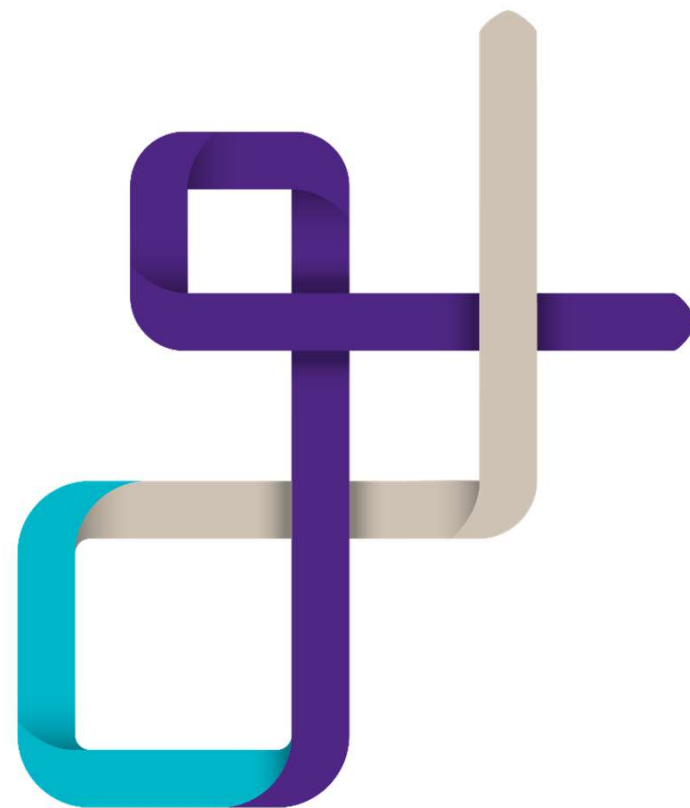


External Audit Plan

Year ending 31 March 2019

Nottingham City Council
February 2019



Contents



Your key Grant Thornton team members are:

John Gregory

Director

T: +44 (0) 121 232 5333

E: john.gregory@uk.gt.com

Helen M Lillington

Manager

T: +44 (0) 121 232 5312

E: helen.m.lillington@uk.gt.com

Vikash Patel

Assistant Manager

T: +44 (0) 116 257 5987

E: Vikash.patel@uk.gt.com

Section	Page
1. Introduction & headlines	3
2. Key matters impacting our audit	5
3. Group audit scope and risk assessment	6
4. Significant risks identified	8
5. Other matters	11
6. Materiality	12
7. Value for Money arrangements	13
8. Audit logistics, team & fees	15
9. Early Close	16
10. Independence & non-audit services	17
Appendices	
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 you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Introduction & headlines

Purpose

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

Scope of our audit

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

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

The audit of the financial statements does not relieve management or the Audit 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. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

Group Accounts	The Authority has a relatively complex Group structure. In 2017/18 the Authority consolidated within its Group Accounts six subsidiaries, two joint ventures and one trust fund.
Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none">• Inappropriate recognition of revenue• Management Override of Controls• Valuation of Property, Plant and Equipment• Valuation of the Pension Fund Net Liability• Accounting for Private Finance Initiative (PFI) Schemes• Preparation of Group Accounts <p>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.</p>
Materiality	We have determined planning materiality to be £18m for the group and £16m for the Authority, which equates to 1.75% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.9m for the group accounts and £0.8m for the Authority.
Value for Money arrangements	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none">• Medium Term Financial Sustainability• Governance in relation to major capital schemes• Arrangements for governance and monitoring of subsidiary companies

Introduction & headlines (cont.)

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..

Audit report

Nottingham City Council has debt which is listed on the London Stock Exchange. An entity with listed debt is classified as a Public Interest Entity (PIE), which means we have to provide you with a more detailed Enhanced Audit Report under ISA (UK) 700.

Audit logistics

Our interim visits will take place in January and March, and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

The scale fee for the audit is £132,531 for the Authority, subject to the Authority meeting our requirements set out on page 14. In addition, we propose to charge an additional fee of £3,000 because of the enhanced requirements arising from the Council being classified as a Public Interest Entity.

Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. The latest budget monitoring report at period 6 for the Authority identifies a forecast net overspend of £0.968m. The reasons for the forecast overspend were reported to the Executive Board at their meeting on 18 December 2018, the most significant of which relates to a £3.7m overspend in Children in Care.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is as well prepared as possible.

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 initial discussions with officers suggest that this will have a non material impact on the accounts.

Group Companies

The Authority has a number of companies within its group boundaries and has been seeking to improve the governance arrangements of these. Some of the companies have significant issues with their financial performance.

Ambitions

The Council continues to pursue an ambitious agenda for the City, including further major spending on the southern part of the City Centre. It is also using investments in property in some cases solely to generate a financial return. In both cases, it is vital that the risks associated with such investments are properly managed and that effective decision-making and wider governance structures are in place.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and Authority and will review related disclosures in the financial statements.
- When planning our audit of the Statement of Accounts, we will consider the impact of Brexit on the values of assets and liabilities including land and buildings and pensions.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- We will continue to monitor the performance of the group companies
- We will consider how the financial position of significant group companies impact on the financial sustainability of the Council as part of our work on the Value for Money conclusion.
- We will review the work which the Council is already doing to improve the governance of the Group, also as part of our VFM conclusion work.

- As part of our work for our VFM conclusion, we will review the arrangements in place for decision-making and risk management in relation to major schemes.
- As part of our work on your Statement of Accounts, we will consider the accounting for 'commercial' investments.

Group audit scope and risk assessment

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

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Nottingham City Council	Yes	Audit of the financial information of the component using component materiality.	See the risks identified on pages 7 and 8	Full scope UK statutory audit performed by Grant Thornton UK LLP
Bridge Estate Trust	No	Analytical procedures at group level.	None	Analytical review performed by Grant Thornton UK LLP.
Enviroenergy Ltd	No	Analytical procedures at group level.	None	Analytical review performed by Grant Thornton UK LLP.
Nottingham City Homes Ltd	No	Analytical procedures at group level.	None	Analytical review performed by Grant Thornton UK LLP.
Nottingham City Transport Ltd	No	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements.	Potential risk in relation to revenue recognition, as we have been unable to rebut the risk in relation to this group entity.	Specified scope procedures on income transactions to be performed by component auditor. The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditors audit documentation and meeting with appropriate members of management.

Key changes within the group:

- Our discussion with officers during the planning has not identified any significant changes to the group boundary. However the activity in relation to Robin Hood Energy has increased significantly during the year, we are working with officers to determine any potential impact to the planned audit approach needed at year end.

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

Group audit scope and risk assessment continued

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Nottingham Ice Centre Ltd	No	Analytical procedures at group level.	None	Analytical review performed by Grant Thornton UK LLP.
Nottingham Revenues & Benefits Ltd	No	Analytical procedures at group level.	None	Analytical review performed by Grant Thornton UK LLP.
Robin Hood Energy Ltd	No	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements.	Potential risk in relation to revenue recognition, as we have been unable to rebut the risk in relation to this group entity.	Specified scope procedures on income transactions to be performed by component auditor. The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditors audit documentation and meeting with appropriate members of management.
Futures Advice, Skills & Employment Ltd	No	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements.	Potential risk in relation to revenue recognition, as we have been unable to rebut the risk in relation to this group entity.	Specified scope procedures on income transactions to be performed by component auditor. The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditors audit documentation and meeting with appropriate members of management.

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted in relation to the Council itself, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Nottingham City Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Nottingham City Council. As noted on preceding pages, we have not been able to rebut the risk in relation to three of the group companies where revenue recognition appears more susceptible to fraud.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness; and • evaluate the rationale for any changes in accounting policies or significant unusual transactions.
Valuation of property, plant and equipment	<p>The Authority revalues its land and buildings on an five year rolling programme basis to ensure that the carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. There is a risk of movements in values occurring late in the financial year as a result of Brexit.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • consider the competence, expertise and objectivity of any management experts used; • review the basis on which the valuation is carried out and challenge the key assumptions, including the consideration of the potential impact of Brexit on asset values at year end; • review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; • test revaluations made during the year to ensure they are input correctly into the Council's asset register; and • 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.

Significant risks identified (cont.)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of pension fund net liability	<p>The Authority's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. There is a specific risk this year of late changes in values this year due to Brexit.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> Identify the controls put in place by management to ensure that the pension fund liability 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; evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out, including what considerations the actuary has made in relation to asset valuation at the balance sheet date due to the impact of Brexit. undertake procedures to confirm the reasonableness of the actuarial assumptions made; and check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary
Accounting for Private Finance Initiative (PFI) schemes	<p>The Authority has a number of complex PFI schemes, the largest and most complex being in relation to the tram network. This being the first year of our audit, we will need to understand these arrangements and obtain evidence to ensure there is no material misstatement in the financial statements.</p> <p>We identified the accounting for PFI schemes as a risk requiring special audit consideration and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review the accounting treatment of all material PFI schemes and ensure disclosures in the financial statements are in accordance with Code requirements.

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 2019.

Significant risks identified (cont.)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Preparation of group accounts	<p>The Authority has a relatively complex group structure. In 2017/18 the Authority consolidated within its group accounts, six subsidiaries, two joint ventures and one trust fund.</p> <p>There are a number of logistical challenges that need to be managed, ensuring that any third parties (subsidiaries and subsidiary auditors) involved in the production of the accounts are aware of the arrangements to provide the output of their work in accordance with the closedown timetable.</p> <p>We identified the preparation of group accounts as a risk requiring special audit consideration and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none">• Review consolidation procedures in place at the Authority, and the Authority's assessment of all entities over which the Authority has control or significant influence and the Authority's subsequent consideration whether or not to consolidate each entity within the group accounts;• liaise formally with group auditors to enable us to make use of the outcomes of their audit (including their opinion) for our audit opinion on the Authority's group accounts; and• Agree the final accounts consolidation back to audited financial statements for each subsidiary, joint venture and trust fund consolidated within the group accounts.

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 2019.

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 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 legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 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 Authority under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group and Authority'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

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

Materiality for planning purposes

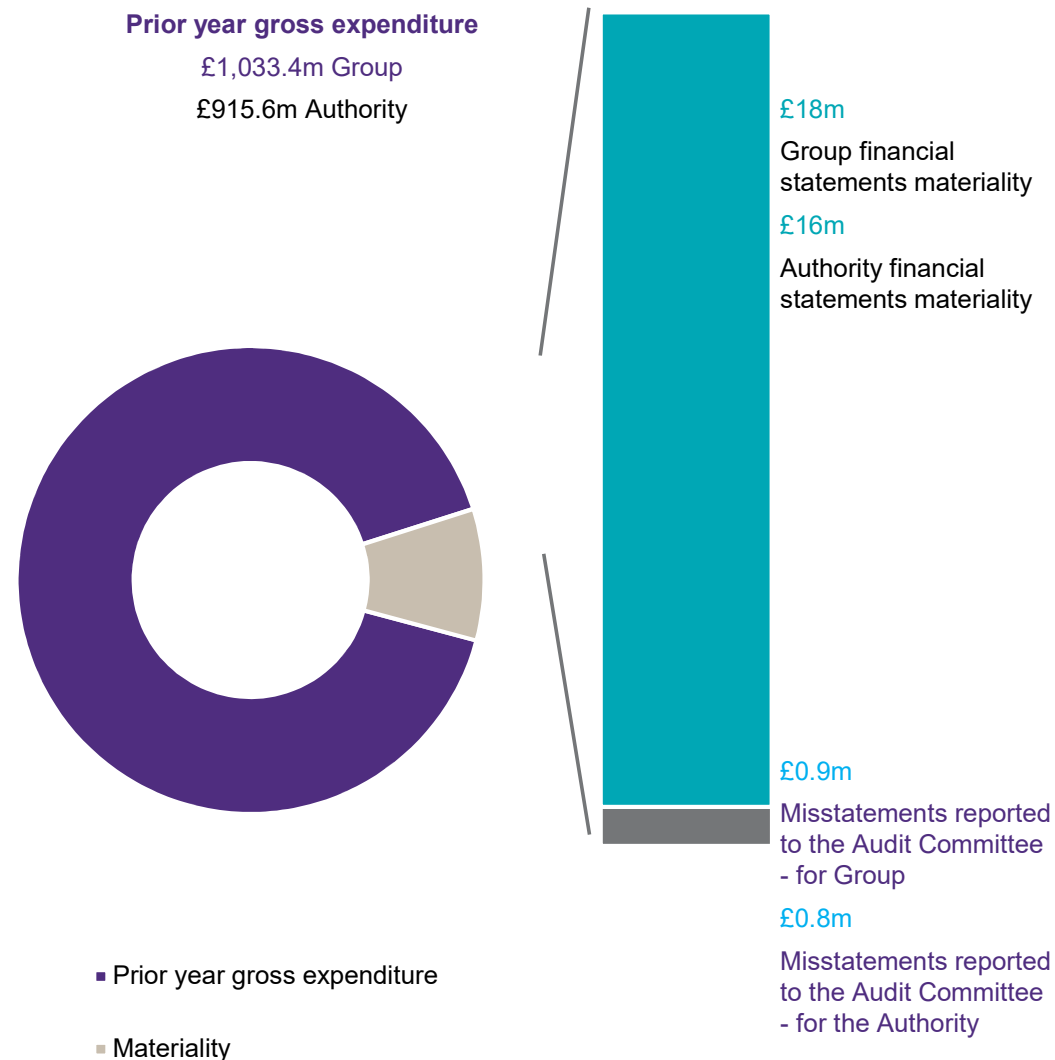
We have determined financial statement materiality based on a proportion of the gross expenditure of the Group and Authority for the financial year. Materiality at the planning stage of our audit is £18m for the Group and £16m for the Authority, which equates to 1.75% of your prior year gross expenditure for the year. We have also set a specific lower materiality level of £100k for the table of remuneration of individual senior officers, as this is deemed a sensitive disclosure.

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

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.9m for the Group and less than £0.8m for the Authority.

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.



Value for Money arrangements

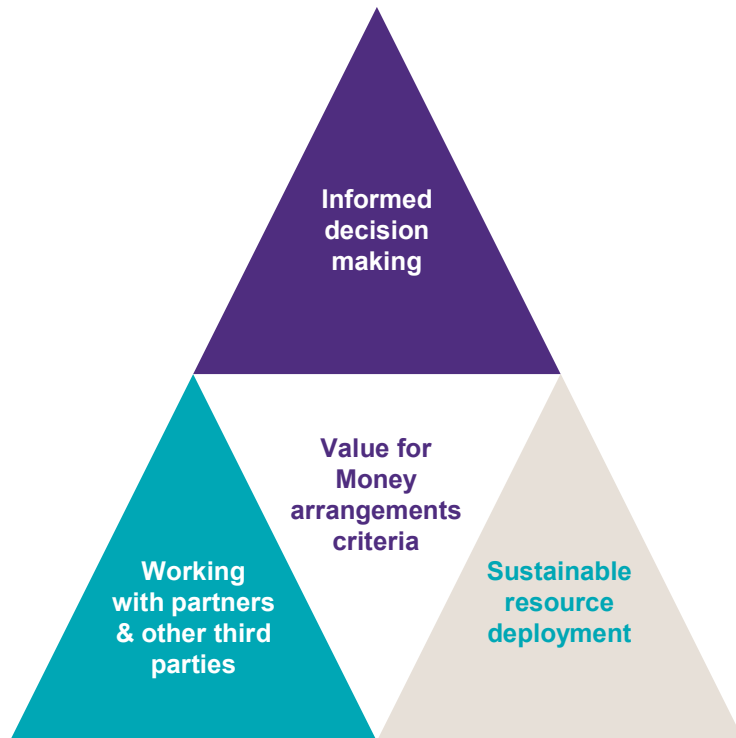
Background to our VFM approach

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

We have carried out our VFM risk assessment which is designed to identify 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. This risk assessment involves meetings with senior officers and reviews of key documents including budgets, medium term financial strategy, risk registers, previous years' audit reports and Annual Governance Statement and minutes of key decision making bodies within the Council including the Executive.

We have identified the following three significant risks at this stage, and will keep our risk assessment under review throughout the audit.



Medium Term Financial Sustainability

Like many other similar local authorities, the financial outlook for the Authority remains challenging. The 2018/19 budget is predicated on the delivery of cost reductions of £29.4m, plus a further £4.4m in relation to overspend risks. The total of this is £33.8m, which represents 14% of the net general fund revenue budget. The most recent plans presented to the Executive Board indicate further savings are needed in 2019/20 of £22.1m, in 2020/21 of £19.2m and in 2021/22 £20.7m. For the latter two years there remain funding gaps of £27.2m and £45.4m respectively.

We will review the Authority's arrangements for identifying and agreeing savings plans, and communicating key findings to the Executive Board and key decision making committees. In reviewing these arrangements, we will also consider the interface between the Council's capital spending plans and its revenue position, and the management of the major financial risks which the Council is facing, including the potential risks associated with Brexit.

Value for Money arrangements (continued)



Governance in relation to major capital schemes

The Council continues to have an ambitious vision for the City, with a particular current emphasis on continuing to enhance the southern part of the City Centre, with decisions recently taken to contribute £47m towards the refurbishment of the Broad Marsh Shopping Centre and to proceed with a scheme to replace the recently-demolished Broad Marsh car park with an ambitious new scheme incorporating the shell for a new central library. Such major schemes involve major risks for the Council, which are exacerbated by the overall economic situation and the limited flexibility within the Council's finances.

We will carry out a high level review of the arrangements for decision-making and managing risk in relation to these schemes, looking at specific projects where appropriate.

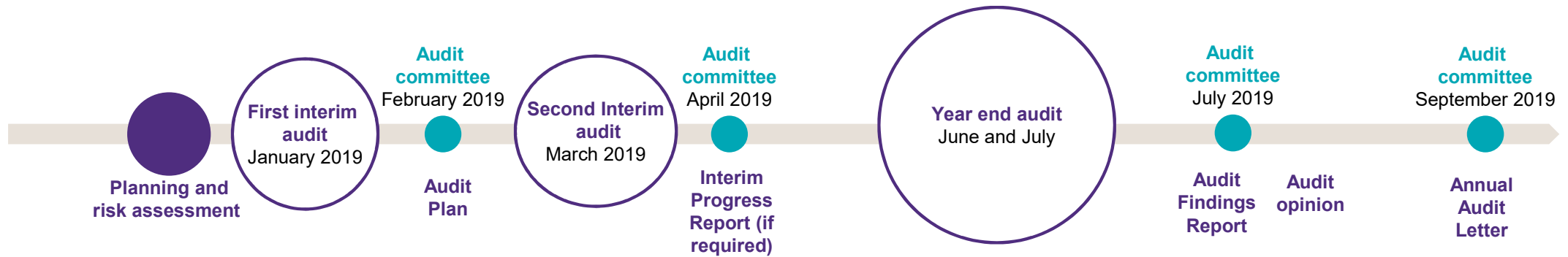


Arrangements for governance and monitoring of the Council's subsidiary companies

The Council has previously identified the need to enhance the governance arrangements surrounding its subsidiary companies, and there are a number of issues within these companies at present which require strong governance arrangements to be in place.

We will review the work which officers have already carried out in relation to governance of companies and form a view on the adequacy of this work and of the current arrangements.

Audit logistics, team & fees



John Gregory, Engagement Lead

John's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority.



Helen Lillington, Audit Manager

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

Vikash Patel, Audit Incharge

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

Audit fees

The scale fee for the audit is £132,532 for the financial statements audit completed under the Code, in line with the scale fee published by PSAA. We are also discussing with officers the need for an additional fee of £3,000 to reflect the additional work required because the Council is a Public Interest Entity. Your previous auditors, KPMG, charged a similar additional fee in the previous year, having identified that the Council is a PIE.

£10,000 of fees are planned for the subscription to CFO insights, which constitutes non Code work by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual 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. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 13). 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 by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, 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.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

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

We wish to highlight a judgement that we have made in relation to the independence of a member of the audit team. The audit member has a brother that is employed by Nottingham City Council. The brother's role is not in senior management, nor of a financial oversight role, therefore we have determined that he does not pose a significant independence threat to the audit. In addition, he does not meet the definition of a person 'closely associated' under the ethical standards but is still a close family member. In consultation with our internal ethics team, we have agreed appropriate safeguards to ensure our independence is not compromised, which includes informing the whole audit team of the relationship, so that in the unlikely event that a transaction that relates to the brother is selected for audit testing, then this member of the audit team would have no involvement in its scrutiny or review.

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

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

Other services provided by Grant Thornton

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

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefit Grant Claim While we have not been formally engaged to complete this audit, we have had discussions with officers of likelihood of us completing this work for 2018/19.	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 in comparison to the total fee for the audit, and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights	10,000	Self-Interest	This is a subscription for the CFO insights tool and represents the renewal for the third year of the contract. This is a recurring fee and therefore a small self interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit £132,531 for the Authority and in particular to Grant Thornton UK LLP overall turnover. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Independence & non-audit services (continued)

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit 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.

Independence & non-audit services

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. In the table below we have set out the previous services we have provided to the Authority.

Service	Date of service	Fees £	Would the service have been prohibited if we had been auditor?	Has the outcome of the service been audited or reviewed by another firm?	Commentary
CFO Insights	3 year contact commencing 01/08/2016	3 year contract worth £30,000. £10,000 per annum	N	N	See above 'Other services provided by Grant Thornton' table

We do not believe that the previous services detailed above will impact our independence as auditors.

Appendix A - Audit approach

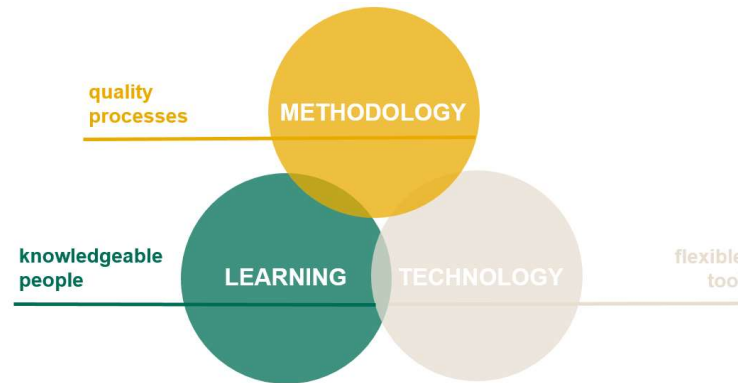
Use of audit, data interrogation and analytics software

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.