

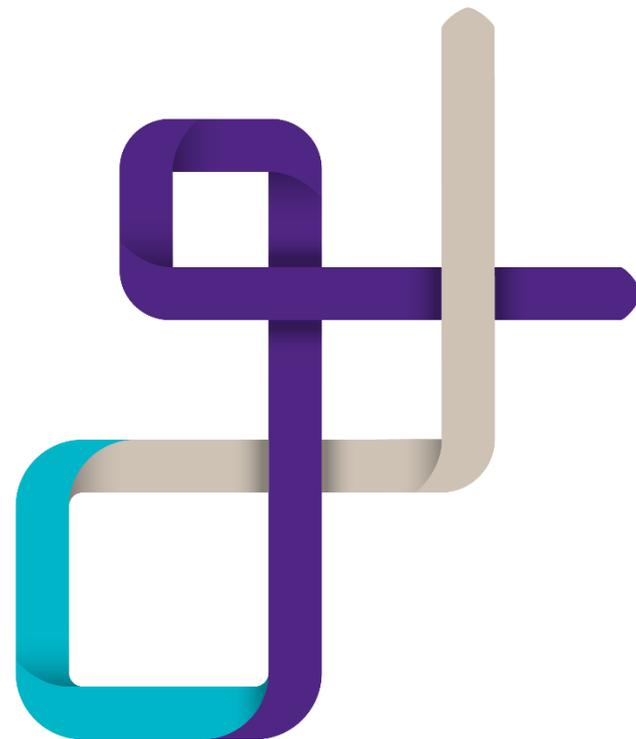
# External Audit Plan

*Year ending 31 March 2019*

---

South Lakeland District Council

28 February 2019



# Contents



Your key Grant Thornton  
team members are:

**Gareth Kelly**

**Associate Director**

T: 0141 223 0891

E: [gareth.kelly@uk.gt.com](mailto:gareth.kelly@uk.gt.com)

**Jillian Burrows**

**Senior Manager**

T: 0161 214 6302

E: [jillian.a.burrows@uk.gt.com](mailto:jillian.a.burrows@uk.gt.com)

Section	Page
1. Introduction & headlines	3
2. Key matters impacting our audit	4
3. Significant risks identified	5
4. Other matters	7
5. Materiality	8
8. Value for Money arrangements	9
9. Audit logistics, team & fees	10
10. Independence & non-audit services	11
<b>Appendices</b>	
A. Audit Approach	13

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

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

---

# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of South Lakeland District Council ('the Authority') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of South Lakeland 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:

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit 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 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. 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.

---

## 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 land and buildings
- Valuation of pension fund net 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 £1.372m (PY £1.325m) for the Authority, which equates to 2% 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 £0.068m (PY £0.066m).

---

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk on financial sustainability and the significant savings contributions from the Customer Connect Programme.

---

## Audit logistics

Our interim visit will take place in April and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £43,005 (PY: £55,851) for the Authority, subject to the Authority meeting our requirements set out on page 10.

---

## 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

## Internal and external factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. The MTFS will be presented on 26 February 2019. Whilst a balanced budget can be achieved in 2019/20, the Council will need to seek additional savings on top of those already being generated by Customer Connect from 2020/21 onwards.

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.

### 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 Authority into our risk assessment and testing approach.

### 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.

The Finance Team have already commenced their work to establish the impact of these standards.

### Customer Connect Programme

On 24 July 2018 the Council approved the business case, including the new operating model for the Authority, under the Customer Connect Programme. A key part of this change programme relates to a management restructure, with the key focus bring that operational decision making is moved as close to the customer as possible.

The new structure will take effect from 1 April 2019 and it is anticipated that it will contribute £740k of savings in 2019/20 and £1.55m from 2020/21.

This is a new way of working for the Council and is not without challenges. Whilst key members of the current senior management team will be retained until 31 May 2019, the new management team will need to manage the implementation of revised working practices alongside ensuring the year end processes for production of the financial statements, annual governance statement and associated documentation remain as 'business as usual'.

## 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 disclosures around going concern are sufficient to meet the Code requirements.

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions.
- 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 maintain our regular dialogue with the Finance Team to review and monitor the impact that the management restructure and revised working practices may have on the efficient and robust year end processes.
- We will continue to monitor progress in relation to the implementation of Customer Connect as part of our Value for Money conclusion.

# 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	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Management over-ride of controls</b>	<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. The Authority 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 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"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
<b>Income from fees and charges</b>	<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>For South Lakeland District Council we have concluded that the greatest risk of material misstatement relates to fees and charges income. We have therefore identified the occurrence and accuracy of fees and charges income as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p> <p>We have rebutted this presumed risk for the other revenue streams of the Authority because:</p> <ul style="list-style-type: none"> <li>• Other income streams are primarily derived from grants or formula based income from central government and tax payers.</li> </ul>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the Authority's accounting policy for recognition of income from fees and charges for appropriateness;</li> <li>• gain an understanding of the Authority's system for accounting for income from fees and charges and evaluate the design of the associated controls;</li> <li>• Agree, on a sample basis, amounts recognised as income from fees and charges in the financial statements to gain assurance over occurrence and accuracy.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of land and buildings</b>	<p>The Authority revalues its land and buildings on a rolling four-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the asset base, numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the 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. We therefore identified valuation of land and buildings, particularly revaluations and impairments, 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"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• test revaluations made during the year to see if they had been input correctly into the Authority's asset register</li> <li>• 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.</li> </ul>
<b>Valuation of the pension fund net liability</b>	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</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 Authority's pension fund net liability 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"> <li>• 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;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• 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;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Cumbria 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.</li> </ul>

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 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 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 Authority under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

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

## Going concern

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

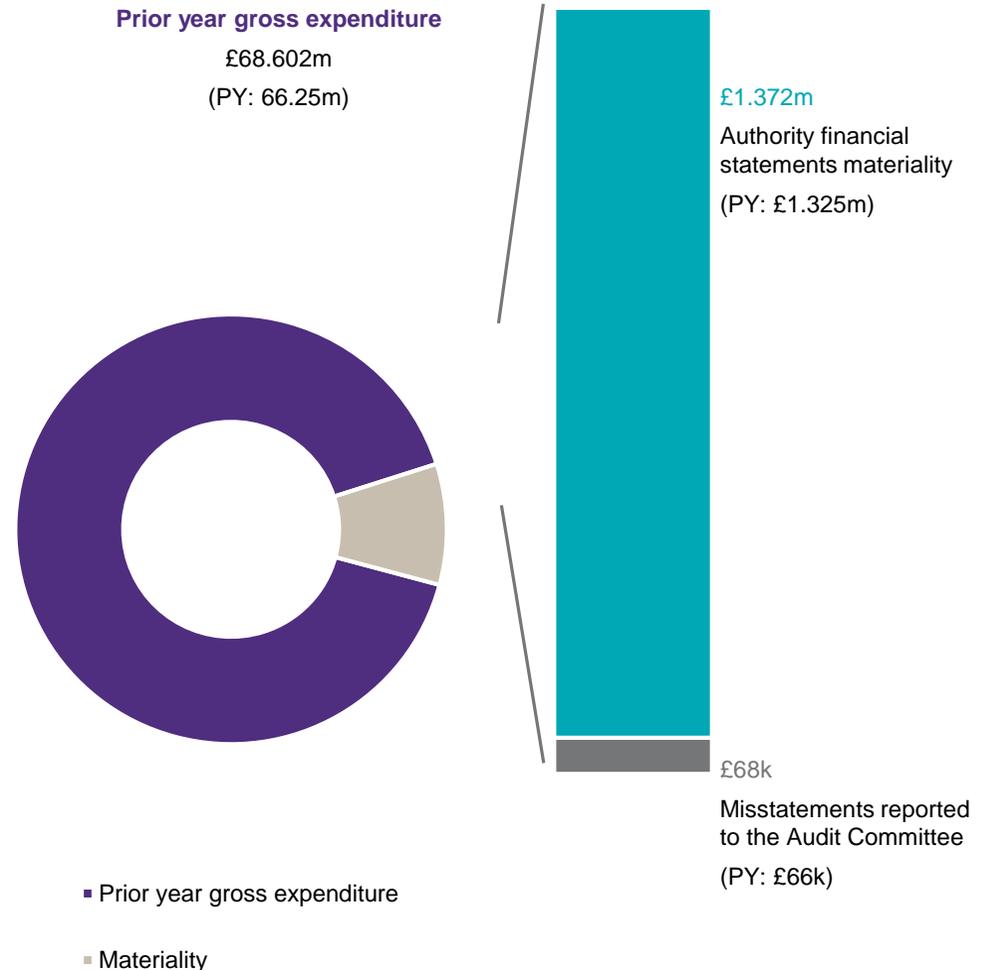
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.372m (PY £1.325m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision. The senior officer remuneration disclosure has been identified as an area requiring lower level of materiality of £5,000 based on the disclosure bandings, due to its sensitive nature.

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

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £68,000 (PY £66,000).

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 Committee to assist it in fulfilling its governance responsibilities.



# Value for Money arrangements

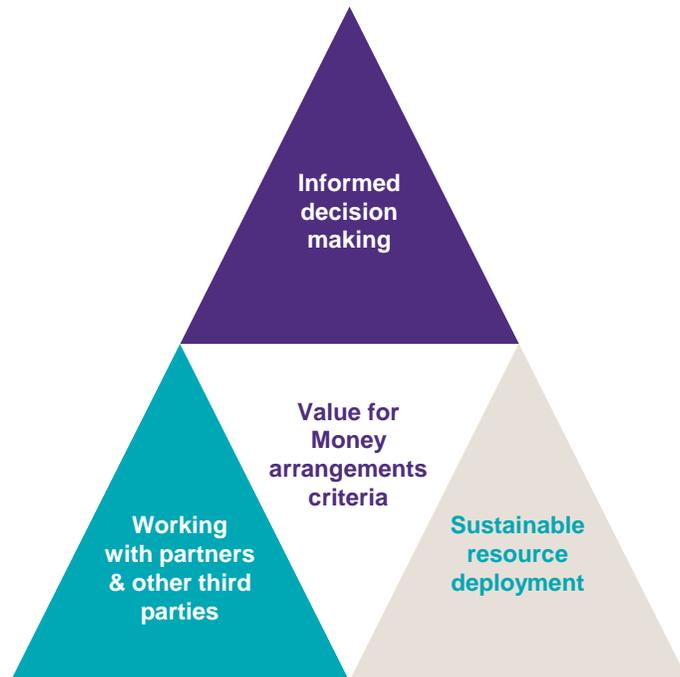
## Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



## Significant VFM risks

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



### Financial sustainability

On 24 July 2018 the Council approved the business case, including the new operating model for the Council, under the Customer Connect Programme. A key part of this change programme relates to a management restructure, with the key focus on bringing the operational decision making closer to the customer.

The new structure will take effect from 1 April 2019 and it is expected to contribute £0.740m of savings in 2019/20 and £1.55m from 2020/21. The MTFS presented to Council on 26 February 2019 showed that, after inclusion of the Customer Connect savings a balanced budget can be achieved in 2019/20. However, from 2020/21 additional efficiencies are required of £0.62m and this rises to £1.985m in 2023/24. Some savings have been identified from the capital programme from 2019/20 onwards but there are still significant efficiencies to be identified to achieve a medium term balanced position.

We will continue to monitor progress in relation to the implementation of Customer Connect as part of our Value for Money conclusion. We will also review your medium-term financial forecast and examine underlying assumptions and dependencies for robustness.

# Audit logistics, team & fees



## Gareth Kelly, Engagement Lead

Gareth leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained and a commitment to add value to the Authority.



## Jillian Burrows, Engagement Senior Manager

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

## Audit fees

The planned audit fees are £43,005 (PY: £55,851) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, you must ensure that:

- The draft accounts and AGS are provided to us by 31 May 2019 and are materially accurate
- Supporting schedules to all figures in the accounts and other working papers are provided to us by the commencement of the audit in June 2019 and are in accordance with the agreed upon information request list
- All supporting schedules are clearly presented and agree to figures in the accounts
- Key management and accounting staff identified in our information request list are available throughout the duration of our audit visits to help us locate information and to provide timely explanations
- All audit queries are resolved promptly and within agreed timescales.

# 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. The following other services were identified.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing Benefits Claim	11,350	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 £11,350 in comparison to the total fee for the audit of £43,005 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. 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.

---

# 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



### 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



© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.