External Audit Plan

Year ending 31 March 2019

Southwark Council

Southwark Council Pension Fund

11th February 2019

Contents

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority and Fund 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.

Introduction

Our Team

Paul Dossett, Engagement Lead

Paul will be the main point of contact for the Chief Executive, the Section 151 Officer and Members. Paul will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the Audit, Governance and Standards Committee. Paul will ensure our audit is tailored specifically to you and is delivered efficiently. Paul will review all reports and the team's work.

Matt Dean, Audit Manager

Matt will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Matt will attend Audit, Governance and Standards Committees, undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all. Matt will work with Internal Audit to secure efficiencies and avoid any duplication, providing assurance for your Annual Governance Statement.

Liulu Chen, Audit In-Charge

Liulu will lead the onsite team and will be the day to day contact for the audit. Liulu will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Liulu will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of Southwark Council ('the Council') and the Southwark Council Pension Fund ('the Fund') 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 the Council and the Pension Fund. We draw your attention to both of these documents on the PSAA website.

Scope of our audits

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 Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee and Audit Committee Advisory); and
- 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 Audit, Governance and Standards Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the Council and Fund's business and is risk based.

Headlines

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: **Southwark Council** • Fraud in revenue recognition – this risk has been rebutted for the Council as documented on Page 8 • Management override of controls • Valuation of property, plant and equipment • Valuation of the Pension Fund net liability **Southwark Council Pension Fund** • Fraud in revenue recognition – This risk has been rebutted for the Council as documented on page 8 • Management override of controls • Valuation of Level 3 Investments 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 - Council	We have determined planning materiality to be £25m (PY £25m) for the Council, which equates to 2% of your prior year gross expenditure (rounded down) for the prior 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 £1.25m (PY £1.25m).
Materiality – Pension Fund	We have determined materiality at the planning stage of our audit to be £15m (PY £14.950m) for the Pension Fund, which equates to 1% of your net assets (rounded down) for the prior 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 £750k (PY £747k).
Value for Money arrangements (Council Only)	Our risk assessment regarding the Council's arrangements to secure value for money have identified the following VFM significant risks: • The Council's Financial Sustainability, including the Council's arrangements for addressing the risks arising from Brexit
Audit logistics	Our interim visit will take place in February/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 fee for the audit will be no less than £182,718 (PY: £237,296) for the Council and £16,170 (PY: £21,000) for the Fund, subject to management meeting our requirements set out on page 15.
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 of the Council

External Factors

The wider economy and political uncertainty

Further reductions in funding are expected over the next two years, with particular strain on Adult and Children's Social Care.

The Council has opted to voluntarily participate in the London Business Rates Retention Pilot Pool for 2018-19; this will see Revenue Support Grant and Top-up Grant replaced by a greater retained share of business rates income. Increasing demographic and inflationary pressures will further be met by an annual RPI increase in fees and charges and a 2.99% increase in core council tax.

Changes to the 2018/19 CIPFA 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.

The Council will need to determine the impact of these new standards on this year's Accounts, and ensure these impacts are clearly disclosed.

The impact of Brexit

The UK is expected to leave the European Union on 29 March 2019 (Brexit). The arrangements for the UK following our withdrawal are not yet clear. There is a risk that many aspects of life will be affected by Brexit and the uncertainty it is causing. There may be implications for financial planning for the Council resulting from this uncertainty including an impact on the value of the Council's assets and investments post 31 March 2019.

Internal Factor

Capital Developments

The Council is continuing to support and undertake ambitious capital schemes within the Borough to help deliver a range of its corporate priorities. During the course of the year the Council has purchased Courage Yard, along with other properties, from which it is hoping to obtain rentals and growth to support the Council's financial position.

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 Council 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.

- We will review the Authority's consideration of the risks of Brexit on the delivery of services and asset values as part of our Value for Money audit procedures.

- We will review the capital transactions undertaken by the Council during the course of the year as part of our work on the Council's Property, Plant and Equipment balances at year end.
- We will also consider the transactions as part of our wider Value for Money work to determine the impact this is having in supporting the Council's overall Financial Position.

Key matters impacting our audit of the Pension Fund

External Factors

SI 493/2018 – LGPS (Amendment) Regulations 2018

Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated of Funding Strategy Statements.

Guaranteed Minimum Pension (GMP)

- Pension funds are continuing to work through the GMP reconciliation process.
- In January 2018 the government extended its "interim solution" for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss. As such, we do not anticipate a material impact of this change on the Fund.

The Pensions Regulator (tPR)

tPRs Corporate Plan for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

The potential impact of Brexit

As mentioned on the previous page, the UK is due to leave the European Union on the 29th of March 2019, and there is significant uncertainty of the impact of this on a number of assets of everyday life. Brexit may well have an impact on the valuation of the Pension Fund Assets at the 31st of March 2019, depending on whether any deal is agreed and what that deal will look like. This may also have other impacts for the Pension Fund, including the Actuarial Assumptions considered as part of the IAS19 and IAS26 Exercises.

Our response

- We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary.

- We will consider the potential impact of Brexit on the valuation of the Fund's Assets, and obtain sufficient assurance over the valuations included within the Accounts at year end to ensure any impact from Brexit is correctly reflected.

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.

<table>
<tr><th>Risk</th><th>Risk relates to</th><th>Reason for risk identification</th><th>Key aspects of our proposed response to the risk</th></tr>
<tr><td>Management over-ride of controls</td><td>Council and Pension Fund</td><td>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.</td><td>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 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.</td></tr>
<tr><td>The revenue cycle includes fraudulent transactions (rebutted)</td><td>Council and Pension Fund</td><td colspan="2">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 considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council and the Pension Fund, 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 Southwark Council and the Southwark Council Pension Fund, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Southwark Council and the Southwark Council Pension Fund.</td></tr>
</table>

Significant risks identified - continued

Risk	Risk Relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Property, Plant and Equipment	**Council**	The Council revalues its land and buildings on an rolling five-year basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. As mentioned earlier in the Plan, the potential impact of Brexit may also have an impact on the valuations included within the Accounts, and the Council will need to work closely with their experts to ensure any impact is reflected within the Accounts. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. This will include ensuring the impact of Brexit is considered as part of this assessment. • evaluate the competence, capabilities and objectivity of the valuation experts • Write to the valuer to confirm 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 • evaluating 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.
Valuation of the Pension Fund net liability	**Council**	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 The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£640 million in the Council’s Statement of Financial Position) and the sensitivity of the estimate to changes in key assumptions. Again Brexit could have an impact on the values included within the Accounts at year end so this will need to be factored into the considerations as well. 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.	We will: • 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 auditor’s expert) and performing any additional procedures suggested within the report. We will ensure Brexit has been considered when arriving at the values included within the Accounts.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments	**Pension Fund**	The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£266 million) and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2019. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • gain an understanding of the Pension Fund's process for valuing Level 3 investments and evaluate the design of the associated controls; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; • undertake consideration of the competence, expertise and objectivity of any management experts used; • review the qualifications of the expert used to value Level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached; and • test the valuations by obtaining and reviewing audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date then rationalising those values to the values at 31 March 2019 with reference to known movements in the intervening period.

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

The Pension Fund is administered by the Council, and the Pension Fund's financial statements form part of the Council's financial statements.

Therefore, in addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities in respect of the Council and the Pension Fund, as follows:

- We read the Council's Narrative Report and Annual Governance Statement and the Pension Fund Annual Report to check that they are consistent with the financial statements of the Council and the Pension Fund 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 the Council's Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on the Council's consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the audited Pension Fund accounts.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about the Council or Pension Fund's 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 or Pension Fund 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 of the Council.

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 Council or the Pension Fund's '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 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.

Matter	Description	Planned audit response
1	**Calculation and determination** We have determined planning materiality (financial statement materiality determined at the planning stage of the audit) based on professional judgment in the context of our knowledge of the Council and the Pension Fund, including consideration of factors such as stakeholder expectations, financial stability and reporting requirements for the financial statements. We determine planning materiality in order to: – estimate the tolerable level of misstatement in the financial statements – assist in establishing the scope of our audit engagement and audit tests – calculate sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements	• For the Council, we have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £25m (PY £25m) for the Council, which equates to 2% of your gross expenditure for the prior year (rounded down to give. • For the Fund, we have determined financial statement materiality based on a proportion of the Fund's net assets. In the prior year we used the same benchmark. Our materiality at the planning stage is £15m (PY £14.950m) which equates to 1% of your actual prior year net assets for the year ended 31 March 2018.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements. We design our procedures to detect errors in specific accounts at a lower level of precision which we deem to be relevant to stakeholders.	• For the Council and Pension Fund we have not determined any specific lower materialities.
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	• 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 materiality
4	**Matters we will report to the Audit, Governance and Standards Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts, 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 Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.25m (PY £1.25m). • In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £750k (PY £747k). • 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, Governance and Standards Committee to assist it in fulfilling its governance responsibilities.

Value for Money arrangements

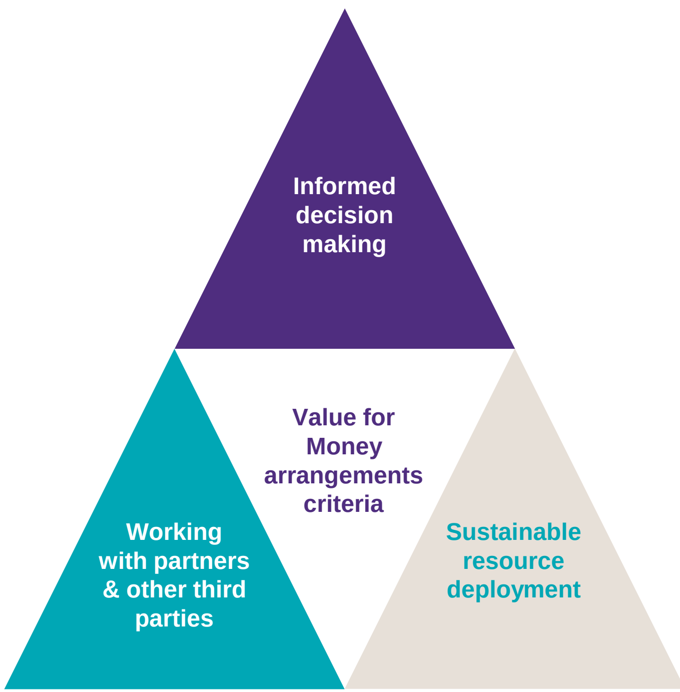
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, excluding Pension Funds, 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.

Ongoing Financial Sustainability

Risk

The Council is continuing to face pressure on its Social Care Budgets, and other factors such as the demand for temporary accommodation and the impact of nil resource to public funds are putting the Council's finances under considerable strain. Therefore the Council needs to manage its resources carefully to ensure a sustainable future for the Borough ahead of the 2020 Funding Settlement. Brexit will also potentially add another unknown to these challenges and the Council will need to monitor developments close as the end of March approaches.

Planned Response

To gain assurance over this risk we are planning to undertake work in the following areas:

- review the 2018-19 Outturn, including details of performance against both the Revenue and Capital Budgets;
- review progress against the 2019-20 financial plan up to the completion of our audit; and
- obtain an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years including discussions with Management on progress to date.

We will also consider the financial impact of any financial issues arising from Brexit. These may include changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on the Authority's workforce.

Audit logistics, team & fees

Audit fees

The planned audit fees are £182,718 (PY: £237,296) for the financial statements audit of the Council, and £16,170 (PY: £21,000) for the financial statements audit of the Pension Fund, completed under the Code, which are inline with the scale fees published by PSAA. In setting your fee, we have assumed that the scope of the audits, and the Council and the Pension Fund and its activities, do not significantly change.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Pension Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Our requirements

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

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

Early close

Meeting the 31 July audit timeframe

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

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

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

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

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 15. Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings 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

Our aim this year is to build on the strong arrangements that were developed last year, and enabled us to work with you to deliver by the 31st of July deadline. This was made possible by taking a collaborative approach, involving clear communication to ensure any challenges were tackled in a timely manner. In terms of areas where potential improvements can be made this year:

- ensuring the working papers for Property, Plant and Equipment support the balances included within the Accounts, and can be easily followed by the Audit Team to reduce the level of queries in this area.
- We will look to engage with colleagues in this area ahead of year end to identify ways in which we can ensure the information provided at year end is in line with our expectations.

In return, we will continue to 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

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 and the Pension Fund. The following other services were identified:

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Capital Receipts Grant	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £182,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pension Return	6,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the total fee for the audit of £182,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

(continued overleaf)

Independence & non-audit services (continued)

Service	£	Threats	Safeguards
Non-audit related			
CFO Insights subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £182,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Financial Resilience Review	24,358	Self-Review	This work is being delivered by a separate team within Grant Thornton, and will be used to support our overall Value for Money Conclusion work, which has been mentioned previously within the Plan. As a result, satisfied that this doesn't pose a threat to our independence.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.

Appendix

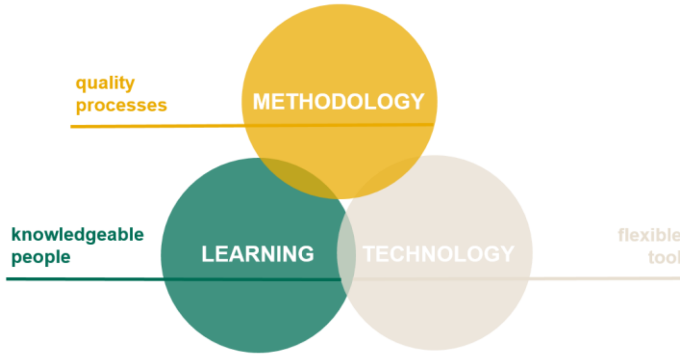
Appendix A - Audit approach

Use of audit, data interrogation and analytics software

LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian

Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Inflo

Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.

REQUEST & SHARE
- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring

ASSESS & SCOPE
- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment

VERIFY & REVIEW
- Automate sampling requests
- Download automated work papers

INTERROGATE & EVALUATE
- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs

FOCUS & ASSURE
- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance

INSIGHTS
- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons