



# The Audit Plan for Carlisle City Council

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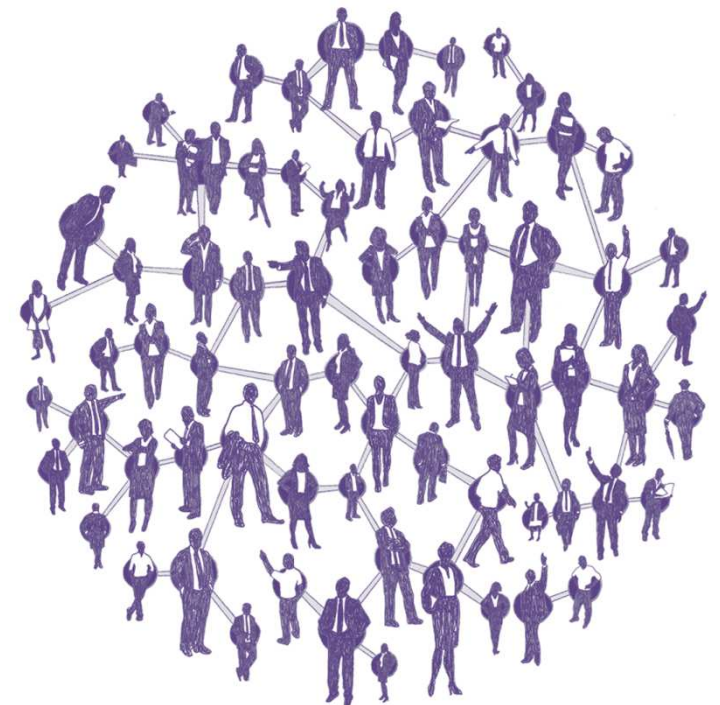
**Year ending 31 March 2017**

February 2017

**Gareth Kelly**  
Engagement Lead  
T 0141 223 0891  
M 0788 045 6154  
E [gareth.kelly@uk.gt.com](mailto:gareth.kelly@uk.gt.com)

**Angela Pieri**  
Engagement Manager  
T 0141 223 0887  
M 0755 433 8555  
E [angela.l.pieri@uk.gt.com](mailto:angela.l.pieri@uk.gt.com)

**Jamie Wright**  
In-Charge Auditor  
T 0141 223 0603  
E [jamie.sb.wright@uk.gt.com](mailto:jamie.sb.wright@uk.gt.com)



Carlisle City Council  
Civic Centre  
Carlisle  
Cumbria  
CA3 8QG

16 March 2017

Dear Members of the Audit Committee

**Audit Plan for Carlisle City Council for the year ending 31 March 2017**

This Audit Plan sets out for the benefit of those charged with governance, (which in the case of Carlisle City Council is the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements; and
- satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Gareth Kelly

Engagement Lead

**Chartered Accountants**

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# Understanding your business and key developments

## Key challenges

### Autumn Statement 2016

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and to further extend devolved powers to Local Authorities.

### Financial Health

The Council continues to face a challenging environment in the short to medium term with the Medium Term Financial Plan (MTFP) 2017/18 to 2021/22 showing a savings gap of £2.274m for the 2 years of 2017/18 and 2018/19 (nil gap for 2019/20 to 2021/22), which has been fully identified. The Council has reviewed how it works and has a well established Transformation Programme in place.

Asset reviews, reductions in discretionary activity, service reviews and re-organisations are on-going, including workforce rationalisation.

The viability of the MTFP is dependent on the Transformation Programme continuing to deliver savings.

## Financial reporting changes

### CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 includes the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statements (MIRS), segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code requires these amendments to be reflected in the 2015/16 comparatives.

### Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

The Council is planning the completion of the audit process by 31 July 2017, a year earlier than the statutory deadline changes.

For 2016/17, the audit is scheduled for June and July 2017. It is anticipated that the Audit Findings Report will be presented to the Audit Committee at the end of July 2017.

## Our response

- We aim to complete all our substantive audit work of your financial statements by mid July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. 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. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,141,000, being 1.75% of gross revenue expenditure (2015/16 was £1,161,000 and 1.75%). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £57,000.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where lower materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000 for senior officers' remuneration £50,000 for exit package costs (full cost including actuarial strain)
Disclosure of Related Party Transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000 Individual misstatements will be assessed for materiality to either party involved in the transaction.

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

# Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment 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. There are two presumed significant risks for fraud in revenue recognition and management override of controls, which are applicable to all audits under auditing standards. We set out below the work we plan to address these risks.

Significant risk	Description	Audit procedures
<b>The revenue cycle includes fraudulent transactions</b>	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams 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 Carlisle City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition;</li><li>• opportunities to manipulate revenue recognition are very limited; and</li><li>• the culture and ethical frameworks of local authorities, including Carlisle City Council, mean that all forms of fraud are seen as unacceptable.</li></ul> <p>Therefore, we do not consider this to be a significant risk for Carlisle City Council.</p>
<b>Management over-ride of controls</b>	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management;</li><li>• Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation; and</li><li>• Review of unusual significant transactions.</li></ul>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

# Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we plan to address these risks.

Significant risk	Description	Audit procedures
<b>Valuation of pension fund net liability</b>	<p>The Council's pension fund asset and liability as reflected in the balance sheet represents a significant estimate in the financial statements.</p> <p>Our planned work is to address the risk that the valuation of the pension fund net liability is not materially misstated.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Review the controls put in place by management to ensure that the pension fund liability is not materially misstated and walkthrough test these controls;</li> <li>Review 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;</li> <li>Undertake procedures to confirm the reasonableness of the actuarial assumptions made; and</li> <li>Review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>
<b>Valuation of property, plant and equipment (PPE) and investment property</b>	<p>Revaluation measurements not materially correct.</p> <p>Our planned work is to address the risk that the Council's property, plant and equipment and investment property portfolio valuation is not materially misstated.</p> <p>The Council revalues its assets annually. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Review of management's processes and assumptions for the calculation of the estimate;</li> <li>Review of the competence, expertise and objectivity of any management experts used;</li> <li>For any valuation undertaken, we will: <ul style="list-style-type: none"> <li>review the instructions issued to valuation experts and the scope of their work;</li> <li>discuss with the valuer about the basis on which the valuation is carried out and challenge the key assumptions;</li> <li>review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding;</li> <li>undertake testing revaluations made during the year to ensure they are input correctly into the Council's asset register; and</li> </ul> </li> <li>evaluation of 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.</li> </ul>

# Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
<b>Operating expenses - Completeness</b>	<p>Year-end creditors and accruals are understated or not recorded in the correct period.</p> <p>Our planned work is to address the risk that not all material expenditure transactions relating to the 2016/17 accounting period have been accounted for, leading to the expenditure figures in the Comprehensive Income and Expenditure Statement to be understated.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Documentation of the system and identification of controls and walkthrough test of operating expenses.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Review of accounting estimates, judgments and the accruals accounting process including the processes for accruing goods received not invoiced;</li> <li>Post year end payments testing to confirm the completeness of accruals; and</li> <li>Testing of expenditure and accruals to goods receipt and subsequent invoice and payment.</li> </ul>
<b>Employee remuneration - Completeness</b>	<p>Employee remuneration accruals understated (Remuneration expenses not correct).</p> <p>Our planned work is to address the risk that not all material payroll transactions relating to the 2016/17 accounting period, which have been recorded in the payroll subsystem, have been captured in the general ledger. This would lead to an understatement of the employee remuneration costs in the Comprehensive Income and Expenditure Statement.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Documentation of the system and identification of controls and walkthrough test of payroll system.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Reconciliation of the payroll system figures to the financial ledger;</li> <li>Substantive testing of year end payroll accruals; and</li> <li>Trend analysis of payroll costs over the period, and year-on-year analysis.</li> </ul>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)



## Other risks identified (continued)

Other risks	Description of risk	Audit procedures
<p><b>Changes to the presentation of local authority financial statements</b></p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements;</li> <li>• We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure;</li> <li>• We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS);</li> <li>• We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES;</li> <li>• We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger;</li> <li>• We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements; and</li> <li>• We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>

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# Other risks identified (continued)

## 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 entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

## 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 the previous sections but will include:

- Heritage assets
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes
- Funds held on trust note
- Contingent Liabilities
- Housing Benefit Expenditure and Subsidy.

# Value for Money

## Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

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 opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"><li>• Acting in the public interest, through demonstrating and applying the principles and values of sound governance;</li><li>• Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management;</li><li>• Reliable and timely financial reporting that supports the delivery of strategic priorities; and</li><li>• Managing risks effectively and maintaining a sound system of internal control.</li></ul>
Sustainable resource deployment	<ul style="list-style-type: none"><li>• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions;</li><li>• Managing and utilising assets effectively to support the delivery of strategic priorities; and</li><li>• Planning, organising and developing the workforce effectively to deliver strategic priorities.</li></ul>
Working with partners and other third parties	<ul style="list-style-type: none"><li>• Working with third parties effectively to deliver strategic priorities;</li><li>• Commissioning services effectively to support the delivery of strategic priorities; and</li><li>• Procuring supplies and services effectively to support the delivery of strategic priorities.</li></ul>

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# Value for Money (continued)

## **Risk assessment**

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements;
- the findings of other inspectorates and review agencies;
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information; and
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified a significant risk which we are required to communicate to you. This is set out overleaf.

## **Reporting**

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will aim to give on after the Audit Committee at the end of July 2017 (deadline is 30 September 2017).

## Value for money (continued)

We set out below the significant risk we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p><b>Significant service transformation projects and the Medium Term Financial Plan (MTFP)</b></p> <p>The Council's MTFP is predicated on delivering changes to the way in which services are delivered. The Council has identified proposals for reducing spending and increasing efficiency. The programme included a number of key projects, including internally reshaping the Council.</p> <p>The Council continues to face a challenging environment in the short to medium term with MTFP 2017/18 to 2021/22 showing a savings gap of £2.274 million, all of which has been identified. The Council has reviewed how it works and has a well established Transformation Programme in place.</p> <p>There are considerable uncertainties over various revenue streams in the next few years. As a result the Council has to apply a number of estimates and key judgements to compile the MTFP.</p>	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>We will review the arrangements the Council has in place to compile the MTFP. This includes a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP including reporting outcomes to Executive and Full Council.</p>

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# Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of Internal Audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed Internal Audit's work on the Council's key financial systems and other relevant reports to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that Internal Audit provides an independent and satisfactory service to the Council and contributes to an effective internal control environment.</p> <p>Our review of Internal Audit work has not identified any weaknesses which impact on our audit approach.</p> <p>We will continue to review the work of Internal Audit and as such will provide an updated assessment as part of our Audit Findings Report.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"><li>• communication and enforcement of integrity and ethical values;</li><li>• commitment to competence;</li><li>• participation by those charged with governance;</li><li>• management's philosophy and operating style;</li><li>• organisational structure;</li><li>• assignment of authority and responsibility; and</li><li>• human resource policies and practices.</li></ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

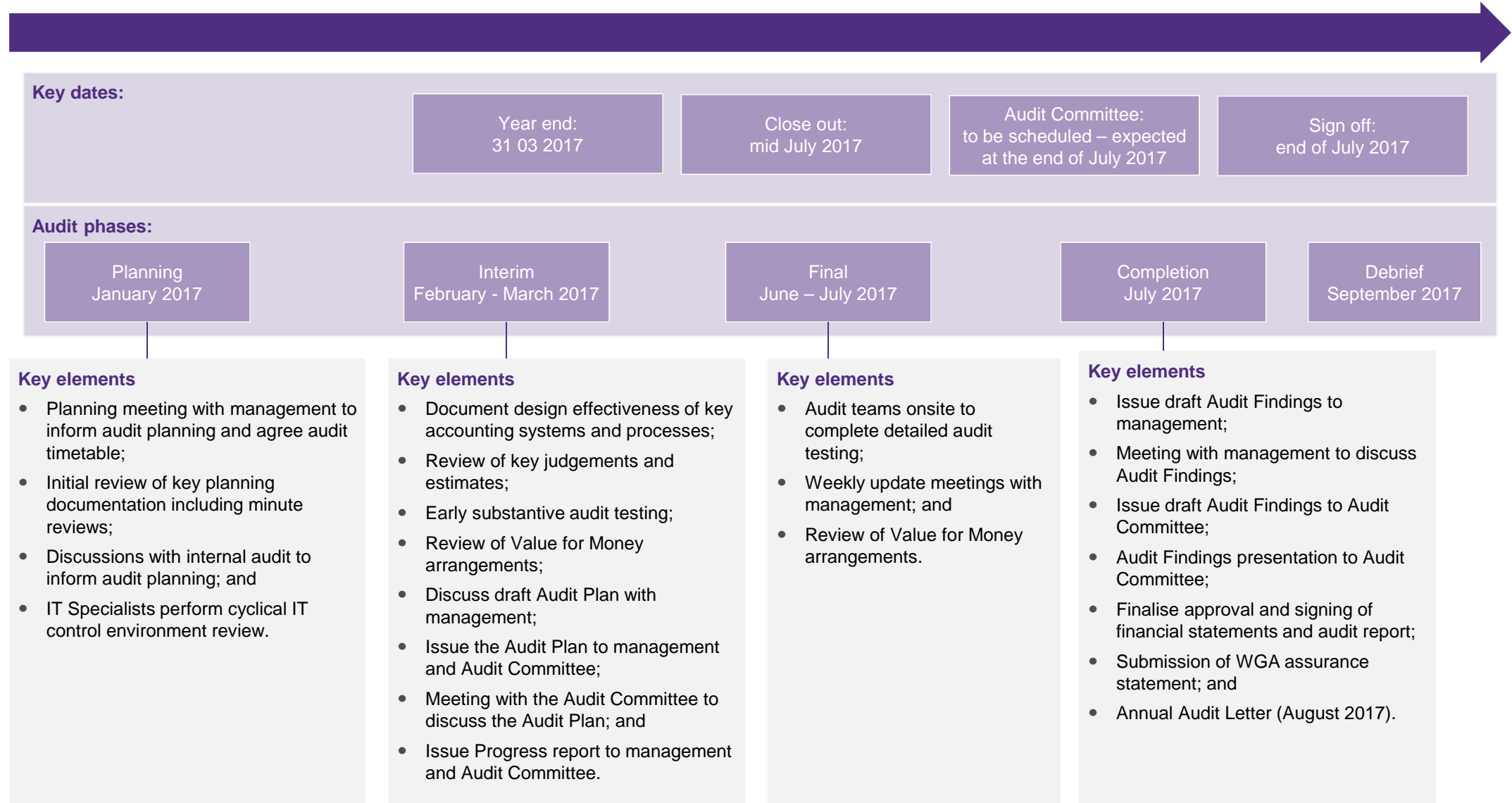
## Results of interim audit work (continued)

	Work performed	Conclusion
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. The walkthroughs carried out to date are on the following systems:</p> <ul style="list-style-type: none"> <li>• Operating expenditure;</li> <li>• Employee remuneration; and</li> <li>• Housing benefits expenditure.</li> </ul> <p>We will also carry out walkthrough tests on the systems used to capture PPE &amp; Investment property valuations and the valuation of the net pension liability. As these are year-end processes, these walkthroughs will be carried out during the final accounts audit period.</p>	<p>Our work to date has not identified any weaknesses which impact on our audit approach.</p> <p>Of the systems tested, internal controls have been implemented by the Council in accordance with our documented understanding.</p> <p>We will complete our testing of the remaining systems during the final accounts period. An updated assessment will be reported in the Audit Findings Report.</p>
<b>Review of information technology controls</b>	<p>Our information systems auditor performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p>	<p>Our work identified eight areas for improvement. None of the issues identified have been assessed as significant and therefore do not impact upon our audit approach. For information, the full details are outlined in the February 2017 external audit update report which is also presented to this Committee.</p> <p>All of the recommendations identified have been responded to by management, with positive action agreed where relevant.</p>
<b>Early substantive testing</b>	<p>We anticipate undertaking early substantive testing during the interim visit, covering the ten month period of April 2016 to January 2017, in the following areas:</p> <ul style="list-style-type: none"> <li>• Operating expenditure;</li> <li>• Employee remuneration;</li> <li>• Exit packages; and</li> <li>• Other income.</li> </ul>	<p>We will complete our early testing at the interim stage, and any remaining testing will be completed during the final accounts period. An updated assessment will be reported in the Audit Findings Report.</p>



# The audit cycle

## The audit timeline



# Audit Fees

## Fees

	£
Council audit	53,290
Grant Certification	14,093
<b>Total audit fees (excluding VAT)</b>	<b>67,383</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list;
- The scope of the audit, and the Council and its activities, have not changed significantly;
- The Council will make available management and accounting staff to help us locate information and to provide explanations; and
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited; and
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Fees for other services

Fees for other services are nil at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

## What is included within our fees

- A reliable and risk-focused audit appropriate for your business;
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community;
- Regular sector updates;
- Ad-hoc telephone calls and queries;
- Technical briefings and updates;
- A review of accounting policies for appropriateness and consistency; and
- Regular Audit Committee Progress Reports.

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# Independence

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- One of the audit team has a family member who works as a team leader in the Revenues and Benefits department at the Council. This is not deemed to be a significant independence risk. To comply with independence standards and transparency, we are disclosing to you that this member of the audit team will not be involved with the Housing Benefits Subsidy certification work, nor with any other elements of the audit that relates to Housing Benefits. Instead, our work in these areas will be carried out by other audit staff.
- Commencing 1 November 2016, Grant Thornton UK LLP entered into a short-term tenancy lease for a small portion of the 7<sup>th</sup> floor of the Civic Centre, Carlisle. We have considered the ethical standards and any potential threats to our independence resulting from this arrangement. However, the nature of the lease arrangement, and the sums involved, are clearly insignificant to either party.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we 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 Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Council 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 Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓



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