as these have changed from the prior year. It is key that officers understand what information has been provided to the actuary on their behalf by the pension fund, and there is evidence that this information has been considered accurate and appropriate by Warwick District Council. Again there should be clear challenge on the information provided by the actuary, particularly where the results are different from expectations. This was included as a recommendation in our Audit Findings Report last year.</p> |

Value for Money arrangements

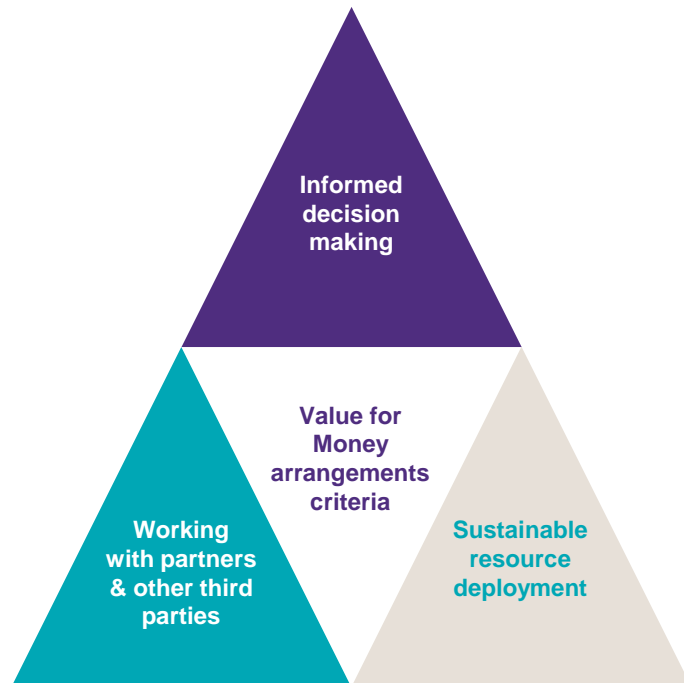
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

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

We have carried out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we consider :

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements;
- any illustrative significant risks identified and communicated by the NAO in its supporting Information;
- any other evidence which we consider necessary to conclude on your arrangements.

The purpose of the risk assessment is to identify those risks requiring specific audit consideration and procedures, to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

We have not identified any significant risks from our initial risk assessment. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

Audit logistics, team & audit fees



Grant Patterson

Engagement Lead

Grant's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.



Helen Lillington

Manager

Helen's role will be to be a key contact with the Head of Finance and the Finance and Audit and Scrutiny Committee.

Audit fees

The planned audit fees are no less than £53,623 (PY: £53,623) for the financial statements audit. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council 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.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face 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

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. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Non-audit services

The following non-audit services were identified.

| Service | Fees £ | Threats | Safeguards |
|--|--------|---|---|
| Audit related | | | |
| Certification of Housing capital receipts grant (relating to 2016/17 transactions, however the work will be completed during the 2017/18 financial year) | 3,000 | 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 £3,000 in comparison to the total fee for the audit of £53,623 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 mitigate the perceived self-interest threat to an acceptable level. |

[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 Council'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.

Appendices

A. Revised ISAs

B. Detailed working paper requirements for interim

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

| Section of the auditor's report | Description of the requirements |
|--|---|
| Conclusions relating to going concern | <p>We will be required to conclude and report whether:</p> <ul style="list-style-type: none"> • The directors use of the going concern basis of accounting is appropriate • The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern. |
| Material uncertainty related to going concern | <p>We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements.</p> <p>Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.</p> |
| Other information | <p>We will be required to include a section on other information which includes:</p> <ul style="list-style-type: none"> • Responsibilities of management and auditors regarding other information • A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation • Reporting inconsistencies or misstatements where identified |
| Additional responsibilities for directors and the auditor | <p>We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.</p> |
| Format of the report | <p>The opinion section appears first followed by the basis of opinion section.</p> |

Appendix B: Detailed working paper requirements for interim

Introduction

To assist the Council as part of faster close we have produced this interim working paper requirements document. The purpose of the document is to help ensure that as much early work is completed by both officers and the audit team as possible, therefore reducing the pressure on the final accounts process and to provide an indication of any potential risks to the statutory deadline of the 31st July.

This document sets out the working papers required during both the February and March interim visit and has been agreed with officers. Our Audit Plan, assumes you will complete this information and present it for audit in line with the agreed timetable. Your co-operation with this is greatly appreciated and we look forward to working with you during the forthcoming audit.

Working papers and co-ordination

The list attached describes the working papers required at each stage of the interim audit. This list has been discussed in detail with the Strategic Finance Manager, who will be responsible for ensuring that the working papers are provided for audit in line with the timetable agreed.

We would ask that:

- All working papers are provided electronically and are ready prior to the commencement of each audit visit
- The individuals responsible for preparing the working papers are identified and notified of the dates of the audit visit. Where officers are not available during the visit, the audit team should be notified as part of the hand-over of working papers.
- All working papers provided should be subject to review by another officer to ensure they are fit for purpose. There should be clear evidence of this review on the working paper.

We have agreed that the Strategic Finance Manager will act as the key contact for the audit team this year providing continuity given the various changes that are taking place within the finance team.

Where sample testing is required, we will select the items within the sample on the first day of the visit. We will then provide the Strategic Finance Manager with the items in the sample and a list of the supporting information required. A 3 day turnaround time for this information is considered appropriate, meaning that all sample supporting information could be reviewed and closed while the audit team are on site.

We will schedule a meeting with the Strategic Finance Manager at the end of each interim visit, to discuss progress, and report our findings back to the Head of Finance. Where necessary we will report significant issues to the Audit and Finance Scrutiny Committee via way of an update report.

Key contacts for queries

Any queries regarding the information requested should be directed in the first instance to Helen Lillington.

February visit - 12-16 February

| | Item | Prepared by | Reviewed by | File reference |
|---|--|-------------|-------------|----------------|
| 1 | <p>Group Accounts</p> <p>Documented consideration of whether there are material group entities that require consolidation, including supporting documentation for judgements made, including any estimates. If group accounts required, details of how consolidation will be undertaken and draft disclosures.</p> | | | |
| 2 | <p>Opening Balances</p> <p>2016/17 closing TB and 2017/18 opening TB to be provided, with explanations for any differences.</p> | | | |
| 3 | <p>Journals</p> <p>Complete listing of journals to be provided from the beginning of the year, up until the end of January. In addition we will need to undertake a walkthrough of the journals process, and will need time arranged in the appropriate officer's diary for the on site visit to enable this to be undertaken. JC to advise on a suitable time for walkthrough.</p> | | | |
| 4 | <p>Grant Revenues</p> <p>Listing of grants for the 2017/18 year. Agreements, notifications and relevant correspondence for all items of £700k.</p> | | | |
| 5 | <p>Accruals Process</p> <p>Working paper that sets out the accruals process for year end and how this has been communicated.</p> | | | |
| 6 | <p>Other Revenues</p> <p>Provide a breakdown (down to individual transaction level) of all fees and charges income up to M9/M10 for a sample to be selected.</p> | | | |

February visit continued

| | Item | Prepared by | Reviewed by | File reference |
|----|--|-------------|-------------|----------------|
| 7 | <p>Employee remuneration</p> <p>Provide monthly gross pay reports and monthly FTE staff number reports. This information to be provided for all months from April 2016 to January 2017.</p> <p>Provided working papers for draft exit packages note and supporting information up to the end of January.</p> | | | |
| 8 | <p>Operating Expenditure</p> <p>Provide a breakdown (down to individual transaction level) of all operating expenditure up to M9/M10 for a sample to be selected for testing.</p> | | | |
| 9 | <p>Council Tax</p> <p>Agree precept amounts to correspondence from third parties.</p> <p>Evidence of income receipt up to M9/M10 as appropriate.</p> <p>Council tax setting meeting minutes confirming council tax debit from 2017/18.</p> | | | |
| 10 | <p>Welfare benefits</p> <p>Module 2 uprating checklist with screenshots confirming correct parameters from the system.</p> <p>Payments listing up to the end of January to be provided to enable a sample of payments to be selected and tested.</p> <p>Module 4 and 5 (if available at interim) we will provide these to the client as soon as they are available.</p> | | | |
| 11 | <p>Debt</p> <p>Working paper to be provided showing current level of debt held by the authority, agreed to PWLB letters. PWLB letters to be embedded within the working paper as confirmation of balance held to date. The working paper provided should provide details of any new debt that is likely to be taken out in year.</p> | | | |

February visit continued

| | Item | Prepared by | Reviewed by | File reference |
|----|---|-------------|-------------|----------------|
| 12 | <p>Investments</p> <p>For the two new equity investments, we understand that you have appointed two new fund managers, and that you are seeking to rely on them as management experts for the purposes of valuation. As a result, we will need to undertake a walkthrough of the method of valuation, but also review the work you have undertaken as an authority to assure yourself that the experts appointed are appropriate, and how this will be updated on a regular basis. Including how control reports will be considered. A working paper to be provided detailing the due diligence undertaken, and documenting the controls in place over valuation.</p> | | | |
| 13 | <p>PPE</p> <p>Breakdown of additions at invoice level to month 9 for a sample to be selected for testing.</p> <p>Breakdown of disposals at invoice level to month 9 for a sample to be selected for testing.</p> <p>Instructions provided to the value to undertake work in the year, including detailed list of assets to be valued, valuation techniques to be applied, details of any known factors which could impact on the valuation (where all assets within a class have not been valued please ensure these are included for consideration to ensure the carrying value and fair value are not materially different).</p> <p>Working paper to be provided that demonstrates the approach to impairment.</p> | | | |
| 14 | <p>Leases</p> <p>Schedule of leases and copies of lease agreements for leases above £700k. Where the value is below £700k, copies of the ledger to support the value is all that is required as no further work will be undertaken as these are below our testing threshold.</p> | | | |
| 15 | <p>Pensions</p> <p>Evidence of data provided to the actuary.</p> <p>Documented processes and controls for providing information to the pension fund and actuary.</p> | | | |

March visit - 26-30 March

| | Item | Prepared by | Reviewed by | File reference |
|---|---|-------------|-------------|----------------|
| 1 | <p>Accounting Policies</p> <p>Revised accounting policies for 2017 to be provided. The skeleton 2017 accounting policies should include a clear narrative for any policies that have changed or are in addition to those reviewed last year.</p> | | | |
| 2 | <p>Critical Judgement Note</p> <p>A draft critical judgements note for 2017 to be provided, along with supporting information for the judgements made.</p> | | | |
| 3 | <p>Going Concern</p> <p>Working paper demonstrating management's consideration of going concern. This should include detailed cashflow forecasting that goes beyond July 2019.</p> | | | |
| 4 | <p>Journals</p> <p>Top up testing of journals. Complete listing to be provided for February journals.</p> | | | |
| 5 | <p>Related party transactions</p> <p>Working paper to demonstrate consideration of likely RPT, copies of most up to date register of interests and gifts and hospitality register.</p> | | | |
| 6 | <p>Investments</p> <p>Working paper to be provided which details all investments that will be held at year end, along with the contact details and method for gaining auditor confirmation at year end. This working paper should also confirm that the Council have put in place appropriate letters of authorisation to allow us to gain independent confirmation at year end.</p> | | | |

March visit continued

| | Item | Prepared by | Reviewed by | File reference |
|----|--|-------------|-------------|----------------|
| 7 | Provisions Working paper detailing likely provisions at year end and the rationale for the provisions. | | | |
| 8 | Narrative report Provide draft narrative report, with embedded supporting documentation. | | | |
| 9 | Skeleton accounts Skeleton accounts to be provided, along with detailed client review against the disclosure checklist, highlighting any areas on the checklist that are not applicable and why. | | | |
| 10 | AGS Draft AGS to be provided, along with supporting working papers. | | | |



© 2018 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.