

Taunton Deane Borough Council

Corporate Governance Committee – 20 March 2017

External Audit – Audit Plan 2016/17

This matter is the responsibility of the Leader of the Council, Councillor John Williams

Report Author: Paul Carter, Assistant Director – Corporate Services

1 Purpose of the Report

- 1.1 This report introduces the External Audit Plan for 2016/17. This is prepared by our external auditors, Grant Thornton, and is detailed in the appendix to this report.
- 1.2 The report summarises their approach to the 2016/17 audit programme, work completed to date, work to follow and the auditors view on risk.

2 Recommendations

- 2.1 Members are requested to note the External Audit Plan for 2016/17 received from Grant Thornton.

3 Risk Assessment (if appropriate)

Risk Matrix

| Description | Likelihood | Impact | Overall |
|---|------------|--------|---------|
| The details of any specific risks are contained in the report | | | |

4 Background and Full details of the Report

- 4.1 Each year our external auditors, Grant Thornton, provide a plan, which details their approach to the audit work required in respect of the preceding financial year (2016/17). Specifically this audit work focuses on the provision of an audit opinion in relation to the accounts, value for money (VFM) and associated key risks.
- 4.2 The plan for 2016/17 is set out in Appendix A.

5 Links to Corporate Aims / Priorities

- 5.1 There are no direct implications.

6 Finance / Resource Implications

- 6.1 The report sets out the external auditors view on key risk areas for the Council and their approach to auditing them.

7 Legal Implications

7.1 There are no legal implications from this report.

8 Environmental Impact Implications

8.1 None

9 Safeguarding and/or Community Safety Implications

9.1 None

10 Equality and Diversity Implications

10.1 None

11 Social Value Implications

11.1 None

12 Partnership Implications

12.1 None

13 Health and Wellbeing Implications

13.1 None

14 Asset Management Implication

14.1 None

15 Consultation Implications

15.1 None

Democratic Path:

- **Corporate Governance Committee – Yes**
- **Executive – No**
- **Full Council – No**

Reporting Frequency: **Once only** **Ad-hoc** **Quarterly**

Twice-yearly **Annually**

Contact Officers

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The Audit Plan for Taunton Deane Borough Council

Year ended 31 March 2017

February 2017

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Taunton Deane Borough Council
The Deane House
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24 February 2017

Dear Members of the Corporate Governance Committee

Audit Plan for Taunton Deane Borough Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Taunton Deane Borough Council, the Corporate Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Peter Barber

Engagement Lead

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Understanding your business and key developments

| Developments | Key challenges | Financial reporting changes | | | | | | | | | | | | |
|---|--|-----------------------------|---------------------|---------------------|--|--------|--------|--|--------|--------|------------|---|-------|--|
| <p>Proposed New Council</p> <p>In July 2016, Taunton Deane Borough Council and West Somerset District Council took the decision to support the creation of a new single District Council, to replace the two existing Councils. The proposal is currently out for public consultation with stakeholders until the end of February 2017, when the proposal will then be considered by the Secretary of State.</p> <p>Leaving South West One</p> <p>The Council ended their relationship with Southwest One from 1 December 2016 and have taken services, such as IT, HR and Accounts payables and receivables, back in house. This has meant that staff involved with these services have been transferred to the Council as employees.</p> <p>Transitional arrangements have been made with Southwest One to ensure operation of the general ledger and payroll systems until replacements are introduced from 1 April 2017.</p> <p>The Council are also outsourcing their asset valuation service for the 2016/17 financial year, but the outcome of this tender exercise has not yet concluded.</p> | <p>Medium Term Financial Plan (MTFP)</p> <p>Management have updated the MTFP for the provisional Local Government funding settlement that was announced by Government in December 2016. Further budget savings have been identified to ensure a balanced budget is set for 2017/18, however, these include some one-off measures including the use of reserves. From 2018/19, there remain budget gaps in the MTFP, although the MTFP has been prepared on the basis of the Council continuing to operate on its own. If the proposal for the creation of the new Council is approved, it is expected that further efficiency savings will be achieved to help address future budget gaps.</p> <p>Financial position reported to Executive 9 Feb 2017</p> <table border="1" data-bbox="779 858 1462 1209"> <thead> <tr> <th>Measure</th> <th>2017/18 Budget £000</th> <th>2018/19 Budget £000</th> </tr> </thead> <tbody> <tr> <td>Net Expenditure before Grants and Taxation</td> <td>14,041</td> <td>13,578</td> </tr> <tr> <td>Total Funding, including use of earmarked reserves</td> <td>14,041</td> <td>13,190</td> </tr> <tr> <td>Budget gap</td> <td>0</td> <td>(388)</td> </tr> </tbody> </table> | Measure | 2017/18 Budget £000 | 2018/19 Budget £000 | Net Expenditure before Grants and Taxation | 14,041 | 13,578 | Total Funding, including use of earmarked reserves | 14,041 | 13,190 | Budget gap | 0 | (388) | <p>CIPFA Code of Practice 2016/17 (the Code)</p> <p>Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.</p> <p>The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.</p> <p>Earlier closedown</p> <p>The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.</p> |
| Measure | 2017/18 Budget £000 | 2018/19 Budget £000 | | | | | | | | | | | | |
| Net Expenditure before Grants and Taxation | 14,041 | 13,578 | | | | | | | | | | | | |
| Total Funding, including use of earmarked reserves | 14,041 | 13,190 | | | | | | | | | | | | |
| Budget gap | 0 | (388) | | | | | | | | | | | | |
| <p>Our response</p> <ul style="list-style-type: none"> We aim to complete all our substantive audit work of your financial statements by the end of July 2017 As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code We will review the MTFP, including the implementation of the new Council proposal and its impacts on the MTFP, and the arrangements for leaving SW One as part of our work in reaching our VFM conclusion. We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops. | | | | | | | | | | | | | | |

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. 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. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,519k (being 2% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £75k.

ISA 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 identified the following items where separate materiality levels are appropriate:

| Balance/transaction/disclosure | Explanation | Materiality level |
|---|--|-------------------|
| Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements | Due to public interest in these disclosures and the statutory requirement for them to be made. | £10,000 |
| Disclosures of members' allowances | Due to public interest in these disclosures and the statutory requirement for them to be made. | £10,000 |
| Disclosure of auditors' remuneration in notes to the statements | Due to public interest in these disclosures and the statutory requirement for them to be made. | £10,000 |

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment 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.

| Significant risk | Description | Audit procedures |
|--|---|---|
| <p>The revenue cycle includes fraudulent transactions</p> | <p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams 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 Taunton Deane Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <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 Taunton Deane Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore do not consider this to be a significant risk for Taunton Deane Borough Council.</p> |
| <p>Management over-ride of controls</p> | <p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> | <p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of journal entry process <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management, including the review of expenditure recharges to West Somerset District Council • Selection of unusual journal entries for testing back to supporting documentation • Review of unusual significant transactions |

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

| Significant risk | Description | Audit procedures |
|---|--|---|
| <p>The expenditure cycle includes fraudulent transactions</p> | <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered.</p> | <p>We do not consider this to be a risk for the audit as our experience shows that expenditure is well controlled and monitored.</p> |
| <p>Valuation of property, plant and equipment, surplus assets and investments.</p> | <p>The Council revalues its assets on a rolling basis over a five year period and the valuations are carried out as at 1 April each year. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p> | <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any valuation experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • 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. |

Significant risks identified (continued)

| Significant risk | Description | Audit procedures |
|--|---|---|
| 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>Work planned:</p> <ul style="list-style-type: none"> • We will review the process put in place by management to ensure that the pension fund liability is not materially misstated. • We will test the data, on a sample basis, that is sent to the Council's pension fund to ensure it is complete and accurate. • We will obtain assurance from the auditor of your pension fund that the information they send to the actuary on your behalf is complete and accurate. • We will review 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. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. |

Other 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 or other risk 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.

| Reasonably possible risks | Description of risk | Audit procedures |
|---------------------------|--|---|
| Operating expenses | Year end creditors and accruals are understated or not recorded in the correct period. | <p>Work completed to date:</p> <ul style="list-style-type: none"> • Documentation of the process and associated controls in place for the accounting of operating expenses • Completion of a walkthrough test to confirm the operation of the process and associated controls is in line with our understanding <p>Further work planned:</p> <ul style="list-style-type: none"> • Reconciliation of creditor ledger to the general ledger • Testing for unrecorded liabilities and after date payments to ensure all liabilities identified by obtaining a list of non-pay related payments for April and May17, selecting a sample and agreeing to supporting documentation to confirm the items have been recorded in the correct period. • Substantive analytical review of year end accruals |
| Employee remuneration | Employee remuneration accruals are understated | <p>Work completed to date:</p> <ul style="list-style-type: none"> • Documentation of the process and associated controls in place for the accounting of employee remuneration • Completion of a walkthrough test to confirm the operation of the process and associated controls is in line with our understanding <p>Further work planned:</p> <ul style="list-style-type: none"> • We will carry out an analysis of employee remuneration expenditure to ensure all expected payroll runs have been included • Substantive analytical review of year end accruals |

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

| Other risks | Description of risk | Audit procedures |
|---|---|--|
| Changes to the presentation of local authority financial statements | <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p> | <p>Work planned:</p> <ul style="list-style-type: none"> • We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements. • We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. |
| Southwest One contract termination | <p>The Council ended their relationship with Southwest One from 1 December 2016 and have taken services, such as IT, HR and Accounts payables and receivables, back in house. This could impact on managements ability to produce the financial statements</p> | <p>Work planned:</p> <ul style="list-style-type: none"> • We will review the arrangements management have in place to manage the contract termination. |

Other risks identified (continued)

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 and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

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 the previous sections but will include:

- Long and short term investments
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. 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 opposite:

| Sub-criteria | Detail |
|---|--|
| Informed decision making | <ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control |
| Sustainable resource deployment | <ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing and utilising assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities. |
| Working with partners and other third parties | <ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities. |

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- 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.
- the findings of other inspectorates and review agencies,
- 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.

We have identified a significant risk which we are required to communicate to you. This is set out overleaf.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 30 September 2017.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

| Significant risk | Link to sub-criteria | Work proposed to address |
|---|--|--|
| <p>Medium term financial position, including the implementation of Joint Management and Shared Services (JMASS) and transformation The Council has a balanced financial plan for 2017/18. However, there is a cumulative shortfall of £2 million for the subsequent four years of the plan.</p> <p>In order to achieve financial savings and efficiencies, the Council has a shared services agreement with West Somerset District Council and has completed the implementation and full integration of the staff at both Councils. This has already provided significant financial savings. However, further efficiencies are required, both in terms of utilisation of staff and in the transformation of services. The two Councils have approved a proposal to formally merge into one Council from 2019, which is currently being consulted on by stakeholders, before a formal decision is taken by the Secretary of State.</p> | <p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions and for working with third parties effectively to deliver strategic priorities.</p> | <p>We will review the Council's medium term financial plan, including the assumptions that underpin the plan. We will review how the Council is progressing the Joint Management and Shared Services arrangement, with a particular emphasis on the transformation of services, as well as reviewing the progress on the proposal to create a new Council.</p> |
| <p>Leaving SW One contract The Council has taken the decision to terminate the SW One contract early. Services, such as IT, HR and Finance, were brought back in house, along with a number of staff from SW One, from 1 December 2016. Other core functions, including the awarding of a general ledger and payroll system have been completed but will need to be implemented appropriately to ensure a smooth transfer of data from existing systems.</p> <p>These are key functions for the Council and the transition will need to be completed well to ensure there is no service disruption to the Council during this time.</p> | <p>This links to the Council's arrangements for working with third parties effectively to deliver strategic priorities</p> | <p>We will review the Council's arrangements for transferring services and staff from SW One.</p> |

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance 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 will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the 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.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

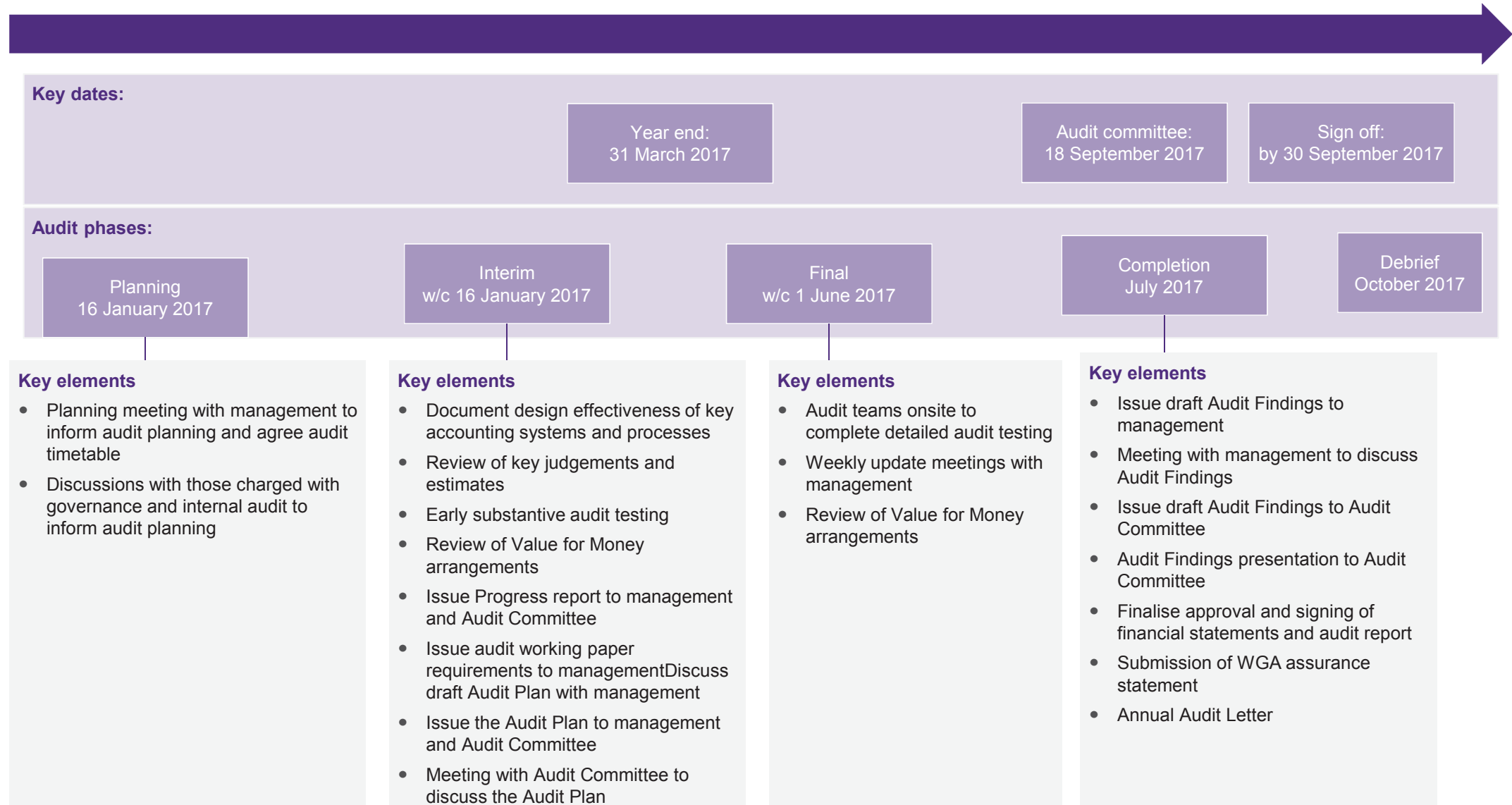
| | Work performed | Conclusion |
|------------------------------|--|--|
| Internal audit | <p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p> | <p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p> |
| Entity level controls | <p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices | <p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p> |

Results of interim audit work (continued)

| | Work performed | Conclusion |
|-------------------------------|---|---|
| Walkthrough testing | <p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements, bar the valuation of plant, property and equipment, which we will complete when the new Valuer is appointed.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p> | <p>Our work has not identified any weaknesses which impact on our audit approach.</p> |
| Journal entry controls | <p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> | <p>Our work to date has not identified any material weaknesses which are likely to impact on the Council's control environment or financial statements.</p> |

The audit cycle

The audit timeline



Audit Fees

Fees

| | £ |
|---|---------------|
| Council audit | 50,629 |
| Grant Certification | 7,793 |
| Total audit fees (excluding VAT) | 58,422 |

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- 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'.

Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Corporate Governance Committee Progress Reports

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:

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 Auditing Practices Board's Ethical Standards and we 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 Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit related and non-audit services were identified for the Council for 2016/17:

Fees for other services

| Service | Fees £ | Planned outputs |
|--------------------------------|--------|---|
| Audit related | | |
| none | | |
| Non-audit related | | |
| Housing Capital Receipts grant | £2,000 | Certification of the Housing Capital Receipts grant |

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit 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.

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the CCG's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their 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.

| | Audit Plan | Audit Findings |
|---|------------|----------------|
| Our communication plan | | |
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | ✓ | ✓ |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to the auditor's report, or emphasis of matter | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | ✓ | ✓ |



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