DRAFT

Grant Thornton

External Audit Plan

Year ending 31 March 2020

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 2/1/2020

West Midlands Combined Authority

13 January 2020

Contents

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Midlands Combined Authority ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled the 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 West Midlands Combined Authority. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

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

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

The audit of the financial statements does not relieve management or the Audit, Risk and Assurance 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.

Group Accounts	The Authority is required to prepare group financial statements that consolidate the financial information of Midland Metro Limited and WM5G Limited.
Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management Override of Controls • Valuation of net pension fund liability 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 £4.7m (PY £4.601m) for the group and £4.6m (PY £4.6m) for the Authority, which equates to approximately 1.8% of your prior year budgeted gross expenditure for the year (including the anticipated expenditure in respect of the new Adult Education Service) and adjustments expected on consolidation. 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 £230k (PY £230k).
Value for Money arrangements	Our risk assessment in this area remains ongoing, however to date we have identified the following potential VFM significant risks: • Investment Programme Delivery • Governance of WM5G • Delivery of Adult Education workstream.
Audit logistics	Our interim visit will take place in February and March and our final visit will take place in May and June. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Section 8 - Audit Logistics & Team. Our proposed fee for the audit will be £46,500 (PY: £46,500) for the Authority, subject to the Authority meeting our requirements set out on page 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..

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

The scale of change at the Authority continues to be significant, however we note that the senior leadership team has stabilised over the last 12 months.

Mayoral elections are due to take place in May 2020, however the planning and preparation for this has been delayed as a result of the general election.

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, 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.

In addition, the Authority will also need to make sure that it is making the necessary preparations for the introduction of IRFS 16, which will impact on the financial statements for the 2020/21 year.

Changes to the scope of the group

For the purposes of the audit plan, we are assuming that Midland Metro Limited will continue to be consolidated into the group accounts, based on anticipated levels of expenditure.

Based upon the Authority's group boundary consideration and the anticipated out-turn of WM5G Limited we are anticipating its consolidation into the 2019/20 financial statements.

The 2019/20 accounts will for the first year show the impact of the change in arrangements for the funding of Adult Education, which has now been devolved to the Authority.

WM ITA Pension Fund

On 8 November 2019 regulations came into force retrospectively merging the WMITA PF with the West Midlands Pension Fund.

As a result the WM ITA PF will no longer form part of the Authority's Statement of Accounts or be subject to audit.

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.

- 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, is set out further in our Audit Plan and is subject to agreement with officers and PSAA.
- We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020

- Our proposed approach to the audit of the components Midland Metro Limited and WM5G Limited are set out on page 6.
- We will maintain a watching brief and continue to liaise with the finance team to ensure that if further changes to the group boundary are identified that the consolidation is extended to include further entities as necessary.
- We will consider the impact on the financial statements of the addition of the Adult Education responsibilities and develop an appropriate testing strategy.

- We will review the disclosures within the Authority's Statement of Accounts, Narrative Report, Annual Governance Statement and the Statement of Responsibilities to ensure they reflect the year end position appropriately.

3. Group audit scope and risk assessment

In accordance with ISA(UK) 600, as group auditor of West Midlands Combined Authority (the Authority) 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.

At planning, our understanding of the group structure is as follows:

- There are 9 components considered within the group boundary associated with the West Midlands Combined Authority.

Wholly-owned subsidiaries

- Midland Metro Limited is a company limited by shares and runs the Metro operations. The subsidiary was consolidated into the financial statements of the Authority for the first time for the year ended 31 March 2019.
- West Midlands Development Capital Limited is a company limited by shares and is the manager of the Land Fund and the Collective Investment Fund.
- WM5G Limited is new this year and is set up to deliver 5G on behalf of the Authority. It is a company limited by guarantee.

The risk assessment of these subsidiaries as they pertain to the group audit are set out overleaf.

Associates

- West Midlands Rail Limited is a company limited by guarantee and is the manager of the West Midlands rail franchise. The Authority has only 50% of the voting rights. The Authority has determined it does not have control but does have significant influence.

The risk assessment of the company as it pertains to the group audit is set out overleaf.

Investment

- The Authority has a 5.3% stake in West Midlands Growth Company Limited. This is accounted for under the equity method and as such does not form part of the consolidation considerations.

Currently dormant interests

- Midland Metro (TWO) Limited, Network West Midlands Limited and Midlands Development Capital Limited are wholly-owned subsidiaries of the Authority but are all currently dormant (i.e. not trading and therefore will not be consolidated). Midland Metro (TWO) Limited is currently in the process of being closed and removed from the Companies House register.

Discontinued interests

- Centro Properties Limited was dissolved on 3 April 2018 – there is no impact upon 2019/20 but noted here in respect of 2018/19 for comparative information purposes.

3. Group audit scope and risk assessment continued

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
West Midlands Combined Authority	Yes	Full	• See pages 7 to 8 where the identified risks pertaining to the Authority are detailed.	Full scope UK statutory audit performed by Grant Thornton UK LLP.
Midland Metro Limited	No	Transactions, account balances or disclosure relating to significant risks	• See pages 7 to 8 where the identified risks pertaining to the Authority are detailed.	It is anticipated that the accounts for the year ended March 2020 of Midland Metro will be consolidated within the Authority's group accounts. The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor audit documentation and meeting with appropriate members of management.
WM5G Limited	No	Transactions, account balances or disclosure relating to significant risks	• See pages 7 to 8 where the identified risks pertaining to the Authority are detailed.	It is anticipated that the accounts for the year ended March 2020 of WM5G Limited will be consolidated within the Authority's group accounts. However, in discussions with management the scale of activity of WM5G might be reduced in 2019/20 and potentially the component may become material but not significant and consolidation reconsidered. We will therefore keep this under review. The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor audit documentation and meeting with appropriate members of management.
West Midlands Development Capital Limited	No	**AP**	None	Consolidation of these components are unlikely on the grounds of materiality. We will perform analytical review procedures to ensure this continues to be appropriate.
West Midlands Rail Limited	No	**AP**	None	

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**

4. 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
The revenue cycle includes fraudulent transactions (rebutted)	**Group and Authority**	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. Having consider the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the Group and the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • 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 the West Midlands Combined Authority (the Authority), mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Authority. In terms of this risk and how it relates to the Group we have also determined that the risk of fraud arising from revenue recognition can be rebutted because we do not consider there to be a risk of material misstatement in the accounts of Midland Metro Limited or WM5G Limited due to fraud in revenue recognition. We also believe, that the above bullet points also apply from a group perspective.	Response not required as the risk is rebutted.

4. Significant risks identified continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Authority	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Group and Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as one of the most significant assessed risks of material misstatement for both the Group and the Authority	We will: • 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 • Gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence, and • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of the pension fund net liability	Group and Authority	The Authority's pension fund net liability, as reflected in its balance sheet as the net pension liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£51 million at 31 March 2019) in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. 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: • 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 • Evaluate the instructions issued by management to their management expert for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • Assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • Test the consistency of the pension fund asset and liability disclosures in the notes to the core financial statements with the actuarial report • Undertake procedures to confirm the reasonableness of the actuarial assumption made by reviewing the report of the consulting actuary (as an auditor's expert) and performing any additional procedures suggested with the report, and • Obtain assurances from the auditor of West Midlands 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.

5. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
    - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements

6. Materiality

The concept of materiality

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

Materiality for planning purposes

We have determined financial statement materiality assessed against the benchmark of a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £4.7m (PY £4.601m) for the Group and £4.6m (PY £4.6m) for the Authority. The materiality equates to approximately 1.8% of the budgeted gross expenditure for 2019/20 for the Authority adjusted for assumptions on the impact of the consolidation of MML and WM5G for the Group. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25k 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, Risk and Assurance 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, Risk and Assurance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £230k (PY £230k).

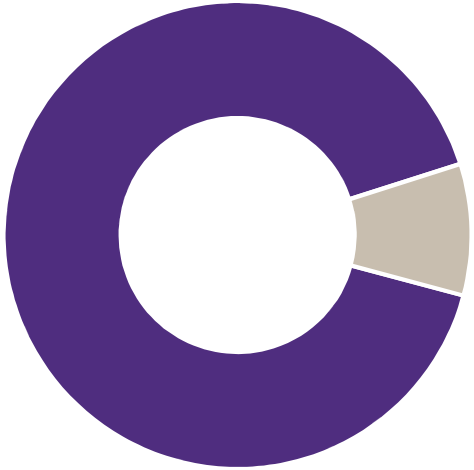
If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Risk and Assurance Committee to assist it in fulfilling its governance responsibilities.

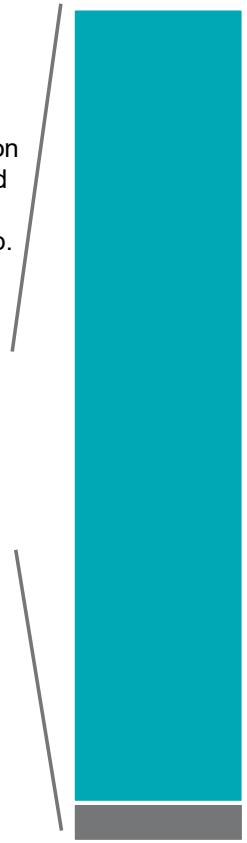
Prior year gross expenditure

£262.696m group

£255.778m Authority

Our assumption for 2019/20 is based upon the Authority's budget of £257.235m and our expectation that consolidation will increase this to £264.151m for the Group.





£4.7m

Group financial statements materiality

(PY: £4.601m)

£4.6m

Authority financial statements materiality

(PY: £4.6m)

£230k

Misstatements reported to the Audit, Risk and Assurance Committee

(PY: £230k)

- Prior year gross expenditure
- Materiality

7. Value for Money arrangements

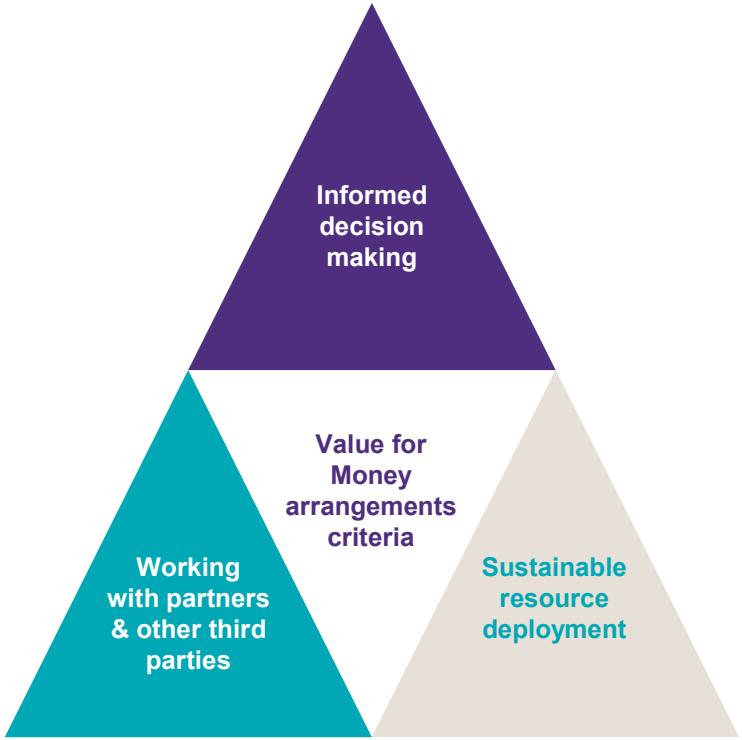
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

Investment Programme Delivery

The Authority has identified the financial assumptions for the investment programme as a risk. This is being mitigated by a review of the governance and appraisal process associated with the investment programme. The spend to date remains behind forecast, and a cap has been placed on the programme at £801m to keep it within the current affordable limit based on income secured to date.

We will review the Authority's arrangements for managing the Investment programme.

Governance of WM5G

WM5G has been set up as subsidiary company of the Authority to deploy 5G and fibre networks to areas with poor coverage. 5G is new technology and a new funding stream for the Authority. Our initial risk assessment has demonstrated that funding from central government is lagged, and therefore alternative sources of start up funding is also needed.

We will review the outcomes of the internal audit work that is planned in this area, and then consider if any further work is needed against the identified risk.

Delivery of Adult Education workstream

On significant new workstream for 2019-20 is the Adult Education Budget. The budget has £84m in relation to this, but the actual allocation is in the region of £120m. Given the introduction of this in the year we are keen to understand the arrangements in place for the delivery of this service.

We will review the outcomes of the internal audit work that is planned in this area, and then consider if any further work is needed against the identified risk.

8. Audit logistics & team

Grant Patterson, Key Audit Partner

Grant is the engagement leader, taking overall responsibility for ensuring we provide a high quality service. He will work with Helen and the audit team to ensure we have fulfilled our responsibilities as your auditor and sign the audit opinion and VFM conclusion.

Helen Lillington, Audit Manager

As manager, Helen will manage the audit process and work with officers and our on-site team to ensure the smooth planning and delivery of the audit. She will oversee the on-site team and discuss any issues with your during the audit process as well as any questions that you may have throughout the year.

Ellena Grant-Pearce, Audit Incharge

Ellena will be the on site first point of contact and will work with the team to gather the necessary evidence and complete the audit testing in advance of both the manager and engagement lead review.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

9. Audit fees

Planned audit fees 2019/20

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

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

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

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Authority Group Audit	£46,500	£46,500	£46,500
Total audit fees (excluding VAT)	**£46,500**	**£46,500**	**£46,500**

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

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	35,805	
Raising the bar and the evolution of the Authority and Group	8,000	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. Additionally, as we have discussed previously with the Audit, Risk and Assurance Committee the size and complexity of the Authority, and the associated audit, continues to grow, i.e. • audit of group accounts, which involves liaison with the component auditors (including review of their workpapers and other outputs), and review of the consolidation itself • increase in level of overall audit testing as the result of increase in size of the organisation • greater liaison with staff and the Audit, Risk and Assurance Committee compared to ITA/PTE days • a higher VFM risk, given the more complex and broad activities being undertaken by the Authority, ie large investment programme and associated capital spend alongside the need to have the necessary skills and capacity within the Authority to enable delivery of strategic outcomes
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	1,750	Similarly to the above the Financial Reporting Council (FRC) has highlighted that the levels of challenge and explanation sought by auditors in respect of IAS 19 needs to improve. Specifically, 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	250	Similarly to the above the Financial Reporting Council (FRC) has highlighted that the levels of challenge and explanation sought by auditors in respect of PPE needs to improve. The Authority only has one asset which is subject to valuation but there will be heightened levels of documentation and reporting required.
IFRS 16 - Leases	695	IFRS 16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset and corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.
Revised scale fee (to be approved by PSAA)	**£46,500**	

10. 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 Authority. No other services were identified.

Appendices

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all 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.