Grant Thornton

# External Audit Plan

*Year ending 31 March 2020*

Herefordshire Council

28 January 2020

# Contents

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

# 1. Introduction & headlines

### Purpose

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

### Respective responsibilities

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

### Scope of our audit

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

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

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

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

| | |
|---|---|
| **Group Accounts** | The Authority has chosen to prepare group financial statements that consolidate the financial information of Hoople Limited. |
| **Significant risks** | Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:<br>• Valuation of land and buildings<br>• Valuation of net pension fund liability<br>• Management override of controls<br>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 £6.71m (PY £10.2m) for the group and £6.7m (PY £10m) for the Authority, which equates to 1.8% of your prior year gross expenditure for the year. The benchmark on which we have determined materiality has changed from the prior year as materiality was based on 1.4% of total assets, as part of a pilot exercise. We have decided to revert back to gross expenditure given the fact that nationally public interest in audit is increasing and gross expenditure provides a more relevant basis for materiality in this circumstance. Given the experience from our pilot, we do not consider this will have a substantial impact on the delivery of the audit. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.3m (PY £0.5m). |
| **Value for Money arrangements** | Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:<br>• Financial sustainability and with particular reference to looked after children.<br>• Management of the capital programme<br>• Governance arrangements and how the Authority has responded to political change |

# 1. Introduction & headlines – continued

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|---|---|
| **Audit logistics** | Our interim visit will take place in February and March and our final visit will take place in June and July.  Our key deliverables are this Audit Plan, our Audit Findings Report and our Annual Audit Letter. Our audit approach is detailed at Appendix A.<br>Our fee for the audit will be determined shortly, subject to the Authority meeting our requirements set out on page 15. |
| **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.. |

# 2. Key matters impacting our audit

## Factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Herefordshire Council, there is a forecast overspend which is predominantly due to an increase in looked after children.

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

### Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

### Governance arrangements and the new political structure of the Authority

- In the May 2019 elections, the political structure of the Authority changed. The Members have now settled into their new roles and budget decisions made based on new policies.
- The Authority is the Accountable Body for NMiTE (New Model in Technology and Engineering), which is the new University based within Hereford. During the year, progress has been made on establishing the University and the Authority has developed a number of its own projects in support of this agenda.

## Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audi Plan, has been agreed with the Chief Finance Officer and is subject to PSAA agreement.

- We will consider how the Authority has responded to new policies being implemented and consider the governance arrangements of new areas of decision making as a result of these policies.
- We will consider the on-going development of NMiTE, from the Authority's Accountable Body role as well as the governance arrangements of any capital projects the Authority develops in support of the University.

# 3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The risks identified in this Audit Plan, see pages 7 to 9, are applicable to the Authority only as Hoople Limited is not considered to be significant or material to the group.

| Component | Individually Significant? | Audit Scope | Risks identified | Planned audit approach |
|---|---|---|---|---|
| **Herefordshire Council** | Yes | | See pages 7 to 9 for details of risks identified | Full scope UK statutory audit performed by Grant Thornton UK LLP |
| **Hoople Ltd** | No | | None | Analytical review performed by Grant Thornton UK LLP. |

**Audit scope**

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

# 4. Significant risks identified

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

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|---|
| **The revenue cycle includes fraudulent transactions** | Authority | Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>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 Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable<br>Therefore we do not consider this to be a significant risk for Herefordshire Council. |
| **Management over-ride of controls** | Authority | Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.<br>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. | We will:<br>• evaluate the design effectiveness of management controls over journals<br>• analyse the journals listing and determine the criteria for selecting high risk unusual journals<br>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration<br>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence<br>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |

# Significant risks identified

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|---|
| **Valuation of property, plant and equipment** | Authority | The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.<br><br>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk. | We will:<br>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work<br>• evaluate the competence, capabilities and objectivity of the valuation expert<br>• write to the valuer to confirm the basis on which the valuation was carried out<br>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding<br>• test revaluations made during the year to see if they had been input correctly into the Authority's asset register<br>• evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. |

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# Significant risks identified

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|---|
| **Valuation of pension fund net liability** | Authority | The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.<br><br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.<br><br>We therefore identified valuation of the Authority's pension fund net liability as a significant risk.<br><br>The Authority is a statutory member of the Hereford and Worcestershire Local Government Pension Scheme administered by Worcestershire County Council. Herefordshire Council remain responsible for the accuracy of disclosures within the accounts and this will include having a clear understanding of key assumptions within the estimate. | We will:<br>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;<br>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;<br>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;<br>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;<br>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;<br>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. |

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 2020.

# 5. Other risks identified

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|---|
| **Employee remuneration** | Authority | Payroll expenditure represents a significant percentage of the Authority's operating expenses.<br><br>As the payroll expenditure comes from a significant number of individual transactions throughout the year, including transactions involving new-starters, grade changes and leavers, there is a risk that payroll expenditure in the accounts could be understated. We therefore identified occurrence of payroll expenses as a risk requiring particular audit attention. | We will<br>• Evaluate the Authority's accounting policy for recognition of payroll expenditure for appropriateness;<br>• Gain an understanding of the Authority's system for accounting for payroll expenditure and evaluate the design of the associated controls;<br>• Obtain the year-end payroll reconciliation and ensure the amount in the accounts can be reconciled to ledger and through to payroll reports. We will investigate significant adjusting items;<br>• Agree payroll related accruals (e.g. unpaid leave accrual) to supporting documents and review any estimate for reasonableness; and<br>• Perform substantive analytical procedure for M1 to M9 (at interim) and M10 to M12 (at final) disaggregated by month. |
| **Operating expenses** | Authority | Non-pay expenses on other goods and services also represents a significant percentage (55%) of the Authority's operating expenses. Management uses judgement to estimate accruals of non-invoiced costs.<br><br>We identified completeness of non-pay expenses as a risk requiring particular audit attention. | We will<br>• Evaluate the Authority's accounting policy for recognition of non-pay expenditure for appropriateness;<br>• Gain an understanding of the Authority's system for accounting for non-pay expenditure and evaluate the design of the associated controls;<br>• Document the accruals process and the controls management have put in place. Challenge any key underlying assumptions, the appropriateness of the source of data used and the basis for calculations;<br>• Obtain a listing from the cash book of non-pay payments made in April and test to ensure that they have been charged to the appropriate year; and<br>• Obtain a listing of non-pay expenditure and agree a sample to supporting documentation (invoice or equivalent) to confirm accuracy (correct amount charged), occurrence (payment properly incurred), classification (coded correctly as expenditure in CIES or as capital) and cut-off (charged to right year). |

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 2020.

# 6. Other matters

### Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
    - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

### Other material balances and transactions

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

### Going concern

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

# 7. Materiality

### The concept of materiality

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

### Materiality for planning purposes

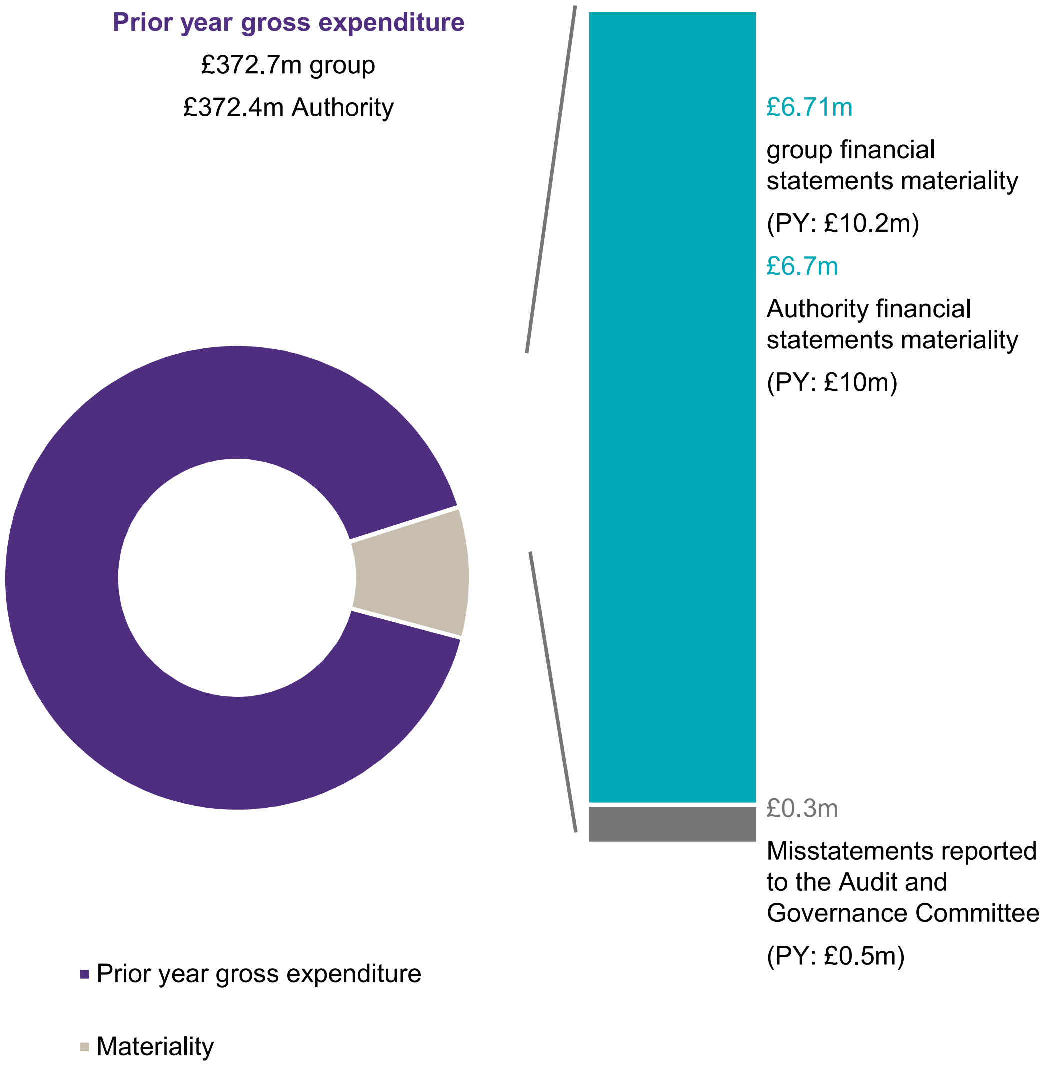
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the total assets as a benchmark as part of a pilot study. Materiality at the planning stage of our audit is £6.71m (PY £10.2m) for the group and £6.7m (PY £10m) for the Authority, which equates to 1.8% of your prior year gross expenditure for the year. We have decided to revert back to gross expenditure given the fact that nationally public interest in audit is increasing and gross expenditure provides a more relevant basis for materiality in this circumstance. Given the experience from our pilot, we do not consider this will have a substantial impact on the delivery of the audit. We considered a lower materiality level for areas of the financial statements. We have decided that we will pay close audit attention to the Remuneration Report, however a lower materiality level will not be set. Close audit attention means that we will review all the senior officers disclosures to the payroll reports and will require amendments if any errors are found.

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

### Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.3m (PY £0.5m).

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



# 8. Value for Money arrangements

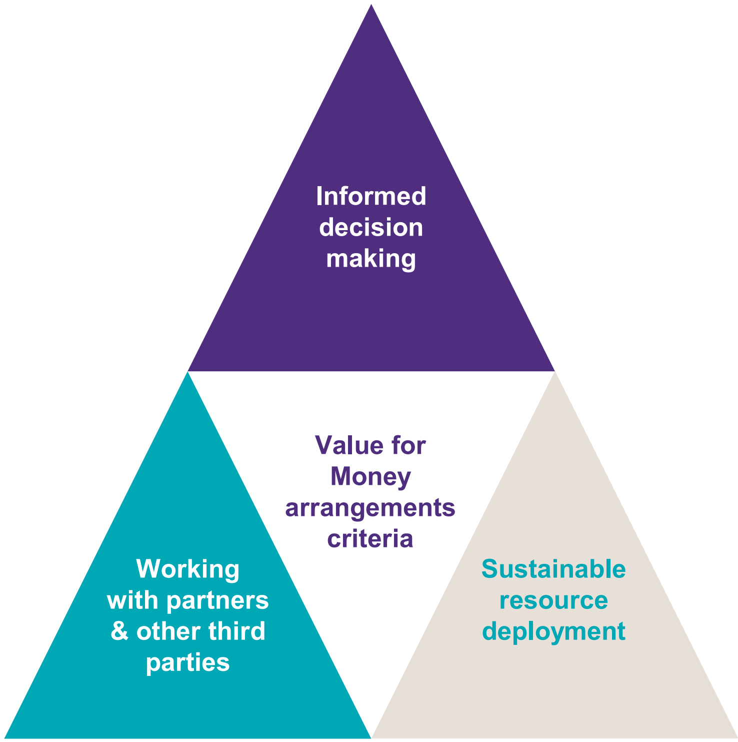
### Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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




### Significant VFM risks

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

**Financial sustainability**

If the key assumptions within the medium-term financial plan are not reasonably based then the future financial position of the Authority could be at risk.

We will discuss with Officers the key assumptions in the medium term financial plan and consider supporting evidence particularly around looked after children as this appears to be an area where there has been consistent pressures against budget.

**Capital programme**

There have been a number of issues identified in recent years around the capital programme. Whilst the Authority is responding to these issues, we consider that this represents a significant ongoing risk to our VFM conclusion.

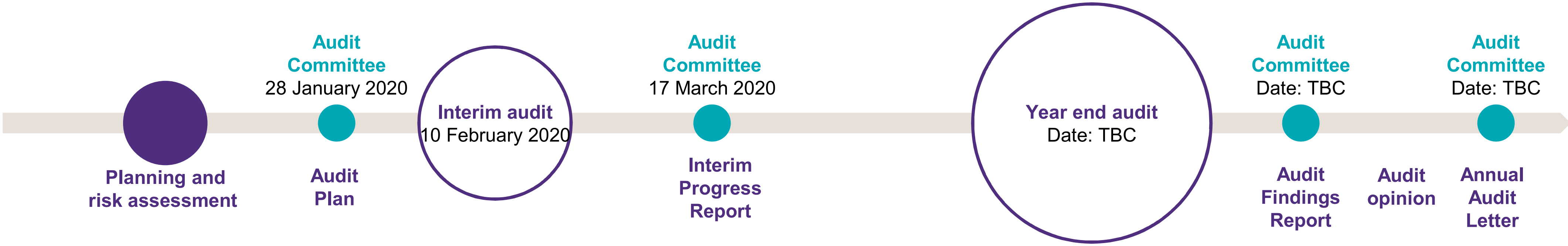
We will consider the actions that the Authority is taking to respond to previous concerns raised around the governance of the capital programme. We will also consider the governance of capital projects in support of NMiTE.

**Governance arrangements**

Following the Authority's political change, new policies will be considered and implemented. It is likely that significant political decisions will be taken and there is a consequent need to ensure that the governance arrangements supporting such decisions remains sound.

We will discuss with Officers the impact that the political change has had and consider how this has been reflected in the governance arrangements in place.

# 9. Audit logistics & team




**Jon Roberts, Engagement Lead**

Jon'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 Authority. Jon is an experienced engagement lead and is the National Head of Assurance at Grant Thornton. This will be Jon's third year as your engagement lead.

**Gail Turner-Radcliffe, Audit Manager**

Gail's role will be to be a key contact with the Chief Finance Officer and the Audit Committee.

**Zarak Zaman, Audit Incharge**

Zarak's role will be the day to day contact for the Authority finance staff. He will take responsibility for ensuring there is effective communication and understanding by the finance team of audit requirements.

**Authority responsibilities**

Where audited bodies 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 bodies. Where the elapsed time to complete an audit exceeds that agreed due to a body 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 an audited body not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

**Our requirements**

To minimise the risk of a delayed audit, 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.

# 10. Audit fees

### Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2a rating this means that additional audit work is required. We are currently considering the likely additional fee requirements for 2019/20 and will shortly communicate to you our expected levels of variation to the scale fee. Whilst this may change during the course of the audit, we feel that up front communication would be preferable to previous arrangements, whereby variations were communicated retrospectively.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Chief Finance Officer and is subject to PSAA agreement.

| | Actual Fee 2017/18 | Actual Fee 2018/19 | Proposed fee 2019/20 |
|---|---|---|---|
| **Authority Audit – scale fee** | £124,405 | £95,792 | £95,792 |
| **Additional fee raised** | £15,000 | £10,500 | TBD |
| **Total audit fees (excluding VAT)** | **£139,405** | **£106,292** | **TBD** |

**Assumptions:**
In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

**Relevant professional standards:**
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

# 11. Independence & non-audit services

### Auditor independence

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

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

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

### Other services provided by Grant Thornton

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

| Service | £ | Threats | Safeguards |
|---|---|---|---|
| **Audit related:** | | | |
| Certification of Housing Benefits Subsidy | 13,698 | 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 £13,698 in comparison to the total fee for the audit of £95,792 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Certification of Teachers Pension return | 4,950 | 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 £4,950 in comparison to the total fee for the audit of £95,792 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Certification of the Education and Skills Funding Agency return | 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 £95,792 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |

# 11. Independence & non-audit services - continued

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 group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Chief Finance Officer. 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.

The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.ie/about/transparency-report/

# Appendices

# Appendix A: Audit Quality – national context

### What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

### Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

### What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

### What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.