

Eden District Council
Accounts and Governance Committee
18 April 2019

External Audit Reports

Portfolio:	None
Report from:	Director of Finance
Wards:	All Wards
OPEN PUBLIC ITEM	

1 Purpose

- 1.1 To set out one report from the Council's External Auditor, Grant Thornton.

2 Recommendation

That the report of the External Auditor is noted.

3 Report Details

- 3.1 The External Auditor has issued two reports since the last meeting. A copy of the 2018/19 audit plan is attached at Appendix 1, a copy of the progress report is attached at Appendix 2.
- 3.2 A member of Grant Thornton's audit team will be at the Committee meeting to answer any questions Members might have.

4 Policy Framework

- 4.1 The Council has four corporate priorities which are:
- Decent Homes for All;
 - Strong Economy, Rich Environment;
 - Thriving Communities; and
 - Quality Council.
- 4.2 This report meets the Quality Council corporate priority.

5 Consultation

- 5.1 There has been no consultation with Ward Councillors or Portfolio Holders.

6 Implications

6.1 Financial and Resources

- 6.1.1 Any decision to reduce or increase resources or alternatively increase income must be made within the context of the Council's stated priorities, as set out in its Council Plan 2015-2019, as agreed at Council on 17 September 2015.
- 6.1.2 There are no Financial and Resources implications.

6.2 Legal

6.2.1 There are no Legal implications.

6.3 Human Resources

6.3.1 There are no Human Resources implications.

6.4 Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	There are no implications
Health, Social Environmental and Economic Impact	There are no implications
Crime and Disorder	There are no implications
Children and Safeguarding	There are no implications

6.5 Risk Management

Risk	Consequence	Controls Required
External Auditor comments and views are not made known to Members.	Necessary remedial action is not identified and actioned.	Proper consideration of the External Auditor's reports is an important governance control and ensures that the independent views of the Auditor are made known to Members and remedial action is identified and actioned.

7 Other Options Considered

7.1 No other options have been considered.

8 Reasons for the Decision/Recommendation

8.1 To keep Members updated on the work of the External Auditor.

Tracking Information

Governance Check	Date Considered
Chief Finance Officer (or Deputy)	27 March 2019
Monitoring Officer (or Deputy)	9 April 2019
Director	10 April 2019

Background Papers: None

Appendices: Appendix 1 – External Audit Plan 2018/19

Appendix 2 – Progress report

Contact Officer: Pete Notley, Assistant Director Finance, 01768 212209

External Audit Plan

Year ending 31 March 2019

Eden District Council
March 2019



Contents



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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Eden District Council ('the Council') 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 Eden District 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 :

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

The audit of the financial statements does not relieve management or the Accounts and Governance Committee of your 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 audit approach is based on a thorough understanding of the Council'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 Council is required to prepare group financial statements that consolidate the financial information of Heart of Cumbria Limited.
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">• Management over-ride of controls• Valuation of land, buildings and investment property• Valuation of the pension fund net liability• Preparation of consolidated 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 £0.406m (PY n/a as year 1 is 2018/19) for the group and £0.405m (PY £0.434m) for the Council, 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 £0.020m (PY £0.022m).
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">• the Council's arrangements in relation to the Heart of Cumbria Limited• financial management and the Council's medium term financial planning arrangements.
Audit logistics	<p>Our interim visit will take place in 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 new audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £35,796 (PY: £41,943) for the Council, subject to the Council meeting our requirements set out on page 13. The fee is comprised of the scale fee set by PSAA and an additional fee element relating to the preparation of group accounts, see page 12 for further detail.</p>
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Eden District Council, this is leading to a pressure in the Medium Term Financial Plan, with a deficit position for each of the financial periods to 2022/23 being projected by the Council, with the General Fund unearmarked balances reducing from £7.560 million to £1.760 million.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Council will need to ensure that it is prepared for all outcomes, including any impact on contracts, on service delivery and on its support for local people and businesses.

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.

Heart of Cumbria Limited

The development of the Heart of Cumbria Limited is an important part of delivering priorities set out in the Council Plan, particularly around delivering decent homes for all. We acknowledge that, the Council has made improvements on its governance and financial management of the Company, following our 2017/18 VfM Conclusion work. However, there remain a number of recommendations originally raised in our 2016/17 VfM to be implemented and/ or fully embedded.

The Council plans to produce consolidated accounts incorporating Heart of Cumbria Limited for the first time.

New audit methodology

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 and more easily incorporate our knowledge of the Council into our risk assessment and testing approach.

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 will review related disclosures in the financial statements.

- 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.

- During our audit we will consider how the Council has responded to the recommendations raised in our 2016/17 and 2017/18 Audit Findings Reports.
- We will discuss and critically assess the appropriateness of the accounting entries and disclosures made in relation to the group accounts.

- You will see changes in the terminology we use in our reports that will align more closely with the International Standards on Auditing (ISAs)
- We will be relying on more controls testing in key systems including operating expenses where appropriate
- We will ensure that our resources and testing are best directed to address your risks in an effective way.

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
Eden District Council	Yes		See pages 6 – 8.	Full scope UK statutory audit performed by Grant Thornton UK LLP
Heart of Cumbria Limited	Yes		Valuation of property is a significant risk – see page 7.	Audit of the valuation of property and an analytical review performed by Grant Thornton UK LLP covering all other balances.

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	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Improper revenue recognition	Group	<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 Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, 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 Eden District Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Eden District Council.</p>	This presumed significant risk has been rebutted and therefore no specific response is required.
Management over-ride of controls	Council Only	<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.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and judgements, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration to supporting evidence • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land, buildings and investment property	Group	<p>The Council revalues its land and buildings on a rolling basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land, buildings and investment property (including those held by Heart of Cumbria Limited), particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
Accounting for the consolidation of the subsidiary Heart of Cumbria Ltd	Group	<p>In June 2016, the Council created a wholly owned subsidiary company Heart of Cumbria Ltd with the aim of delivering affordable housing services to the local area through a more focussed and commercial approach, enabling the Council itself to focus on the delivery of services.</p> <p>During 2018/19 Heart of Cumbria Limited purchased its first 7 houses and began receiving rental income. Moreover, the Council has invested £1 million of share capital in the subsidiary to date, and has made a further £5 million loan facility available to the company as the remaining houses being purchased are completed.</p> <p>These agreements and transactions gave rise to a number of material accounting transactions, both quantitatively and qualitatively, for which group accounts need to be prepared. It requires us to consider the economic substance of the transactions.</p> <p>We therefore identified the accounting transactions associated with the creation of Heart of Cumbria Ltd as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review the key agreements to gain an understanding of the agreements put in place on the establishment of the company • discuss with key group personnel, the underlying substance of the transactions and the basis of the Council's proposed accounting treatment of the arrangements • critically assess the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance, including the alignment of accounting policies.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council Only	<p>The Council'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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as the auditor's expert) and performing any additional procedures suggested within the report • obtain assurances from the auditor of Cumbria Local Government Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

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 and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council.
- 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 Council 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
 - 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'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 Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £0.406m (PY N/a) for the group and £0.405m (PY £0.434m) for the Council, 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 £0.020m 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 Accounts and Governance 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 Accounts and Governance 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 Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.020m (PY £0.022m).

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

Prior year gross expenditure

£21.379m group

(PY: N/a)

£21.352m Council

(PY: £21.7M)



■ Prior year gross expenditure

■ Materiality

£0.406m

Group financial statements materiality
(PY: N/A)

£0.405m

Council financial statements materiality
(PY: £0.434m)

£0.020m

Misstatements reported to the Accounts and Governance Committee
(PY: £0.022m)

Value for Money arrangements

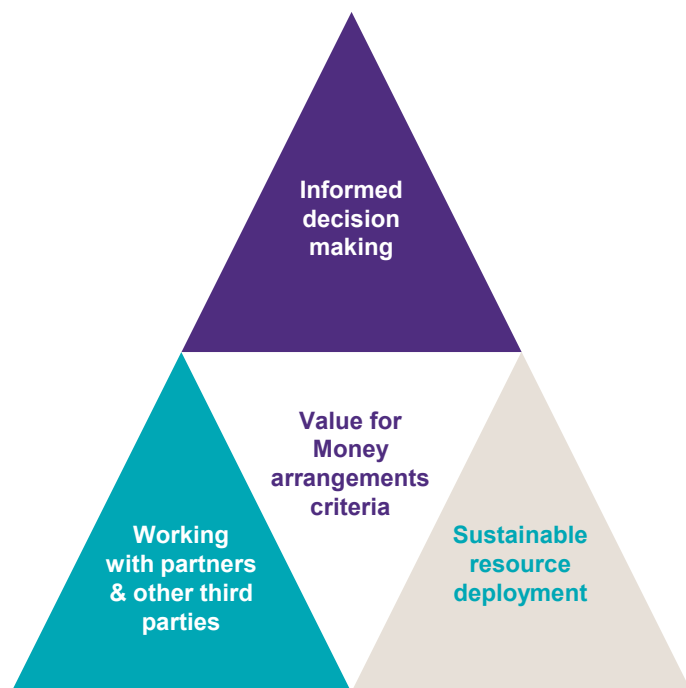
Background to our VFM approach

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 Council 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 Council to deliver value for money.



Heart of Cumbria Limited

Whilst our prior year VfM review into the Heart of Cumbria Limited identified significant progress made on its governance arrangements and financial modelling of the subsidiary, a number of other recommendations had not been implemented or fully embedded. Therefore, a significant risk remains that the arrangements in place for the Heart of Cumbria Limited are not adequate to ensure that the Council realises the full benefits of this company. This is in terms of it delivering on a number of Council priorities and to avoid any financial or reputational loss.

Response:

We will review progress on developing the governance and financial management arrangements in relation to the company, including follow-up on last year's audit recommendations, which cover all three VfM sub-criteria.



Financial Management and Medium Term Financial Planning Arrangements

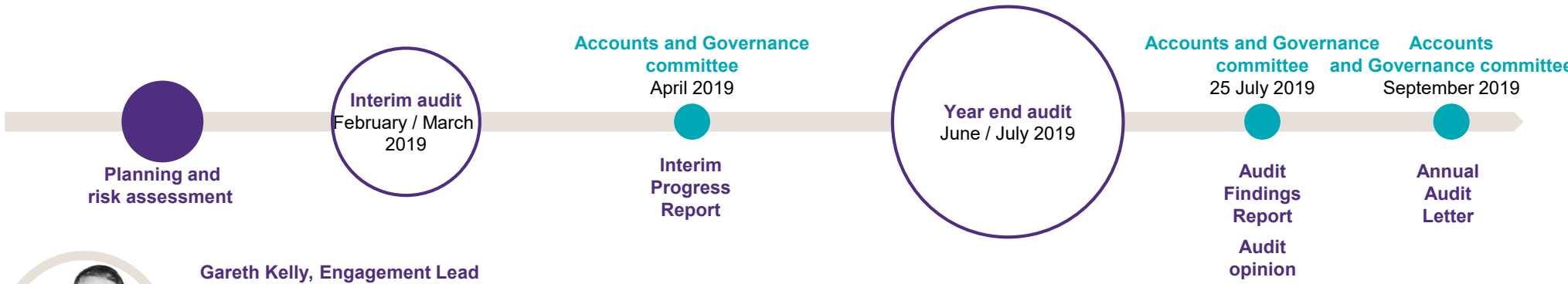
The Council faces a challenging environment in the short to medium term with the MTFP forecasting a deficit position in each of the next four years to 2022/23, with the General Fund unearmarked balances reducing from £7.560 million to £1.760 million. Whilst the Council has been cautious in its assumptions regarding the future of the Business Rates Retention Scheme income; there are a considerable number of other uncertainties underpinning the MTFP including Brexit and the future levels of Central Government funding available. This uncertainty results in management having to apply a number of estimates and key judgements to compile the MTFP.

There is a risk that financial planning and management will not be adequate to meet these future challenges.

Response:

We will review the arrangements the Council has in place to compile the MTFP, including challenging the key estimates, judgements and assumptions made. This will also include a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP, including reporting outcomes to the Council.

Audit logistics, team & fees



Gareth Kelly, Engagement Lead



Jamie Wright, Audit Manager



John Cangle, Audit In-charge

Audit fees

The planned audit fees are £35,796 (PY: £41,943) for the financial statements audit completed under the Code. The PSAA scale fee for 2018/19 is £32,296, and we are proposing to charge an additional fee of £3,500 due to the change in the group structure of the organisation, and the additional audit work that will now be required. This additional fee has been discussed and agreed with management but is still subject to PSAA approval. In setting your fee, we have assumed that the scope of the audit, and the Council 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.

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.

The Council successfully responded to the challenge of preparing the Financial Statements one month earlier than previously. The Council responded promptly to audit queries and worked well alongside the audit to complete the audit of the financial statements two months earlier than the previous year.

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 12). 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 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 Council. No other services were identified.

Appendices

A. Audit Approach

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



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

IDEA



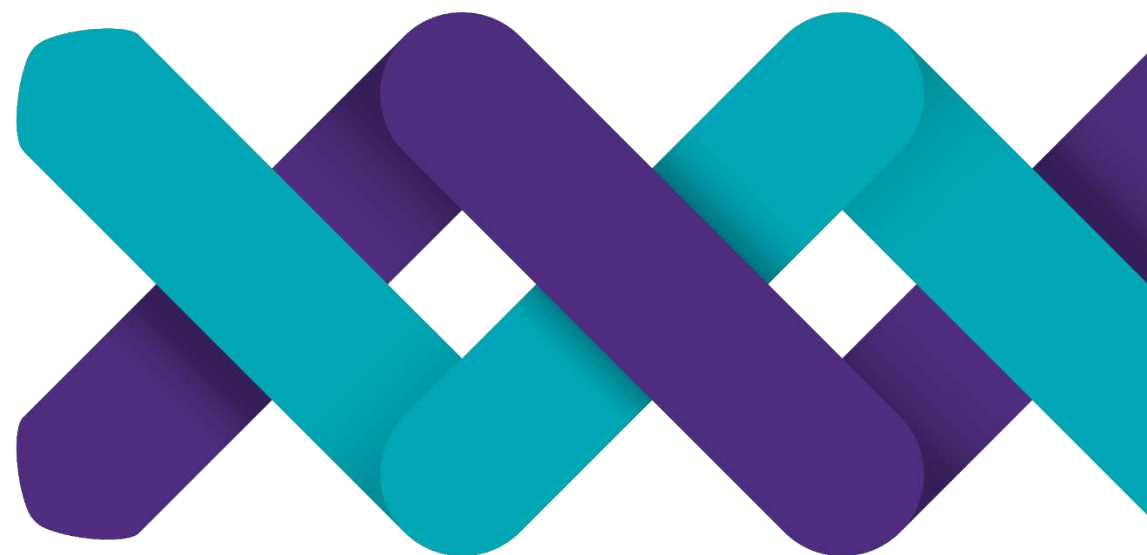
- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in 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



Audit Progress Report and Sector Update

Eden District Council
Year ending 31 March 2019

March 2019



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Introduction



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This paper provides the Accounts and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Accounts and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

PSAA Contract Monitoring

Eden District Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Progress at March 2019

Financial Statements Audit

We have produced a detailed Audit Plan. We have also started to plan for the 2018/19 financial statements audit, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We commenced our interim audit in February and March 2019. Our interim fieldwork includes:

- review of the Council's control environment
- updated understanding of financial systems
- review of Internal Audit reports on core financial systems
- early work on emerging accounting issues including group accounts consolidation
- early substantive testing.

There are no issues that we need to bring to the Committee's attention from the work we have completed to date.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on the 28 May with our findings and conclusions to be reported to you in our Audit Findings Report. We will present our report at the July Accounts and Governance Committee meeting and we aim to issue our audit opinion by the 31 July deadline.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach are included in our Audit Plan. We identified two significant Value for Money risks. These relate to the Council's arrangements for medium term financial planning and its arrangements around the Heart of Cumbria Limited. We are currently carrying out our audit work on this.

We will report our work in the Audit Findings Report and we aim to give our Value For Money Conclusion by the 31 July 2019 deadline.

Other areas

Meetings

We met with Finance Officers in March as part of our regular liaison meetings. We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We are also meeting with your Chief Executive in April to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Accounts and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	April 2019	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	April 2019	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Accounts and Governance Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Council responsibilities

In our Audit Plan presented to this Accounts and Governance Committee we have communicated our expectations around the Council's responsibilities for timely production of the draft accounts supported by appropriate working papers. Should delays be experienced in the provision of these requirements or should additional work be required on our part due to complex technical issues, new arrangements and delays in response to queries additional costs will be incurred.

Any additional fees are subject to approval by PSAA.

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:

Significant risk area	Work performed	Conclusions and recommendations
Management override of controls	<ul style="list-style-type: none">Documented business process and controls around journal entries.Undertook a walkthrough test to confirm implementation and design effectiveness of controls.Reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.Identified key estimates and judgements made by management in preparing the accounts, to be reviewed as part of the audit.	Our work has identified no material weaknesses, which are likely to adversely impact on the Council's financial statements.
Valuation of land, buildings and investment property	<ul style="list-style-type: none">Documented business processes and controls relevant to capital management, expenditure and valuation.Undertook a walkthrough test to confirm implementation and design effectiveness of controls.Made initial inquiries of the Council's valuation specialist regarding their expertise, approach and assumptions used in the valuation of the Council's assets.	Our work has identified no material weaknesses, which are likely to adversely impact on the Council's financial statements.
Preparation of consolidated group accounts	<ul style="list-style-type: none">Made inquiries of management regarding the approach to the preparation of group accounts.Review of draft group account figures based on projected outturn.	Our work has identified no material weaknesses, which are likely to adversely impact on the Council's financial statements
Valuation of the pension fund net liability	<ul style="list-style-type: none">Documented business process and controls around the submission of IAS19 information to the actuary.Undertook a walkthrough test to confirm implementation and design effectiveness of controls.Made inquiries of the Pension Fund Auditor, in terms of the assurances which can be provided regarding the valuation of the net liability.	Our work has identified no material weaknesses, which are likely to adversely impact on the Council's financial statements

Results of Interim Audit Work

Other audit area	Work performed	Conclusions and recommendations
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 to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the Internal Audit service provides an independent and satisfactory service to the Council and that Internal Audit work 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>
Pervasive 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">• communication and enforcement of integrity and ethical values• commitment to competence• participation by those charged with governance• management's philosophy and operating style• organisational structure• assignment of authority and responsibility• human resource policies and practices.	<p>Our work has identified no material weaknesses, which are likely to adversely impact on the Council's financial statements.</p>
Review of information technology controls	<p>We performed a high level review of the general IT (information technology) control environment, as part of the overall review of the internal controls system.</p> <p>IT controls were observed to have been implemented in accordance with our documented understanding.</p>	<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

Other audit area	Work performed	Conclusions and recommendations
Early substantive testing	<p>We have undertaken early substantive testing in relation to the following areas:</p> <ul style="list-style-type: none"> • Operating expenditure testing of transactions from period 1-9. • Other operating revenues testing of transactions from period 1-9. • Rental revenue testing of transactions from period 1-9. • Employee Remuneration substantive analytical procedures and testing of starters and leavers. 	Our work has identified no issues, which are likely to adversely impact on the Council's financial statements.
General procedures	<ul style="list-style-type: none"> • Verified roll forward of opening balances in the general ledger. • Performed analytical procedures on the Council's financial performance data. • Reviewed the process for identifying related party transaction disclosures. • Reviewed internal audit reports issued during the year and progress against the internal audit plan. • Discussed the impact of new accounting standards. • Obtained details of bank accounts for independent verification at the year end. 	Our work has identified no issues, which are likely to adversely impact on the Council's financial statements.
Value for Money Conclusion – Risk Assessment	<p>We have undertaken a risk assessment based on reviews of:</p> <ul style="list-style-type: none"> • Local Government planning guidance • The Council's current published strategies and plans • Review of key committee papers and reports • Meetings and discussion with Council officers. 	We have identified the Council's arrangements in respect to medium term financial planning and Heart of Cumbria Limited for more detailed audit work.

Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

National Audit Office – Planning for new homes

The National Audit Office (NAO) has recently published a report on *Planning for new homes*. This report is part of a series on housing in England, including *Housing in England: overview (2017)* and *Homelessness (2017)*. The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes a year on average.

The report recognises that increasing the supply of new homes is a complex task and one of the measures MHCLG has introduced to help achieve the objective is reforming the planning system. The report notes that the planning system is fundamental to providing new homes and it assesses how effectively MHCLG supports the planning regime to provide the right homes in the right places through:

- supporting local authorities to produce plans for how the supply of new homes will meet need in their area;
- supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and
- working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

The report finds that at present, the system is not providing value for money and that the supply of new homes has failed to meet demand. It notes that a number of factors have contributed to the planning system not working and some of these include:

- the process of setting the need for new homes;
- the reductions in local authority capability;
- the under-performing Planning Inspectorate; and
- failures in the system to ensure adequate contributions for infrastructure.

The report recognises that MHCLG's new National Planning Policy Framework is an important step, but it is too early to tell whether the changes it introduces will be effective. The report also makes a number of recommendations for MHCLG to implement alongside the framework to help the planning systems work more effectively.

The report concludes that the Department and government more widely need to take this much more seriously and bring about improvement if they are to meet their ambition of 300,000 new homes per year by the mid-2020s.

The report is available on the NAO website:

<https://www.nao.org.uk/report/planning-for-new-homes/#>



Links

Grant Thornton

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

National Audit Office

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

<https://www.nao.org.uk/report/planning-for-new-homes/#>

<https://www.nao.org.uk/report/pressures-on-childrens-social-care/>

Ministry of Housing, Communities and Local Government

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

CIPFA

<https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool>

Local Government audits 2018/19 and beyond

Grant Thornton's External Audit commitment

Audit 2018/19

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"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".

Chairman of Finance, local audited body

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach.

"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council

Our relationship with our clients – why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- 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 keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

