

External Audit Plan

Year ending 31 March 2019

Westminster City Council and Westminster City Council Pension Fund
December 2018



Contents

Section	Page
1. Introduction	3
2. Headlines	4
3. Key matters impacting our audit approach of the Council	5
4. Key matters impacting our audit approach of the Fund	6
5. Group audit scope and risk assessment	7
6. Significant risks identified	8
7. Other risks	11
8. Other matters	13
9. Materiality	14
10. Value for Money arrangements	15
11. Audit logistics & fees	16
12. Independence & non-audit services	18
Appendix	
A.. Audit Approach	20

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.

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

Introduction

Our Team



Paul Dossett, Engagement Lead

T 020 7728 3180

E paul.dossett@uk.gt.com



Paul Jacklin, Pension Fund Audit Manager

T 020 7728 3263

E paul.j.jacklin@uk.gt.com



Laurelin Griffiths, Council Audit Manager

T 0118 955 9166

E laurelin.h.griffiths@uk.gt.com



Marc Chang, Audit Incharge

T 020 7728 3066

E marc.chang@uk.gt.com

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of the Westminster City Council ('Council') and Westminster City Council 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, Group and Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Performance 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 and Performance Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the your business and is risk based.

Headlines

Group Accounts	The Council are required to prepare group financial statements that consolidate the financial information of Westminster Community Homes Limited, City West Homes Limited, WestCo Trading Limited, Westminster Procurement Services Limited, Soho Create Limited, Hub Make Lab CIC and Paddington Recreation Ground Charitable Trust.
Significant risks identified	<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> <p>Westminster City Council</p> <ul style="list-style-type: none">• management override of controls• valuation of property, plant and equipment being materially misstated• valuation of pension fund net liability being materially misstated• appropriateness of the Council's appeals provision for National Non-Domestic Rates (Business Rates)• the implementation of the new general ledger resulting in material misstatements across the accounts <p>Westminster City Council Pension Fund</p> <ul style="list-style-type: none">• management override of controls• the valuation of Level 3 investments being materially misstatement• the implementation of the new general ledger resulting in material misstatements across the accounts <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>
Materiality - Council	We have determined planning materiality to be £19.9m (PY £20.4m) for the group and £19.8m (PY £20.1m) for the Council, which equates to 1.95% 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 £990k (PY £1,005k).
Materiality – Pension Fund	<p>We have determined materiality at the planning stage of our audit to be £13.4m (PY £13.4m) for the Fund, which equates to 1% 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 £668k (PY £668k).</p>
Value for Money arrangements (Council Only)	<p>Our risk assessment regarding the Council's arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none">• We will consider whether the Council has adequate arrangements in place to address the risks of departing from the European Union
Audit logistics	<p>Our interim visit will take place in December 2018 and our final visit will take place in April to May 2019. Our key deliverables are this Audit Plan and our Audit Findings Report.</p> <p>Our fee for the audit will be £143,004 (PY: £185,719) 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>
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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 and wider macro uncertainty has continued to adversely impact Local Government. The Council has identified final gross savings of £38.327m for 2018/19 to ensure a balanced budget. As in previous years, the proposed savings are from measures which avoid service reductions e.g. additional income generation, efficiencies and other transformation means.

The Council is well placed to meet its future financial challenges if management action on budget proposals continues as currently envisaged and planned. The Council continue to manage its finances well and as at month 6, are reporting a net General Fund underspend of £1.751m by year-end. 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. The Council will need to re-model their future finances following the outcome of this review.

Priorities

The Council are overhauling planning processes to ensure future decisions meet the needs of residents. The Council's fresh Place Strategy and Delivery Plan has identified 96 projects across 87 streets and spaces in nine zones, including proposals for major improvements at Oxford Circus, Marble Arch and Cavendish Square. The Council remains committed to finding sufficient space to enable an additional 2,000 new affordable homes to be built or the next generation.

Implementation of new Ledger

During the year, the Council 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. The Council also need to ensure that staff are properly trained on the new system and that the Council continue to pay suppliers and staff in accordance with agreed terms and conditions.

Council Housing

A review into CityWest Homes identified operational problems which developed from weaknesses in management and the way the organisation is structured and governed. As a result, the Council are to bring the management of Council housing under direct control.

Changes in senior management

The Council's Treasurer has recently retired and the Council are currently in the process of recruiting his successor.

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. The Council will need to review their workforce plans, analyse their supply chains and model potential impacts on Council finances including investment and borrowing as well as any potential impact on the valuation of Council and Pension Fund assets.

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 the Council's arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

We will continue to engage with Members and Senior Officers to assess how the Council are performing in addressing challenges.

We will keep officers 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 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 review the process over the data migration and ensure the data transfer is complete and accurate.

Key matters impacting our audit of the Fund

External Factors	Internal Factors
<p>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.</p> <p>Guaranteed Minimum Pension (GMP)</p> <ul style="list-style-type: none"> • 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. 	<p>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.</p> <p>The Pensions Regulator (tPR) tPRs Corporate Plan Corporate 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.</p>
	<p>Implementation of SAP As explained on page 5 the move to SAP represents a significant risk and this risk will equally apply to the Pension Fund.</p> <p>Pooling The Fund remains committed to pooling its assets with the London Collective Investment Vehicle (LCIV) where suitable mandates become available. The value of pension fund investments transferred to the LCIV at the end of September 2018 was £547 million. This represents 43% of Westminster’s investment assets. A further £290 million continues to benefit from reduced management fees, Legal and General having reduced their fees to match those available through the LCIV. On 1 November 2018 the fund re-balanced its equity exposure by selling down from its Longview portfolio and transferring circa £90m to the LCIV’s Multi Asset Credit Fund.</p>

Our response		
<p>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.</p>	<p>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.</p> <p>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.</p> <p>We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary.</p>	<p>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.</p> <p>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.</p>

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as your group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The group audit does not include the Pension Fund.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Westminster City Council	Yes		See detail on pages 8-11	Full scope UK statutory audit performed by Grant Thornton UK LLP
Westminster Community Homes Limited	No		Valuation of property, plant and equipment	Audit or one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements.
City West Homes	No		Valuation of pension fund net liability	Audit or one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements.
WestCo Trading Limited Westminster Procurement Services Limited Soho Create Limited Hub Make Lab CIC Paddington Recreational Ground Trust	No		None	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group:

There have been no significant changes within the group

Audit scope

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

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 April 2019.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The risk that revenue includes fraudulent transactions	Council and Fund	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the Council's and the Fund's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk.
Management over-ride of controls	Council and Fund	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 group and Fund face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. 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.	We will: <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 made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council	<p>The Council revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£2.8 billion) and the sensitivity of this estimate to changes in key assumptions.</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"> • 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; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuations were carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • 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; • 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 • evaluate management's assessment of property values in the light of Britain leaving the European Union on 29th March 2019.
Valuation of the pension fund net liability	Council	<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 and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£698 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"> • 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; • 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 Council's pension fund valuation; • assess the accuracy and completeness of the information provided 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; and • assess the related impact of Britain leaving the European Union on 29 March 2019.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Appeals Provision for National Non-Domestic Rates (Business Rates)	Council	The Council's provision for business rates appeals remains the largest in the country and is a highly material balance in the financial statements. The provision is based on significant judgements made by management and uses a complex estimation technique to prepare the provision.	<p>We will:</p> <ul style="list-style-type: none"> • monitor how the appeals process is affecting the Council and any planned changes in the methodology used to calculate the provision; • identify the controls put in place by management to ensure that the appeals provision is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • review assumptions made by management and the processes in calculating the estimate; • test the calculation and its agreement to supporting documentation; and • review the disclosures made by the Council in the financial statements.
Incomplete or inaccurate financial information transferred to the new general ledger	Council and Fund	<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"> • 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; • 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 • complete an information technology (IT) environment review to document, evaluate and test the IT controls operating within the new general ledger system.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments	Fund	<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 (£60 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"> • evaluate management's processes for valuing Level 3 investments; • 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; • 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; • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; and • assess the related impact of Britain leaving the European Union on 29 March 2019.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 2 Investments	Fund	<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"> • gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls; • 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; • 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; • request year-end confirmations from investment managers and custodian; • 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; • 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 • assess the related impact of Britain leaving the European Union on 29 March 2019.

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 group 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.

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.

Matter	Description	Planned audit response
1	<p>Calculation and determination</p> <p>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.</p> <p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – 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 	<ul style="list-style-type: none"> • We have determined financial statement materiality based on a proportion of the gross expenditure of the group and the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £19.9m (PY £20.4m) for the group and £19.8m (PY £20.1m) for the Council, which equates to 1.95% 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. In the prior year we used the same benchmark. Our materiality at the planning stage is £13.4m (PY £13.4m) which equates to 1% of the Fund’s actual net assets for the year ended 31 March 2018.
2	<p>Other factors</p> <p>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.</p>	<ul style="list-style-type: none"> • We have not identified any balances where we will apply lower materiality levels. We will undertake testing on senior officers remuneration which is below the materiality levels as these are considered sensitive disclosures.
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<ul style="list-style-type: none"> • 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
4	<p>Matters we will report to the Audit and Performance Committee</p> <p>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 and Performance 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.</p>	<ul style="list-style-type: none"> • In the context of the group and the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £990k (PY £1,005k). • 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 £668 (PY £668k). • If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Performance Committee to assist it in fulfilling its governance responsibilities.

Value for Money arrangements

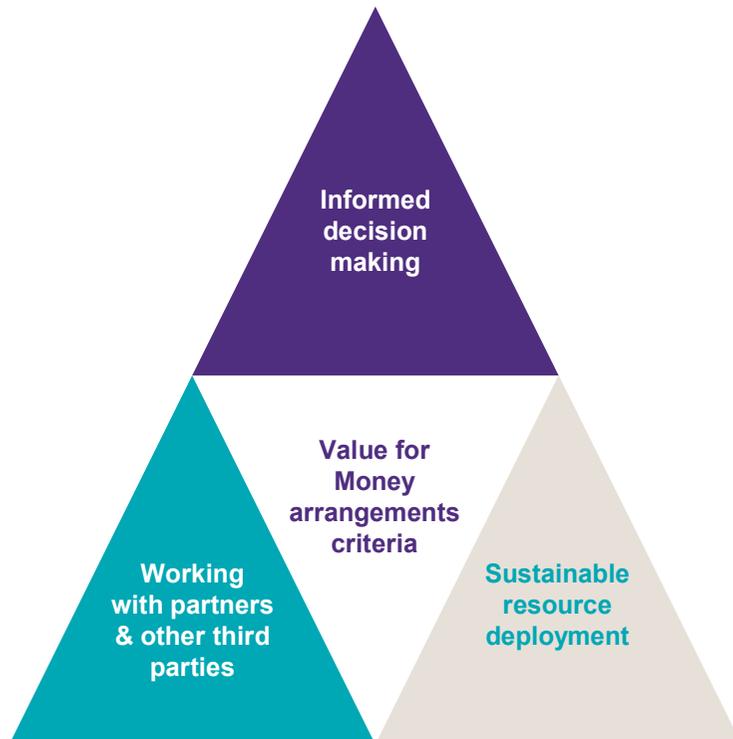
Background to our VFM approach

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.



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 the Council will need to plan for.

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 assets.

Audit logistics, team & fees



Paul Dossett, Engagement Lead

Paul will be the main point of contact for the Chief Executive, statutory officers and Members. Paul will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Senior Management and the Audit and Performance Committee. Paul will ensure our audit is tailored specifically to the Council and Fund and is delivered efficiently. Paul will review all reports and the team's work focussing his time on the key audit risks.



Laurelin Griffiths, Council Audit Manager

Laurelin will support Paul in his work to ensure the early delivery of audit testing, but with a focus on issues relating to the Council. She will lead on a number of complex accounting issues. Laurelin will oversee the implementation of Grant Thornton's new audit methodology, attend Audit and Performance Committee meetings and draft reports, ensuring they remain clear, concise and understandable to all. She will also be responsible for undertaking reviews of the team's work.



Paul Jacklin, Pension Fund Audit Manager

Paul will work with the senior members of the finance and executive teams, ensuring early delivery of testing and agreement of accounting issues on a timely basis, with a focus on issues relating to the Fund. Paul will attend Audit and Performance Committee meetings, undertake reviews of the team's work and draft reports. Paul will work with Internal Audit to secure efficiencies and avoid duplication, providing assurance for the Annual Governance Statement.



Marc Chang, Audit Incharge

Marc will lead the onsite team and will be the day to day contact for the audit. Marc will monitor the deliverables, manage the query log with the finance team and highlight any significant issues and adjustments to senior management. Marc will undertake the more technical aspects of the audit, and coach the junior members of the team.

Audit logistics, team & fees

Audit fees

The planned audit fees are £143,004 (PY: £185,719) for the financial statements audit of the group, 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 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 fully 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
Audit related			
Certification of Housing capital receipts grant	TBC	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 2017/18 was £3,000 in comparison to the total fee for the audit of £143,004 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.
Certification of Teachers' Pension return	TBC	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 2017/18 was £3,500 in comparison to the total fee for the audit of £143,004 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.
Certification of Housing Benefits claim	TBC	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 2017/18 was £22,410 in comparison to the total fee for the audit of £143,004 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.
Non-audit related			
Place Analytics subscription	9,500	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 was £9,500 in comparison to the total fee for the audit of £143,004 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 group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Performance 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.

Appendices

A. Audit Approach

Appendix A Audit approach

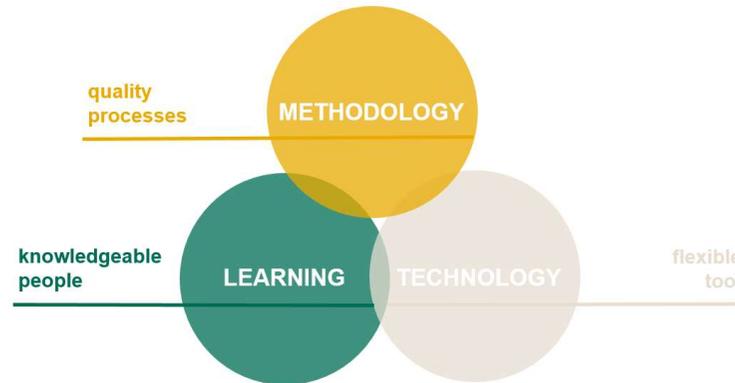
Use of audit, data interrogation and analytics software

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



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 use 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

Info



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
- Demonstrates own performance and benchmark comparisons



© 2018 Grant Thornton UK LLP. All rights reserved.

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

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