



External Audit Plan

Year ending 31 March 2020

Doncaster Metropolitan Borough Council

21 January 2020



Contents



Your key Grant Thornton team members are:

Gareth Mills

Engagement Lead

T: 07825 115921

E: gareth.mills@uk.gt.com

Perminder Sethi

Engagement Senior Manager

T: 07768 935273

E: perminder.sethi@uk.gt.com

Wesley Kellingray

Engagement In-Charge

T: 0113 200 1624

E: wesley.c.kellingray@uk.gt.com

Section	Page
1. Introduction & headlines	3
2. Key matters impacting our audit	4
3. Group audit scope and risk assessment	5
4. Significant risks identified	6
5. Other risks identified	9
6. Other matters	10
7. Materiality	11
8. Value for Money arrangements	12
9. Audit logistics & team	13
10. Audit fees	14
11. Independence & non-audit services	15
Appendix	
A. Audit Quality – national context	18

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.

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

1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Doncaster Metropolitan Borough 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 Doncaster Metropolitan Borough Council. We draw your attention to both of these documents.

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's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee)
- 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 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.

Significant risks

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

- Management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liability

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 in July 2020.

Materiality

We have determined planning materiality to be £11,041k (PY £12,075k) for the group and £10,944k (PY £12,000k) for the Authority, which equates to 1.5% (PY 1.5%) of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £550k (PY £600k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- **Financial standing** – the Authority as other authorities, continues to operate under significant financial pressures. For 2019-20, the Council is planning to deliver a balanced outturn position but to achieve this, needs to deliver savings of some £18.8m whilst managing cost pressures within Adults, Health and Well-Being.
- **Brexit** - the UK is due to leave the European Union on 31 January 2020 with a transition period until 31 December 2020. There will be national and local implications resulting from Brexit that will impact on the Authority, which it will need to plan for.

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 and our Audit Findings Report.

Our fee for the audit will be £149,280 (PY: £133,430) for the Authority, subject to the Authority meeting our requirements set out on page 13. The increase in fees reflects the additional work which will be required during 2019-20. Further details are set out on pages 14 and 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 Authority's 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. The Authority delivered an outturn underspend in 2018-19 of £2.1m and contributed £2.1m to its General Fund Reserves, increasing these to £14.4m at 31 March 2019.

For 2019-20, the Council is planning to deliver a balanced outturn position but to achieve this, needs to deliver savings of some £18.8m whilst continuing to manage cost pressures within Adults, Health and Well-Being. The Quarter 2 Finance and Performance Improvement Report, presented to Cabinet on 19 November 2019 reported financial performance to Month 6 (September 2019). The report indicated the majority of savings plans are on track to be delivered by 31 March 2020.

At a national level, the government is continuing its negotiation with the EU over Brexit. 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 at Appendix A.

Our work in 2018-19 highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be enhanced, 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.

Other issues

Valuation of Property assets

The Council values its land and buildings on a rolling five year basis with valuations taking place on 1 April each year, the start of the financial year.

Following discussions with Officers during 2018-19, we understand the Council is revising the valuation date to the year end, 31 March.

Preparing for IFRS 16 Implementation

The Authority will need to undertake initial preparatory work on its leases to prepare for the full introduction of IFRS 16 for 2020-21.

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 Authority and will review related disclosures in the financial statements.
- We will continue to meet with senior managers and consider the Authority's financial position and delivery of the £18.8m savings programme.

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 fees, as set out in this Audit Plan, has been agreed with the Director of Corporate Resources and is subject to PSAA agreement.

- We have identified Land and Buildings valuation as a significant risk for our audit. As part of our work, we will consider if the valuation date has been moved to the year end, 31 March 2020. Where this is not the case, we will also consider, the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2020.
- We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020.

3. Group audit scope and risk assessment

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

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Doncaster Metropolitan Borough Council (DMBC)	Yes	Full audit of the DMBC accounts as the significant component within the group.	<ul style="list-style-type: none"> Please refer to the significant risks identified in section 4 of this Plan on pages 6 to 8. 	Full scope UK statutory audit performed by Grant Thornton UK LLP
St Leger Homes of Doncaster Ltd (SLH)	No	Audit of the specific area of the SLH net pension fund liability and related disclosures. This relates to the significant risk of material misstatement at the group financial statements level.	<ul style="list-style-type: none"> Please refer to the significant risk identified in section 4 of this Plan on page 8. 	<p>We will adopt a targeted approach to the statutory audit performed by Beever and Struthers focussing on classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements.</p> <p>Our work will focus on the net pension liability, total income and cost of sales which are the more significant account balances at St Leger Homes of Doncaster Ltd.</p>
Doncaster Children's Service Trust (DCST)	No	Audit of material balances and transactions of the DCST financial statements for year end 31 March 2020.	<ul style="list-style-type: none"> No significant risks identified in relation to this group component 	<p>Audit of material balances and transactions of the DCST financial statements for year end 31 March 2020.</p> <p>This will be performed by Grant Thornton group audit engagement team, to be concluded by 31 July 2020</p>

Key changes within the group:

There are no key changes to the group structure or components for the year ended 31 March 2020.

However, we will continue to discuss the group structure and components with management. At the time of this Audit Plan, we can confirm that these are the only components within the group that form part of the group consolidation process. We have requested a paper from management assessing other entities with which the Authority has an interest in, to consider whether there are any other components which would be required to form part of the group.

If there are any changes to this current group audit scoping structure, we will update you in due course.

4. Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<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 revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including at Doncaster Metropolitan Borough Council, mean that all forms of fraud are seen as unacceptable. 	<p>As we do not consider this to be a significant risk for the Authority, we will not be undertaking any specific work in this area other than our normal audit procedures, including validating total revenues to council tax, non domestic rates and central government grants income.</p>
Management over-ride of controls	<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 Authority faces 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, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied and made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of land and buildings</p>	<p>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 (some £1.5 billion) and the sensitivity of this estimate to changes in key assumptions.</p> <p>In previous years, valuations have taken place as at 1 April each year, the start of the financial year, following discussions with Officers during 2018-19, we understand the Council is revising the valuation date to the year end, 31 March.</p> <p>Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value at the financial statements date, where a rolling programme is used.</p> <p>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, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • in a new development for 2019-20, engage our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end • consider, where the valuation date is not 31 March 2020 for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2020

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£471m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • 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 • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • 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 • 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 • obtain assurances from the auditor of the South Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

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 (ISA260) Report in July 2020.

5. Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease).</p> <p>Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code is expected to adapt IFRS 16 which is likely to require that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code as per any other item of property plant and equipment.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020-21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019-20 financial statements. • Assess the completeness of the disclosures made by the Authority in its 2019-20 financial statements with reference to The Code and CIPFA/LASAAC ‘Local Authority Leasing Briefings’.

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 Authority'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 Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £11,041k (PY £12,075k) for the group and £10,944k (PY £12,000k) for the Authority, which equates to 1.5% (PY 1.5%) of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £15,000 for Senior Officer remuneration.

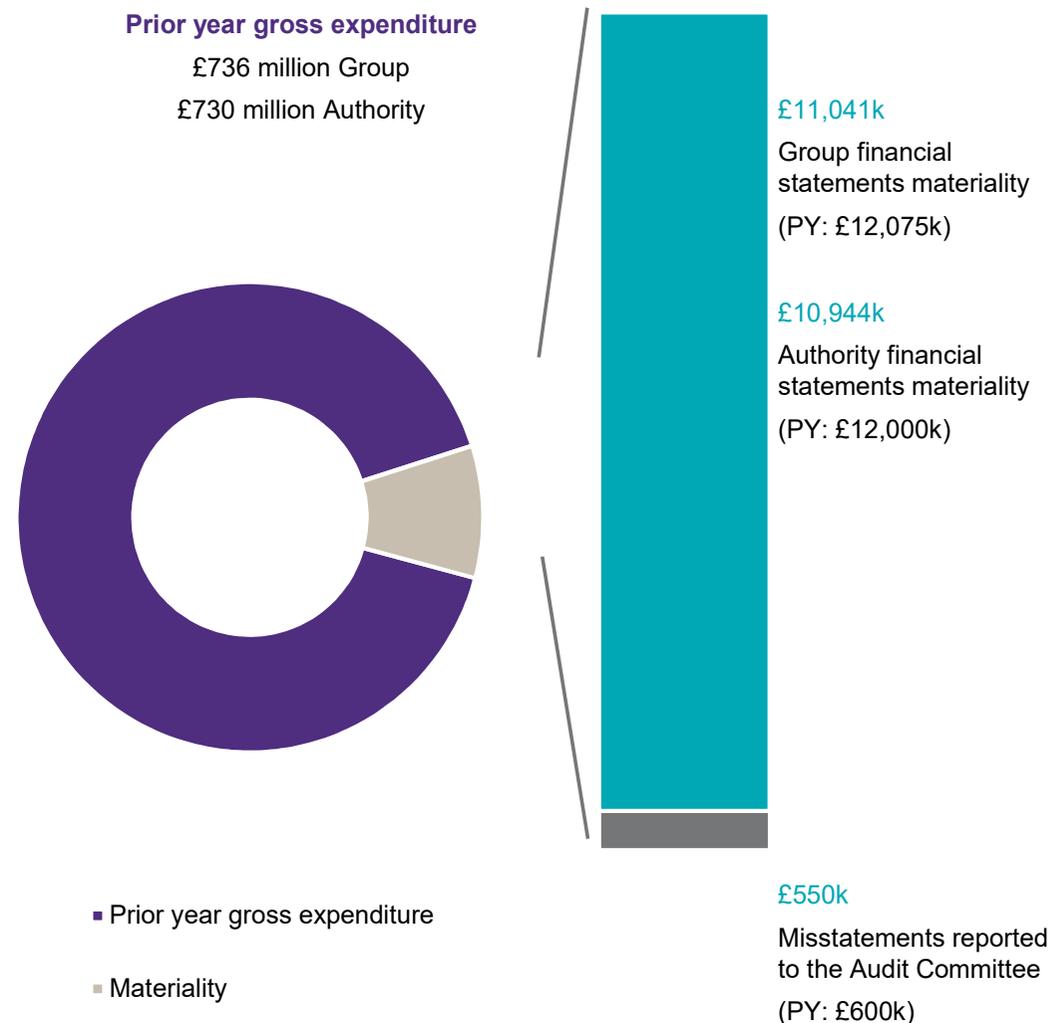
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality. Should we revise our materiality during the final audit visit, we will report this to the Audit Committee in July.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £550k (PY £600k).

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 Committee to assist it in fulfilling its governance responsibilities.



8. Value for Money arrangements

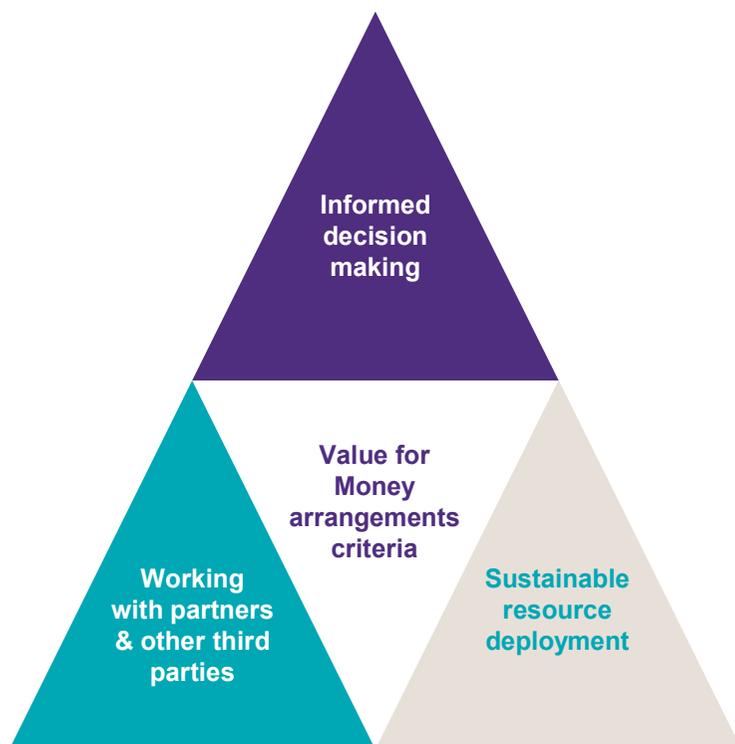
Background to our VFM approach

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.



1. Financial standing

The Authority delivered an outturn underspend in 2018-19 of £2.1m which increased its General Fund Reserves to £14.4m at the year end, 31 March 2019.

For 2019-20, the Council is planning to deliver a balanced outturn position but to achieve this, needs to deliver savings of some £18.8m whilst continuing to manage cost pressures within Adults, Health and Well-Being.

The Quarter 2 Finance and Performance Improvement Report, presented to Cabinet on 19 November 2019, detailing the financial performance to Month 6 (September 2019), indicated the majority of savings plans are on track to be delivered by 31 March 2020.

We will continue to monitor the Authority's financial position through regular meetings with senior management and consider how the Authority manages overspends within Adults, Health and Well-Being. We will continue to assess progress in the identification and delivery of the £18.8m savings required and plans in place to identify cost improvements into 2020-21 and beyond.



2. Brexit

The UK is now due to leave the European Union on 31 January 2020 with a transition period until 31 December 2020. There will be national and local implications resulting from Brexit that will impact on the Authority, which the Authority will need to plan for.

We are aware of the Authority's planning for Brexit from our consideration of the Authority's arrangements as part of our prior year VFM related work. For the current year, we will consider the Authority's on-going arrangements and plans to mitigate any risks on Brexit.

9. Audit logistics & team



Gareth Mills
Engagement Lead
 T 07825 115921
 E gareth.mills@uk.gt.com

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

Perminder Sethi
Engagement Senior Manager
 T 07768 935273
 E perminder.sethi@uk.gt.com

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

Wesley Kellingray
Engagement In-charge
 T 0113 200 1624
 E wesley.c.kellingray@uk.gt.com

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

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit 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 have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

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 Director of Corporate Resources and is subject to PSAA agreement.

	Actual Fee 2017-18 (KPMG)	Actual Fee 2018-19 (Grant Thornton)	Proposed Fee 2019-20 (Grant Thornton)
Council Audit scale fee set by PSAA	£164,844	£126,930	£126,930
Audit fee variations – additional work required	-	£6,500	£22,350
Total audit fees (excluding VAT)	£164,844	£133,430	£149,280

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.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019-20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	2019-20 £	Rationale for fee variation
PSAA Scale fee	126,930	
Increased challenge and depth of work	5,000	To meet the higher threshold set by the FRC, we will be required to undertake additional work and challenge in the following areas, including: <ul style="list-style-type: none"> • use of specialists • information provided by the entity (IPE) • journals • management review of controls • accounting estimates • financial resilience and going concern • related parties and similar areas
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	3,500	A significant audit risk area, we have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	9,350	A significant audit risk area, we have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. In addition from 2019-20, we have engaged our own audit expert to support our work on valuation of your land and buildings (Wilks Head Eve) and increased the scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. The increase includes a fee payable to the auditor's expert. We expect the cost of the auditor's expert will be £5,000 subject to no significant issues arising from their review.
New standards and developments	2,500	This includes preparations for IFRS16, new lease arrangements and other developments including the change to the date of valuation from 31 March to 1 April.
Group accounts	2,000	Work required to audit the group consolidation and the significant risk associated with St Ledger Homes pensions liability.
Revised scale fee	149,280	(to be approved by PSAA)

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:			
Housing Benefits certification	25,000	Self-interest (because this is a recurring fee)	The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £25,000 in comparison to the total fee for the audit of £149,280 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.
Teachers' Pension return	4,200	Self-interest (because this is a recurring fee)	The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £149,280 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.
Housing capital receipts certification	2,100	Self-interest (because this is a recurring fee)	The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,100 in comparison to the total fee for the audit of £149,280 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.
DFE Annex G (NCTL) return	2,000	Self-interest (because this is a recurring fee)	The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,000 in comparison to the total fee for the audit of £149,280 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.
Total	33,300		
Non-audit related:			
None			

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/>

Appendix

A. Audit Quality – national context

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 audits.

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.



© 2019 Grant Thornton UK LLP. All rights reserved.

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

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