

# External Audit Plan

*Year ending 31 March 2019*

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London Borough of Hammersmith and Fulham

London Borough of Hammersmith and Fulham Pension Fund

February 2019



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to the Council 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 the Council for reporting all of the risks which may affect the Council and Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

## Our team



**Andy Smith, Engagement Lead**

T: 0161 953 6772

E: [andrew.j.smith@uk.gt.com](mailto:andrew.j.smith@uk.gt.com)



**Sam Harding, Council Audit Senior Manager**

T: 0117 305 7874

E: [sam.g.harding@uk.gt.com](mailto:sam.g.harding@uk.gt.com)



**Keyasha Pillay, Council Audit Assistant Manager**

T: 0207 728 2494

E: [keyasha.pillay@uk.gt.com](mailto:keyasha.pillay@uk.gt.com)



**Onyi Aguma, Audit Incharge**

T: 020 7728 2728

E: [onyi.aguma@uk.gt.com](mailto:onyi.aguma@uk.gt.com)

## Purpose

This document provides an overview of the planned scope and timing of the statutory audits of the London Borough of Hammersmith and Fulham ('Council') and London Borough of Hammersmith and Fulham Pension Fund ("the Fund") 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 the Council and the Fund. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audits

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 Council and the Fund's financial statements which have been prepared by management with the oversight of those charged with governance (the Audit, Pensions and Standards Committee); and
- the Council's Value for Money arrangements are in place for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit, Pensions and Standards Committee of your responsibilities. Our audit approach is based on a thorough understanding of the your business and is risk based.

# Headlines

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<b>Significant risks identified for the Council</b>	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as follows:</p> <ul style="list-style-type: none"><li>• management override of controls;</li><li>• valuation of property, plant and equipment;</li><li>• valuation of pension fund net liability; and</li><li>• the implementation of the new general ledger resulting in material misstatements across the accounts.</li></ul>
<b>Significant risks identified for the Fund</b>	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as follows:</p> <ul style="list-style-type: none"><li>• management override of controls;</li><li>• the valuation of Level 3 investments; and</li><li>• the implementation of the new general ledger resulting in material misstatements across the accounts.</li></ul> <p>We will communicate significant findings in these areas as well as any other significant matters arising from the audit in our Audit Findings (ISA 260) Report.</p>
<b>Materiality for the Council</b>	<p>We have determined planning materiality to be £13 million (PY: £12 million), which equates to 1.8% of the Council's prior year gross expenditure for the prior 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 £650,000 (PY: £600,000).</p>
<b>Materiality for the Fund</b>	<p>We have determined materiality at the planning stage of our audit to be £18 million (PY: £17 million) for the Fund, which equates to 1.8% of the Fund's net assets for the prior year.</p> <p>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 £850,000 (PY: £850,000).</p>
<b>Value for Money arrangements (Council Only)</b>	<p>Our risk assessment regarding the Council's arrangements to secure value for money have identified the following VFM significant risks. We will consider:</p> <ul style="list-style-type: none"><li>• the Council's arrangements for delivering financial sustainability; and</li><li>• whether the Council has adequate arrangements in place to address the risks of departing from the European Union.</li></ul>
<b>Audit logistics</b>	<p>Our interim visits took place in January and February 2019 and our final visit will take place in June and July 2019. Our key deliverables are this Audit Plan and our Audit Findings Report.</p> <p>Our fee for the audit will be £126,242 (PY: £163,950) for the Council audit and £16,170 (PY: £21,000) for the Fund, subject to you delivering a good set of financial statements and comprehensive and accurate supporting working papers, and responding to audit queries promptly.</p>
<b>Independence</b>	<p>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.</p>

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# Key matters impacting our audit of the Council

## Key business risks

### The wider economy and the Council's financial position

The challenging financial climate resulting from year on year funding reductions, increased demands for services has continued to adversely impact Local Government. You have identified that gross savings of £15 million for 2018/19 are required to ensure a balanced budget. The proposed savings are focussed on measures which aim to avoid service reductions e.g. additional income generation, efficiencies and other transformation work streams.

At month 6, you are reporting a projected overspend against budget of £6.1 million, a small decrease from the month 6 projected overspend, with particular pressure in the areas of children's services, public services reform and other services to residents. Action plans of £1.5 million are proposed as partial mitigation. If delivered they will reduce the forecast overspend to £4.6 million. Any overspend in the year will need to be met from reserves. In setting the 2018/19 budget, you have frozen council tax and have not levied the social care precept, in addition, charges for parking, social care, housing, markets and libraries have not been increased.

In 2020/21, funding for local government will transform as part of the next stage of Business Rates Retention as well as reflect the outcomes of the Government's Fair Funding review. This review will update the formulae which calculates the level of relative needs, assesses deprivation levels and takes into account population and other demographics for each local authority. You will need to re-model your future finances following the outcome of this review.

In common with other local authority areas, you are experiencing significant pressures in the High Needs Block and Early Years Block, funded through Dedicated Schools Grant this is forecast to be overspent by a cumulative £13.5 million by the end of 2018/19.

Focusing on the future, your Medium Term Financial Plan reports a cumulative budget funding gap of around £36 million by the end of 2022 and significant savings plans will need to be implemented in order to maintain financial balance.

### Implementation of new Ledger

During the year, you migrated the financial ledger from Agresso hosted by BT to SAP hosted by Hampshire County Council. The balances in the existing ledger transferred to the new ledger, with the individual transaction data copied to an archive facility. The move to the new financial ledger creates several risks including ensuring the quality of existing data on Agresso is verified and then transferred accurately and completely to new codes within SAP. You will also need to ensure that staff are properly trained on the new system and that you continue to pay suppliers and staff in accordance with agreed terms and conditions.

### Brexit

With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on the Council.

You are considering the implications and challenges and report in a Brexit Briefing periodically to members.

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

The most significant changes relate to the adoption of:

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

## 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 review management's assessment of the key changes to the financial reporting requirements for 2018/19.

As part of our financial statements opinion, we will consider whether the Council's financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

We will invite members of the finance team to our local government final accounts workshops, to discuss financial reporting issues at an early stage and facilitate cross-council discussion in respect of key issues impacting the financial statements.

We identified a significant audit risk relating to the data migration to the new ledger. We will follow up on the work of our IT specialists and continue to work closely with you and the audit teams for your partners to ensure the audit process is delivered

# Key matters impacting our audit of the Fund

## External Factors

### SI 493/2018 – LGPS (Amendment) Regulations 2018

Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated Funding Strategy Statements.

### Guaranteed Minimum Pension (GMP)

Pension funds are continuing to work through the GMP reconciliation process.

In January 2018, the government extended its “interim solution” for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.

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

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss.

### The Pensions Regulator (tPR)

The tPR Corporate Plan for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and tPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

## Internal Factors

### Implementation of SAP

As explained on page 5, the move to SAP represents a significant audit risk and this risk will equally apply to the Fund.

### Pooling

The Fund remains committed to pooling its assets with the London Collective Investment Vehicle (LCIV) where suitable mandates become available. The Council has been active in the transfer of assets under management to the London Collective Investment Vehicle (CIV) to gain efficiencies and fee reductions.

The Fund has a pensions strategy, which is approved by the Pensions sub committee.

## Our response

We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.

We will keep the fund informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

As part of our opinion on the financial statements, we will consider whether the Council’s financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary.

We identified a significant audit risk relating to the data migration to the new ledger. We will review the process over the data migration and ensure the data transfer is complete and accurate.

Whilst we do not consider the transfer of assets to the pool as a significant risk we will tailor our approach to gain assurance in respect of the completeness and accuracy of the transactions.

# 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.

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The risk that revenue includes fraudulent transactions</b>	<b>Council and Fund</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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 Council's and the Fund's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore, we do not consider this to be a significant risk.</p>
<b>Management over-ride of controls</b>	<b>Council and Fund</b>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council and Fund face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for the Council and the Fund, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council only	<p>The Council revalues its land and buildings on a rolling five-yearly basis. Council houses are revalued annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.7 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's 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.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2019.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>• write to the valuer to confirm the basis on which the valuations were carried out;</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>• test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register and financial statements;</li> <li>• evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and</li> <li>• evaluate management's assessment of property values in the light of Britain leaving the European Union on 29th March 2019.</li> </ul>



# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of the pension fund net liability</b>	<b>Council only</b>	<p>The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£649 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• assess the related impact of Britain leaving the European Union on 29 March 2019.</li> </ul>
<b>Incomplete or inaccurate financial information transferred to the new general ledger</b>	<b>Council and Fund</b>	<p>In December 2018, the Council implemented a new general ledger system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system.</p> <p>We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• review the Council's arrangements and controls over the transfer of data from the old system to the new system, and the controls over the completeness and accuracy of data transferred;</li> <li>• map the closing balances from the redundant general ledger (Agresso) to the opening balance position in the new ledger (SAP) to assess accuracy and completeness of the financial information, undertaking sample testing as appropriate; and</li> <li>• complete an information technology (IT) environment review to document, evaluate and test the IT controls operating within the new general ledger system.</li> </ul>

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of Level 3 Investments</b>	<b>Fund only</b>	<p>By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£55 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes for valuing Level 3 investments;</li> <li>• 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; to ensure that the requirements of the Code are met;</li> <li>• for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period;</li> <li>• in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; and</li> <li>• assess the related impact of Britain leaving the European Union on 29 March 2019.</li> </ul>
<b>Valuation of Level 2 Investments</b>	<b>Fund only</b>	<p>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p> <p>We therefore identified the valuation of the Fund's Level 2 investments as an other risk</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls;</li> <li>• assess the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments;</li> <li>• agree the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seek explanations for variances;</li> <li>• request year-end confirmations from investment managers and custodian;</li> <li>• where necessary, test a sample of unit values used to value level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. We may consider the use of our specialist valuation team;</li> <li>• for direct property investments agree values in total to valuer's report and undertake steps to gain reliance on the valuer as an expert; and</li> <li>• assess the related impact of Britain leaving the European Union on 29 March 2019.</li> </ul>

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# Other matters

## Other work

The Fund is administered by the Council, and the Fund's financial statements form part of the Council's financial statements.

Therefore, in addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities in respect of the Council and the Fund, as follows:

- We read the Narrative Report and Annual Governance Statement and any other information published alongside the financial statements to check that they are consistent with the Council's financial statements and the Fund on which we give an opinion, and consistent with our knowledge
- We carry out work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on the Council's consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about the Council or Fund's 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Council or Fund 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 the 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 Council's or the Fund'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.

## PSAA Contract Monitoring

London Borough of Hammersmith and Fulham opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts in 2018/19. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, [www.psa.co.uk](http://www.psa.co.uk).

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the attached presentation. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

# 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.

## Our consideration

1

### Calculation and determination

We have determined planning materiality (financial statement materiality determined at the planning stage of the audit) based on professional judgment in the context of our knowledge of the Council and the Fund, including consideration of factors such as stakeholder expectations, financial stability and reporting requirements for the financial statements.

We determine planning materiality 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

2

### Other factors

An item does not necessarily have to be large to be considered to have a material effect on the financial statements. We design our procedures to detect errors in specific accounts at a lower level of precision which we deem to be relevant to stakeholders.

3

### Reassessment of materiality

Our assessment of materiality is kept under review throughout the audit process.

4

### Matters we will report to the Audit, Pensions and Standards 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, Pensions and Standards Committee any unadjusted misstatements of lesser amounts, 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.

## Planned audit response

- We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the previous financial year. Materiality at the planning stage of our audit is £13 million (PY: £12 million), which equates to 1.8% of the Council's prior year gross expenditure on cost of services.
- For the Fund, we have determined financial statement materiality based on a proportion of the Fund's net assets. Our materiality at the planning stage is £18 million (PY: £17 million) which equates to 1.8% of the Fund's actual net assets for the year ended 31 March 2018.
- We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £28,000.
- 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 materiality
- 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 £650,000 (PY: £600,000).
- In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £850,000 (PY: £850,000).
- 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, Pensions and Standards Committee to assist it in fulfilling its governance responsibilities.

# Value for Money arrangements

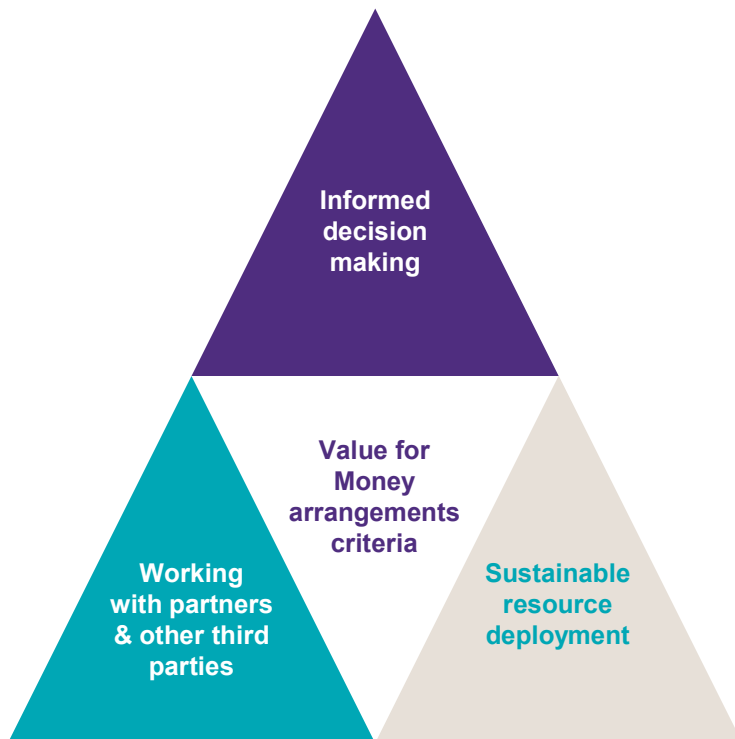
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, excluding Pension Funds, auditors are required to give a conclusion on whether the Council have 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 risk

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



### Financial Sustainability

You face a number of financial challenges over the both the short and medium term, including managing the impact of reductions in government funding totalling £70 million since 2010/11, increasing demand for services in part through increasing development within the Borough, the impact of changes to business rates retention and the outcome of the Government's fair funding review. You are currently forecasting a budget shortfall of £6.1 million and although you are developing mitigating actions any shortfall will need to be met from reserves.

Overspends predicted in the high needs school and early years block totalling £13.5 million will also be funded through reserves. You are maintaining a healthy level of usable reserves, which increased by £12 million in 2017/18.

In response to this risk, we will:

- review the arrangements in place to monitor and report performance against budget and savings plans.
- consider the arrangements for medium term financial planning including the assumptions made in this forecast.



### Brexit

With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on the Council, which you will need to plan for.

You currently produce a Brexit Briefing, which updates the Audit, Pensions and Standards Committee on the potential impacts of Brexit on the Council and the mitigating actions being planned or developed.

In response to this risk we will:

- Review the Council's arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis and impacts on finances including investment and borrowing as well as any potential impact on the valuation of the Council's and Pension Fund assets.

# Audit logistics & fees



## Audit fees

The planned audit fees are £126,242 (PY: £163,950) for the financial statements audit of the Council, and £16,170 (PY: £21,000) for the financial statements audit of the Fund, completed under the Code, which are in line with the scale fees published by PSAA. In setting the fee, we have assumed that the scope of the audits, do not significantly change.

Where additional audit work is required to address risks relating to the application of changes to International Financial Reporting Standard (IFRS) 15 – Revenue from contracts with customers and the Council’s recognition and accounting treatment of income from contracts and IFRS 9- Financial Instruments, we will consider the need to charge fees in addition to the audit fee on a case by case basis. Any additional fees will be discussed and agreed with management.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, the Council and Fund must ensure that:

- All audit queries in our interim and final work are responded to in a timely manner and all required samples provided to enable completion of the interim audits within the agreed timetable.
- The draft accounts provided to us are accurate with minimal errors. Supporting schedules to all figures in the accounts and other working papers are provided to us in accordance with the agreed upon information request list. This must include all notes, the narrative report and AGS.
- 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. All supporting schedules are clearly presented and agree to figures in the accounts.
- Key management and accounting staff identified in our information request list are available throughout the duration of our audit visits to help us locate information and to provide explanations.
- All audit queries are resolved promptly and fully and within agreed timescales.

If any of the above requirements are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give the Council 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 the Council to contact us to discuss these or any other independence issues with us. We will also discuss with the Council 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 the Council's 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 Council and the Fund. The following other services were identified.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing Benefits claim	13,000	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 for 2018/19 will be £13,000 in comparison to the total fee for the audit of £126,242 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. All services have been approved by the Audit, Pensions and Standards Committee.

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.

In addition Grant Thornton LLP is the auditor of HSF LLP and HSF 2 Developments Ltd, joint venture entities of the Council. Fees of £3,700 for tax compliance services and accounts formatting £1,750 were undertaken during the year.

# Appendix A: Audit approach

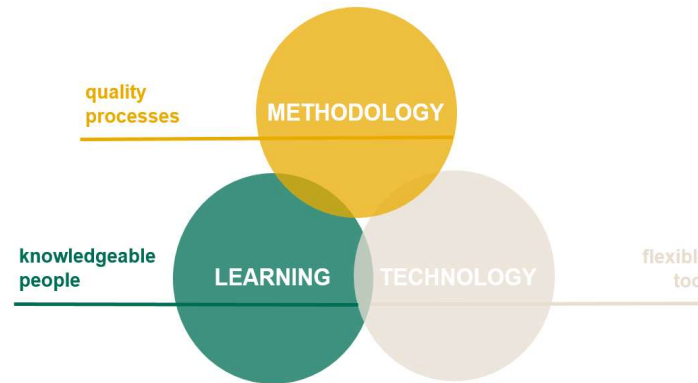
## Use of audit, data interrogation and analytics software

### LEAP



Audit software

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



### INFLO



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

#### Request & share

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

#### Assess & scope

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

#### Verify & review

- Automate sampling requests
- Download automated work papers

#### Interrogate & evaluate

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

#### Focus & assure

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

#### Insights

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

### IDEA



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

### APPIAN



Business process management

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



# Appendix B : Grant Thornton and Local Government

## Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

## Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

## Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

## Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

## Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

## Our relationship with our clients— why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- 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 keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach



*"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."*

Director of Finance, County Council



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