Grant Thornton

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated DD MMM YYYY

# External Audit Plan

*Year ending 31 March 2020*

Carlisle City Council

February 2020

# Contents

DRAFT


**Your key Grant Thornton team members are:**

**Gareth Kelly**
**Key Audit Partner**
T: 0141 223 0891
E: Gareth.Kelly@uk.gt.com

**Sophia Iqbal**
**Manager**
T: 0161 234 6372
E: sophia.s.iqbal@uk.gt.com

**Daniel Meats**
**In-Charge Auditor**
T: 0141 223 0890
E: Daniel.j.meats@uk.gt.com



| Section | Page |
|---|---|
| 1. Introduction & headlines | 3 |
| 2. Key matters impacting our audit | 4 |
| 3. Significant risks identified | 5 |
| 4. Other risks identified | 8 |
| 5. Other matters | 9 |
| 6. Materiality | 10 |
| 8. Value for Money arrangements | 11 |
| 9. Audit logistics & team | 12 |
| 10. Audit fees | 13 |
| 11. Independence & non-audit services | 15 |

**Appendix**

| | |
|---|---|
| A. Audit quality – national context | 17 |



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

DRAFT

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Carlisle 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 Carlisle 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'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:<br>• valuation of land and buildings<br>• valuation of net pension fund liability<br>• management override of controls.<br>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. |
| **Materiality** | We have determined planning materiality to be £1.155m (PY £1.230m) for the Authority, which equates to 1.9% 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 £0.058m (PY £0.061m). |
| **Value for Money arrangements** | Our risk assessment regarding your arrangements to secure value for money have identified a VFM significant risk relating to the financial resilience and sustainability of the organisation, including the Council's arrangement to produce the Medium Term Financial Plan (MTFP). |
| **Audit logistics** | Our interim visit will take place in February 2020 and our final visit will take place in June and July 2020. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.<br>Our fee for the audit will be £51,033 (PY:£45,533, £53,290:2017-18) for the Authority, subject to the Authority meeting our requirements set out on page 12 and 13. |
| **Independence** | We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. |

# Key matters impacting our audit

DRAFT

## Factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. Carlisle City Council continues to face a challenging environment in the medium term. The MTFP 2020/21 to 2024/25 from January 2020 shows a savings requirement of nil in 2020/21, £1m in 2021/22 increasing to £1.850m in 2023/24. The Council is reviewing how it works as a result to identify areas of potential savings or revenue generation.

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 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 in Appendix 1.

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

## 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.

- 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, as set further in our Audit Plan, has been agreed with the Director of Finance and is subject to PSAA agreement.

# Significant risks identified

DRAFT

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 - Rebutted** | Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br>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:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including Carlisle City Council, means that all forms of fraud are seen as unacceptable. | Therefore we do not consider this to be a significant risk for Carlisle City Council. |
| **Management over-ride of controls** | 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.<br>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.<br>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. | We will:<br>• evaluate the design effectiveness of management controls over journals<br>• analyse the journals listing and determine the criteria for selecting high risk unusual journals<br>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration<br>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence<br>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |

# Significant risks identified

DRAFT

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| **Valuation of land, buildings and investment property** | The Authority revalues its land, buildings and investment property on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets and investment property) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved at £117 million, and the sensitivity of this estimate to changes in key assumptions.<br><br>Management has engaged the services of a valuer to estimate the current value as at 31 March 2020.<br><br>We therefore identified valuation of land, buildings and investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. | We will:<br>• update our understanding of the processes and controls put in place by management to ensure that the Authority's valuation of land, buildings and investment property is not materially misstated and evaluate the design of the associated controls<br>• evaluate management's assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work<br>• evaluate the competence, capabilities and objectivity of the valuation expert<br>• discuss with the valuer the basis on which the valuations were carried out<br>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Authority's valuer's report and the assumptions that underpin the valuation<br>• evaluate the appropriateness, completeness and accuracy of the inputs used by the valuer in asset valuations, on a sample basis<br>• test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register<br>• evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. |

# Significant risks identified

DRAFT

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| **Valuation of the pension fund net liability** | The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.<br><br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved at £40.13 million in the Authority's balance sheet as at March 2020 and the sensitivity of the estimate to changes in key assumptions.<br><br>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. | We will:<br>• 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<br>• evaluate the instructions issued by management to their management expert (an actuary - Mercers) for this estimate and the scope of the actuary's work<br>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;<br>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;<br>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;<br>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and<br>• agree any advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures<br>• obtain assurances from the auditor of Cumbria Local Government Pension Fund Scheme as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. |

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

# Other risks identified

DRAFT

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| **International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)** | 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). 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.<br><br>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code 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. | We will:<br>• 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<br>• assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings. |

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

# Other matters

DRAFT

### 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 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.

# Materiality

DRAFT

### The concept of materiality

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

### Materiality for planning purposes

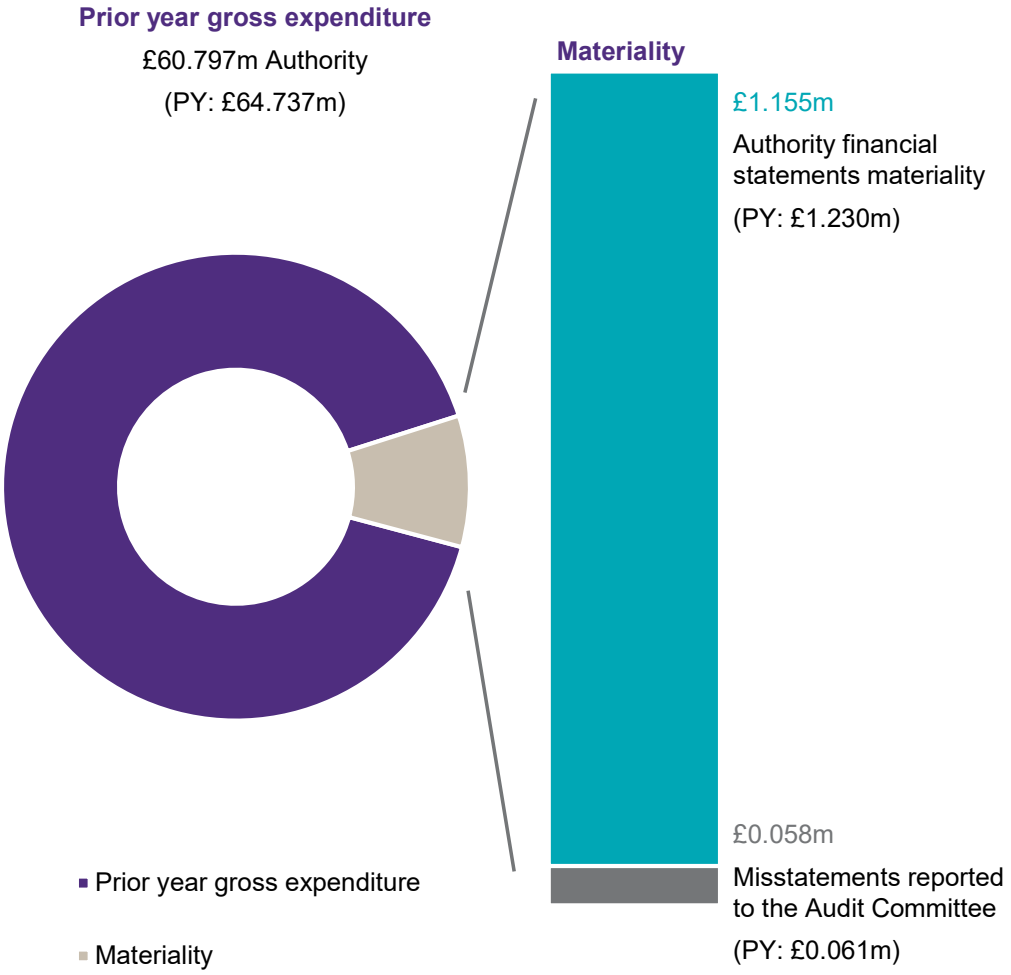
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.155m (PY £1.230m), which equates to 1.9% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £5,000 for senior officer remuneration.

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

### Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.058m (PY £0.061m).

If management has 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

DRAFT

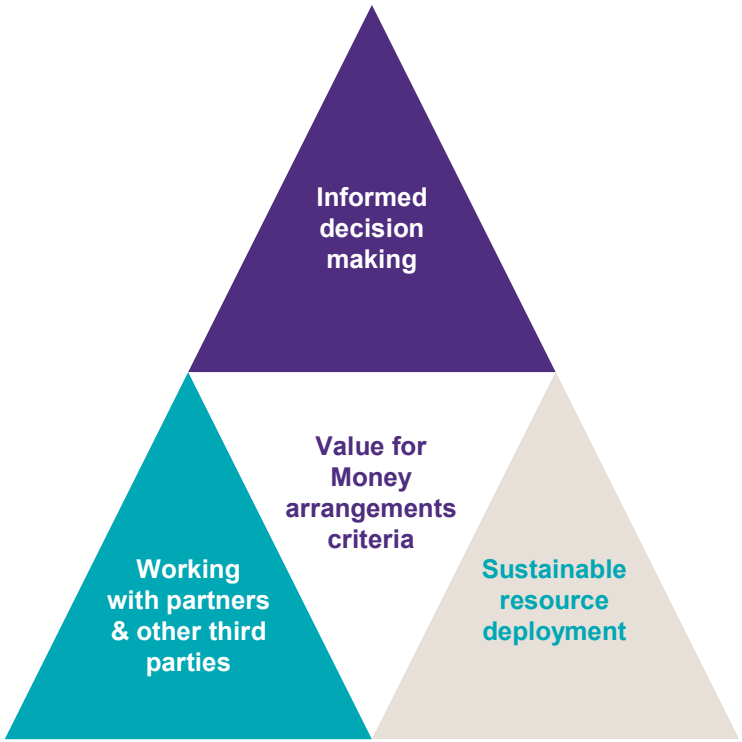
### Background to our VFM approach

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.

#### Financial Resilience and Sustainability

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 includes a number of key projects, such as internally reshaping the Council.

The Council continues to face a challenging environment in the medium term. The MTFP 2020/21 to 2024/25 from January 2020 shows a savings requirement of nil in 2020/21, £1m in 2021/22 and then increasing to £1.850m in 2023/24. The Council is reviewing how it works as a result to identify areas of potential savings or revenue generation.

There are considerable uncertainties over various revenue streams in the medium term due to the fair funding review outcome, investment property income and the uncertainty around the future of the Business Rates Retention Scheme. As a result the Council has to apply a number of estimates and key judgements to compile the MTFP.

The Council also has large-scale capital projects, commencing in 2019/20 which require significant levels of borrowing to fund their completion.

Audit response

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.

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.

We will review the sensitivity analysis and scenario planning undertaken by the Council, which support the estimates and judgements made in the MTFP.

# Audit logistics & team

DRAFT

**Gareth Kelly, Key Audit Partner**

Gareth leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

**Sophia Iqbal, Audit Manager**

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

**Daniel Meats, Audit In-charge**

Daniel's role is to assist in planning, managing and delivering the audit fieldwork, ensuring that the audit is delivered effectively and efficiently. He 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.

# Audit fees

DRAFT

## Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Finance and is subject to PSAA agreement.

| | Actual Fee 2017/18 | Actual Fee 2018/19 | Proposed fee 2019/20 |
|---|---|---|---|
| **Council Audit** | £53,290 | £45,533 | £51,033 |
| **Total audit fees (excluding VAT)** | **£53,290** | **£45,533** | **£51,033** |

**Assumptions:**
In setting the above fees, we have assumed that the Authority will:
- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

**Relevant professional standards:**
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

# Audit fee variations – Further analysis

DRAFT

### 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 | £ | Rationale for fee variation |
|---|---|---|
| **Scale fee** | **41,033** | |
| **Raising the bar** | 2,500 | The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. |
| **Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19** | 1,750 | The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across Local Government audits. Accordingly, 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** | 2,500 | As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this. |
| **COVID-19** | 750 | The coronavirus global pandemic is impacting how people work. Whilst it is a constantly evolving picture, we are expecting the delivery of the audit to be impacted by staff at audited bodies and audit teams working remotely to avoid spreading the virus as well as sick days reducing staff capacity. We may also need to consider implementing changes to audit procedures to reflect current restrictions to working practices, such as the application of technology to allow remote working. |
| **Welfare Benefit Expenditure** | 2,500 | The PSAA approved fee structure is designed assuming that the same auditing body will perform the External Statutory Audit and the Housing Benefit Certification. This means a reduced scale audit fee de to cross subsidisation in workload. Since the Housing Benefit Certification work is no longer provided by Grant Thornton, these economies in testing Welfare Benefit expenditure are lost, so an additional fee must be levied to make up the shortfall. |
| **Revised scale fee (to be approved by PSAA)** | **51,033** | |

# Independence & non-audit services

DRAFT

## 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. 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 in the audit.
- Commencing 1 November 2016, Grant Thornton UK LLP entered into a short-term tenancy lease for a small portion of the 7th 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 between the Council and Grant Thornton UK LLP, and the sums involved, are clearly insignificant to either party.

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:** | Nil | N/A | N/A |
| None | | | |
| **Non-audit related:** | | | |
| CFO Insights Licence | 10,000 | 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 £10,000 in comparison to the total fee for the audit of £51,033 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. |

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 Authority'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 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.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf

# Appendices

DRAFT

**A. Audit Quality – national context**

# Appendix A: Audit Quality – national context

DRAFT

### 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 FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

### Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

### What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

### What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

DRAFT

© 2020 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.

Grant Thornton

# External Audit Plan update

*Year ending 31 March 2020*

Carlisle City Council
April 2020

# Introduction & headlines

### Purpose

This document provides an update to the planned scope and timing of the statutory audit of Carlisle City Council ('the Authority') as reported in our Audit Plan dated February 2020, for those charged with governance.

### The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan on 16 March 2020, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

### Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020, however we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Authority's financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2020/21.

### Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19.

### Changes to our VfM approach

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

### Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

# Significant risks identified – Covid – 19 pandemic

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| **Covid – 19** | The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;<br>- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation<br>- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates<br>- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and<br>- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.<br>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement. | We will:<br>• Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach<br>• Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise<br>• Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.<br>• Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely<br>• Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances<br>• Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment<br>• Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence |