

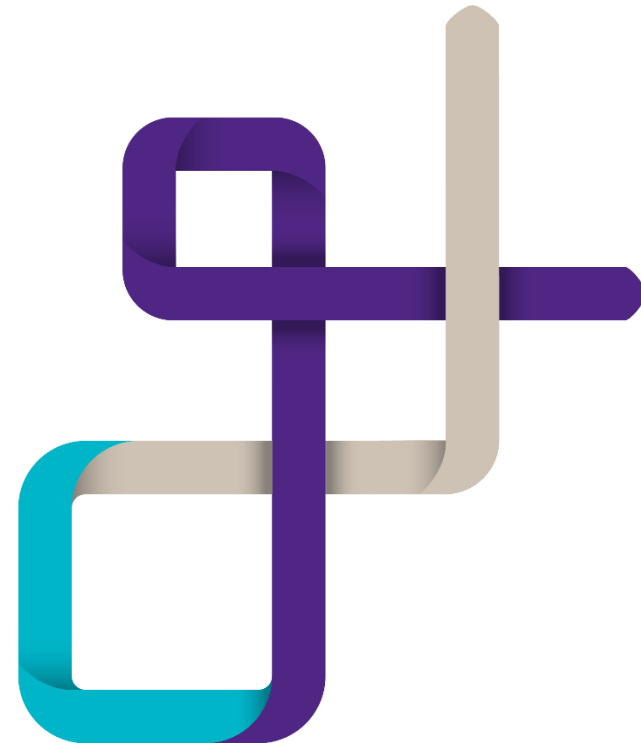
# External Audit Plan

*Year ending 31 March 2020*

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**Rotherham Metropolitan Borough Council**

**24 January 2020**



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

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# 1. Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Rotherham 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 the Authority. We draw your attention to both of these documents on [PSAA website](#)

## Scope of our audit

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

- Authority'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
- Implementation of a new payroll system.

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 £9m (PY £10.5m) which equates to 1.5% (PY 1.8%) of your prior year gross expenditure for cost of services. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. The 'clearly trivial' reporting threshold has been set at £450,000 (PY £525,000).

## 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 £7.7m and other budgetary measures of £8.1m whilst managing cost and demand pressures within Children's Services, Adult Social Care and other vital services for the local population.
- **Dedicated School Grant deficit position and recovery plan** – The Dedicated School Grant (DSG) reserve was in material deficit of £15.1m as at 31 March 2019. This was an increase of £5.4m during 2018-19 period. During 2017-18 the reserve increased by £4.5m to £9.6m deficit. Therefore, during last two years, the DSG deficit has increased by c10m. DSG net expenditure continues to be a challenging service area for the Authority in 2019-20 and for the foreseeable future. We will be considering and monitoring the Council's arrangements in place to deliver its DSG recovery plan.

## 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 (ISA260) Report. Our fee for the audit will be £129,288 (PY: £117,438) 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 for services from residents. The Authority achieved a balanced budget for 2018-19 under challenging environment. Although the actual expenditure for 2018-19 was £9.6m more than the approved 2018-19 budget this was mitigated by use of directorate balances (£3.9m), and in year use of other budgetary measures of £5.7m, (including budget contingency reserves of £2m). As a result, the general fund reserves reduced from £48m to £41.5m excluding the DSG deficit of £15.1m.

For 2019-20, the Authority is planning to deliver a balanced outturn position but to achieve this, needs to deliver savings of some £7.7m whilst continuing to manage cost and demand pressures within Children's Services, Adult Social care, DSG and other vital services for the local population.

The Month 7 Financial Monitoring Report presented to Cabinet indicates the Authority is currently projecting an overall general fund overspend of £4.1m at the year end. This arises from continuing pressures on social care services and some timing issues with the delivery of some budget savings which are taking longer than anticipated to be achieved in full. The Council has £3.2m of the budget contingency reserve remaining and continues to work to identify further mitigating budget savings and cost reductions in order to maintain a balanced budget position

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

##### DSG deficit position and recover plan

The DSG reserve was in material deficit of £15.1m as at 31 March 2019. This was an increase of £5.4m during 2018-19 period. During 2017-18 the reserve increased by £4.5m to £9.6m deficit. Therefore, during last two years, the DSG deficit has increased by c10m.

DSG net expenditure continues to be a challenging service area for the Authority in 2019-20 and for the foreseeable future. The Council set a 3 year recovery plan at the end of 2018-19 to reduce the rate of deficit increase from £15.1m in 2018-19 to £17.6m in 2021-22 (a £2.5m increase over 3 years).

The forecast at the end of October 2019 shows an in-year pressure of £3.3m which may increase the deficit to 18.4m at the year end against a planned deficit of £16.5m for 2019-20.

##### 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 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 Strategic Director of Finance and Customer Services and is subject to PSAA agreement.

- As part of our Value for Money arrangements work we will continue to consider the Council's arrangements in place to achieve the DSG recovery plan, other contingency arrangements and accounting for the DSG deficit in line with relevant guidance
- We will assess the adequacy of your disclosures about the financial impact of implementing IFRS 16 – Leases in your 2019-20 financial statements.

### 3. 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
<p><b>The revenue cycle includes fraudulent transactions</b></p>	<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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including at Rotherham Metropolitan Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<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>
<p><b>Management over-ride of controls</b></p>	<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"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied and made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Valuation of land and buildings</b></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 (£905 million) and the sensitivity of this estimate to changes in key assumptions.</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 (for surplus assets) 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"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Authority's valuation of land and buildings are not materially misstated and evaluate the design of the associated controls</li> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• discuss with the valuer the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• 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</li> <li>• test revaluations made during the year to see if they had been input correctly into the Authority's asset register</li> <li>• 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.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Valuation of the pension fund net liability</b></p>	<p>The Authority's pension fund net liability, as reflected in the balance sheet as the retirement benefit obligations, represents a significant estimate in the Authority's financial statements.</p> <p>The Authority's pension fund net liability is considered a significant estimate due to the size of the numbers involved (PY: c £460m in the 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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation</li> <li>• assess the accuracy and completeness of the information provided by the to the actuary to estimate the liability</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from respective actuaries</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> <li>• obtain assurances from the auditor of the SouthYorkshire 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.</li> </ul>

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.

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Implementation of a new Payroll system (iTrent)</b></p>	<p>The Council implemented a new Payroll system, iTrent from 1 June 2019. Based on our knowledge and experience, iTrent payroll systems are used by other local authorities similar in size and scale to the Authority.</p> <p>The payroll system is a major financial process that generates a large volume and value of transactions and is central to producing materially accurate payroll payments and the resulting payroll figure in the financial statements.</p> <p>Local authority accounting transactions can be complex and are typically significant in volume. The Authority employs over 5,000 employees and their salaries and pension payments are paid through it's payroll system. In 2018-19, over £221m employee benefit expenses were processed and paid through Authority's payroll system. This is c33% (one third) of Authority's total expenditure in 2018-19. There is also an interface between the payroll system and general ledger.</p> <p>Accuracy and completeness of data migration from an old to a new system is paramount for transparent financial reporting. This is considered more important when the system in question processes significant amount of transactions and accounts for nearly one third of Authority's total expenditure. There is an inherent risk that things could go wrong in data migration from one system to another due to human and technological errors.</p> <p>We consider this is a risk requiring special audit consideration for our 2019-20 audit</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>review the management arrangements and understand the processes and controls in place to ensure successful migration of data from the old payroll system to the new iTrent system as at 1 June 2019</li> <li>through our IT specialists, undertake work to determine whether adequate controls for new system have been established to ensure that new system / application which is either developed or acquired was authorised, tested, approved before implementation</li> <li>through our IT specialists, undertake a review to establish how the new system is configured / access allocated and other IT general controls implemented for smooth transition</li> <li>examine the opening balances as at 1 July 2019 to confirm these have been completely and accurately brought forward from the old payroll system to iTrent.</li> </ul>

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.



## 4. Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)</b>	<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>The Code adapts IFRS 16 and requires 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.</p> <p>However, 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.</p> <p>We will consider the completeness of this disclosure note around impact on IFRS 16 as an other risk for 2019-20 financial statements audit.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Assess the completeness of the disclosures made by the Authority in its 2019-20 financial statements with reference to The Code and CIPFA/LASAAC <a href="#">‘Local Authority Leasing Briefings’</a>.</li> </ul>

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.

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## 5. 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.

# 6. 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 cost of services of the Authority for the previous financial year (2018-19). In the prior year a similar benchmark was used. Materiality at the planning stage of our audit is £9m (PY: £10.5m), which equates to 1.5% of your 2018-19 gross expenditure of cost of services. Last year this percentage was 1.8% of the same benchmark. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redman.

We design our procedures to detect errors in specific accounts balances or disclosures at a lower level of precision. The senior officer remuneration disclosure in the financial statements has been identified as an area requiring lower level of materiality of £5,000 (PY: £5,000), due to the sensitive nature of the disclosure.

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

## Matters we will report to the Audit Committee

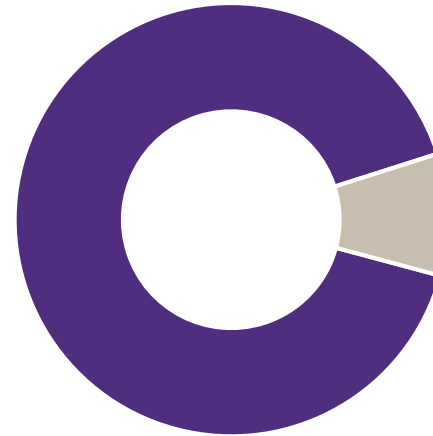
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA (UK) 260 '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 (UK) 260 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 £450,000 (PY: £525,000).

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

## Gross expenditure of cost of services

£599.6 million for the Authority



- Prior year gross operating costs
- Materiality

## Materiality



Authority financial statements materiality  
£9m  
(PY: £10.5m)

£450,000  
Misstatements to be reported to the Audit Committee  
(PY: £525,000)

# 7. Value for Money arrangements

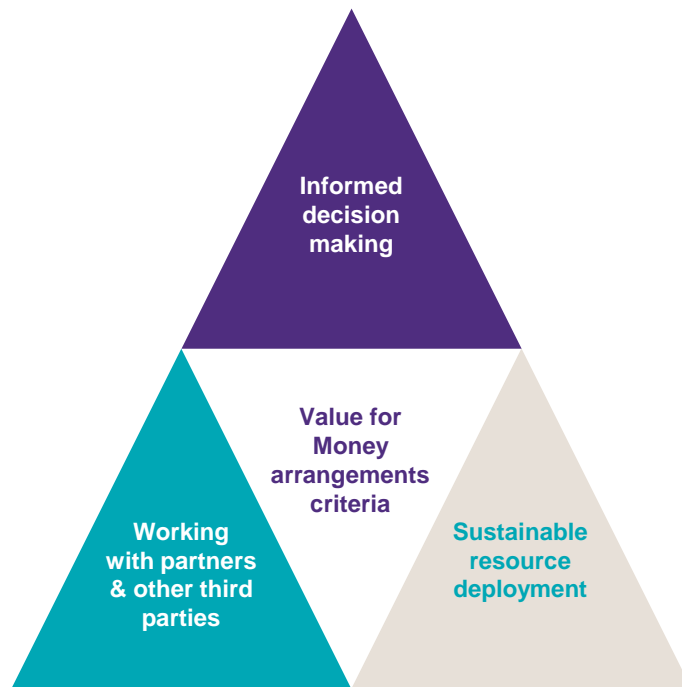
## Background to our VFM approach

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 - delivery of 2019-20 budget and savings plan

The Authority achieved a balanced budget for 2018-19 under challenging environment. Although the actual expenditure for 2018-19 was £9.6m more than the approved 2018-19 budget this was mitigated by use of directorate balances (£3.9m), and in year use of other budgetary measures of £5.7m, (including budget contingency reserves of £2m). As a result, the general fund reserves reduced from £48m to £41.5m excluding the DSG deficit of £15.1m (see below).

For 2019-20, the Authority is planning to deliver a balanced outturn position but to achieve this, needs to deliver savings of some £7.7m whilst continuing to manage cost and demand pressures within Children’s Services, Adult Social care, DSG and other vital services for the local population.

The Month 7 Financial Monitoring Report presented to Cabinet indicates the Authority is currently projecting an overall general fund overspend of £4.1m at the year end. This arises from continuing pressures on social care services and some timing issues with the delivery of some budget savings which are taking longer than anticipated to be achieved in full. The Council has £3.2m of the budget contingency reserve remaining and continues to work to identify further mitigating budget savings and cost reductions in order to maintain a balanced budget position.

We will continue to assess progress in the delivery of the savings approved within the two-year budget for 2019/20 and 2020/21. We note that the current iteration of the MTFS does not require further savings to be identified for 2021/22



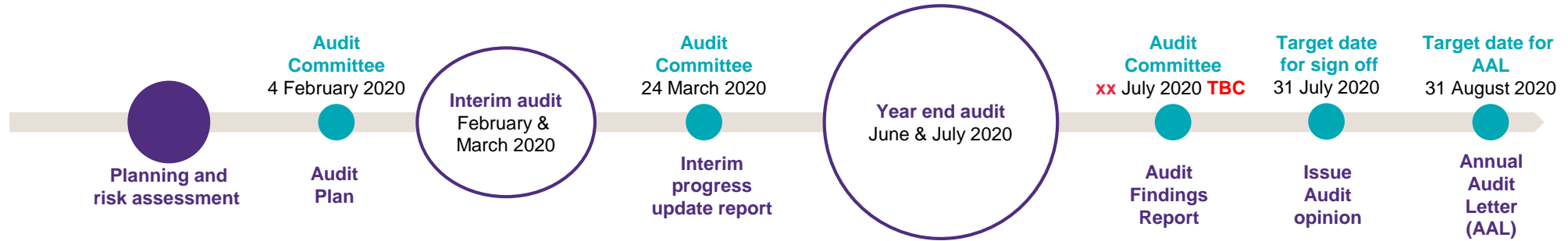
### 2. Dedicated School Grant (DSG) deficit position and recovery plan

The DSG reserve was in material deficit of £15.1m as at 31 March 2019. This was an increase of £5.4m during 2018-19 period. During 2017-18 the reserve increased by £4.5m to £9.6m deficit. Therefore, during last two years, the DSG deficit has increased by c10m.

DSG net expenditure continues to be a challenging service area for the Authority in 2019-20 and for the foreseeable future. The Council set a 3 year recovery plan at the end of 2018-19 to reduce the rate of deficit increase from £15.1m in 2018-19 to £17.6m in 2021-22 (a £2.5m increase over 3 year period).

The forecast at the end of October 2019 shows an in-year pressure of £3.3m which may increase the deficit to £18.4m at the year end against a planned deficit of £16.5m for 2019-20. The main pressures are linked to alternative provision, high cost external residential and independent sector placements. As part of our Value for Money arrangements work we will continue to consider the Council’s arrangements in place to achieve the DSG recovery plan, other contingency plans and accounting for the DSG deficit in line with relevant guidance available.

# 8. Audit logistics & team



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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.

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Thilina 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.

**Greg Charnley**  
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Greg's 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.

## 9. 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 Strategic Director of Finance and Customer Services and is subject to PSAA agreement.

	Actual Fee 2017-18 (KPMG)	Actual Fee 2018-19 (Grant Thornton)	Proposed Fee 2019-20 (Grant Thornton)
<b>Council Audit scale fee set by PSAA</b>	£140,828	£108,438	£108,438
<b>Audit fee variations</b> – additional work required (see page 15)	-	£9,000	£20,850
<b>Total audit fees (excluding VAT)</b>	<b>£135,998</b>	<b>£117,438</b>	<b>£129,288</b>

### 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/referenced working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant estimates 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 fee £	Rationale for fee variation:
PSAA scale fee	108,438	PSAA scale fee
Increased challenge and depth of work	5,000	<p>To meet the higher threshold set by the FRC, we will be required to undertake additional work and challenge in the following areas, including:</p> <ul style="list-style-type: none"> <li>• use of specialists</li> <li>• information provided by the entity (IPE)</li> <li>• journals &amp; management review of controls</li> <li>• accounting estimates</li> <li>• financial resilience and going concern</li> <li>• related parties and similar areas</li> </ul>
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 and other PPE related additional work	9,350	<p>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.</p> <p>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.</p> <p>The increase includes an estimate for the fee payable to the auditor's expert and our additional work in that respect.</p>
Reduction in materiality	3,000	A reduction in materiality from 1.8% of the benchmark (gross expenditure in cost of services) to 1.5% leads to up to an extra £3,000 charge, reflecting additional areas to audit and sample testing requirements, resulting from a lower level of materiality and a greater level of scrutiny and assurance.
<b>Revised scale fee</b>	<b>129,288</b>	<b>(to be approved by PSAA)</b>

# 10. Independence and 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.

## Audit and Non-audit services

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

Service	£	Threats	Safeguards
<b>Audit related:</b>			
Housing Benefit Certification	15,826	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £15,826 (on the basis that we complete the HB workbooks) in comparison to the total fee for the audit of £129,288 (after fee variations) and in particular relative to Grant Thornton UK LLP's turnover overall.
DfT grant on Local Transport Plan Major Projects	2,700	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,700 in comparison to the total fee for the audit of £129,288 (after fee variations) and in particular relative to Grant Thornton UK LLP's turnover overall.
Pooling of Housing Capital Receipts Return Certification	3,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,000 in comparison to the total fee for the audit of £129,288 (after fee variations) and in particular relative to Grant Thornton UK LLP's turnover overall.
<b>Non-Audit related:</b>			
None	-		

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. 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 (ISA260) 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/>



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# 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 Corporate Governance and 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.



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