



The Audit Plan for Shropshire Council

Year ending 31 March 2016

February 2016

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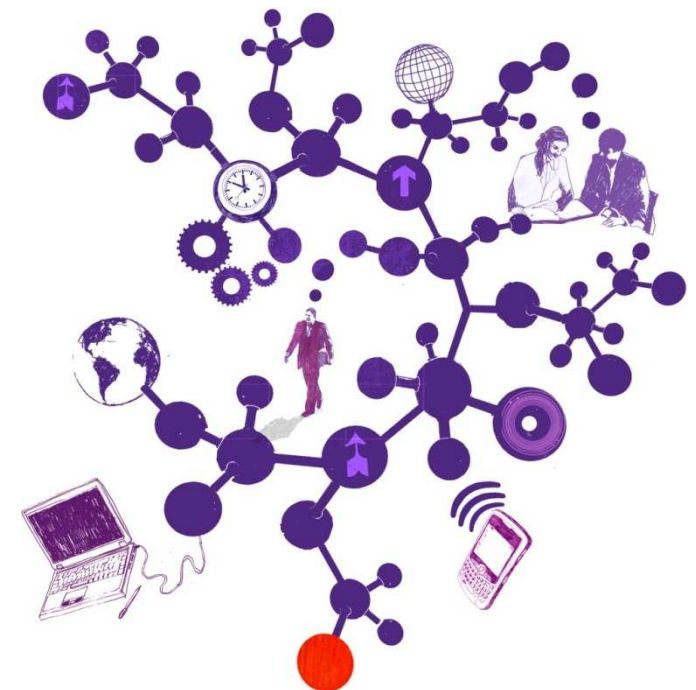
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Dear Members of the Audit Committee

Audit Plan for Shropshire Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Shropshire Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Mark Stocks

Engagement Lead

Chartered Accountants

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

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Finances – The Provisional Local Government Settlement

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.
- There is a front-loading of reductions greater than that initially anticipated for Shropshire Council. The implications of this on service delivery going forward are significant.

2. Financial planning / strategy

- The recent financial settlement has created significant pressure on service delivery in future years.
- Despite raising Council Tax to 3.99% there is a recurring shortfall within the current budget proposals which sees the 'gap' grow to £49.7 million by 2020/21. This is in addition to a significant savings programme.
- The greatest pressures are in Adult and Children's social care.
- The Council is developing proposals on how to close this funding gap.

3. Housing

- The Autumn Statement included a number of announcements intended to increase the availability and affordability of housing.
- The reduction in council housing rents and changes to right to buy will have a significant impact on Councils' housing revenue account business plans.

4. Collaboration and commercialisation

- The level of Council services delivered through partnerships, joint ventures or commissioned from a subsidiary company will increase.
- There is uncertainty around how rural unitary Councils can maximise the benefits from devolution arrangements.
- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- Setting up or entering into commercial arrangements requires strong governance and reporting arrangements.

5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.
- Complex financial reporting arrangements for partnerships will be harder in shorter timescales, so the LEP and Better Care Fund will require discussions with other parties to ensure reporting is not materially misstated.

Our response

- We will consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.
- We will monitor the delivery of your financial position throughout the year and ensure that reporting is clear to Members.

- We will consider your financial strategy and the reasonableness of assumptions going forward as part of our work in reaching our VFM conclusion.
- We will consider the adequacy of reporting to Members to ensure that the financial position of the Council is clear for those making key decisions.
- We will review the monitoring of plans to close funding gaps and how these are risk assessed and reported to Members.

- We will consider how the Council has reflected government announcements as part of its business planning process.
- We will share our knowledge of how other Councils are responding to these changes.

- We will review the decision making arrangements for delivering services with partners as part of our work in reaching our VFM conclusion.
- We will consider your plans as part of the local devolution agenda and provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.
- We will review your proposals for accounting for arrangements against the requirements of the CIPFA Code of Practice.
- We will review how your plans for the University Centre fit within the wider strategic vision for Shropshire.

- We will work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- We aim to complete all substantive work in our audit of your financial statements by 31 August 2016 to provide a transition to the earlier deadline.
- We are again proposing a series of meetings to discuss technical issues and changes in accounting requirements to ensure that there is clarity of expectations on both sides.

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.
- Reporting arrangements for between the Council and any partnership, subsidiaries or joint ventures should be sufficient to provide assurance.

3. Highways Network Assets

- Although you are not required to include Highways Network Assets until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.

4. Integration with health sector

- Developments such as the increased scope of the Better Care Fund and transfer of responsibility for public health to local government are intended to increase integration between health and social care.
- Councils are seeing significant cost pressures in Adult Social Care in particular as a result of increased demand for services, health funding reductions, hospital discharge behaviour, people with increasingly complex needs and living longer, fragmented families and reductions in personal wealth.

5. IT Infrastructure

- The Council has identified that its IT infrastructure requires significant investment and the strategy should be refreshed to align with the overall vision.
- Being clear about that the Council will require in relation to IT infrastructure going forward is being determined.
- The Council is balancing the investment required with the financial challenges it faces in statutory services.

Our response

- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

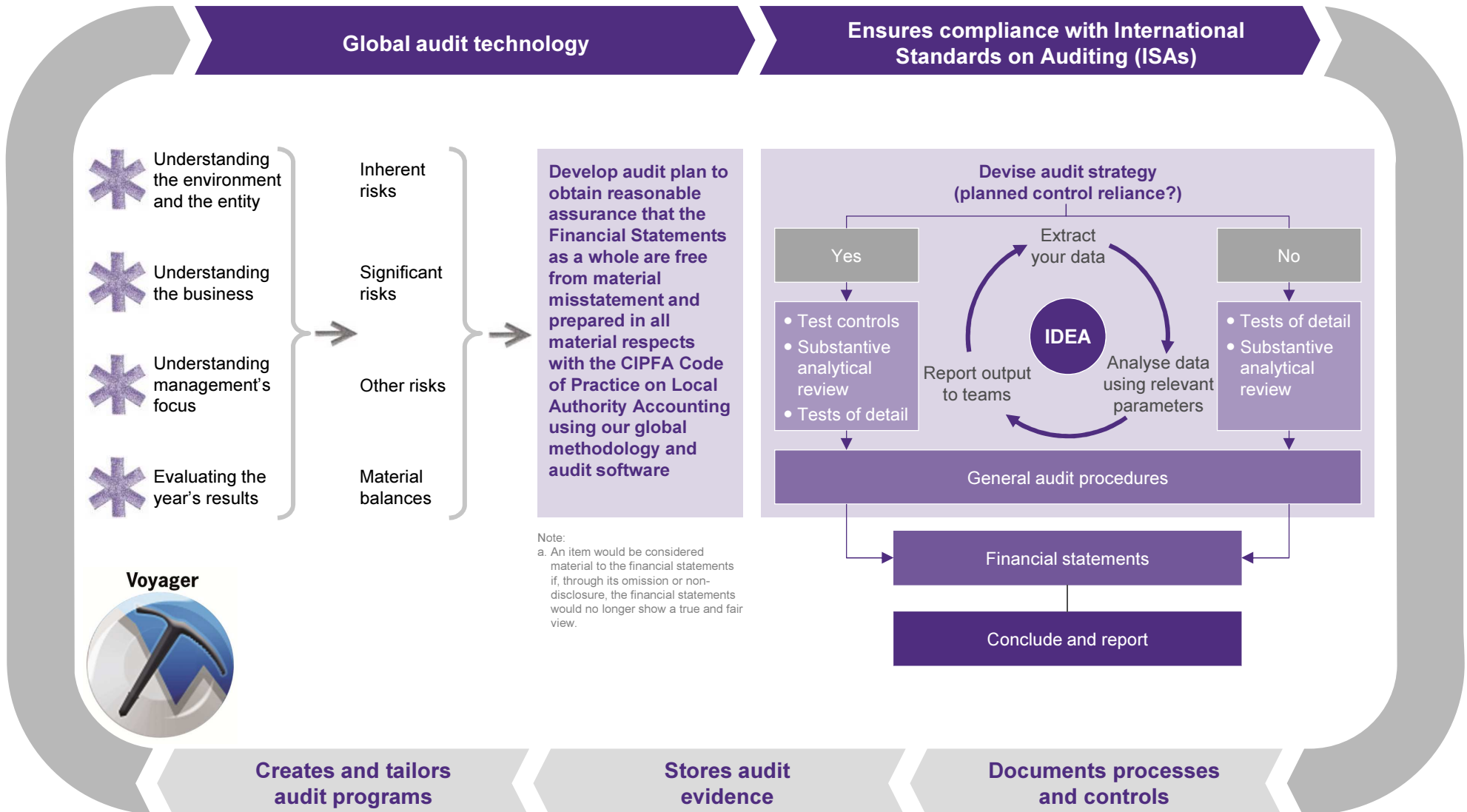
- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.
- We will consider the reporting arrangements between yourself and any partnership arrangements and report on any areas for improvement.

- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

- We will consider how the Council has reflected changes to its responsibilities in relation to public health and how it is working with partners, as part of our work in reaching our VFM conclusion.
- We will review the strategies to manage cost pressures in Adult Social Care and how this is being communicated to partners in the local area.
- We will also consider how the financial saving plans for Adult Social Care fit with the service delivery and whether savings are appropriately risk assessed.

- We will review the Council's strategy for IT infrastructure once developed.
- We will assess the strategy to identify whether it is in line with other strategies around services delivery and financial plans.

Our audit approach



Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 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'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £9,810k (being 1.75% of gross revenue expenditure) We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £490k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing in excess of £10,000 would be deemed to have implications on the users understanding of the financial statements
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing would be deemed to have implications on the users understanding of the financial statements
Related party transactions	Related party transactions have to be disclosed if they are material to the Council or to the related party	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Council and the related party.

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below :

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Shropshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions
Valuation of property, plant and equipment	<p>In the prior year we identified that the council had used indexation to revalue its housing stock, which is not in line with the code of practice.</p> <p>This led to an estimation uncertainty of £8,707k, which was below materiality and so the decision was taken not to correct this in the prior year accounts.</p> <p>There is a risk that the council will not appropriately value assets in 15/16 giving rise to a material uncertainty</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of 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.

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures" (ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work planned:</p> <ul style="list-style-type: none"> • Document the processes and controls in place around accounting for operating expenses • Undertake walkthrough tests to confirm the operation of the controls • Test the control account reconciliations • Search for unrecorded liabilities by testing whether the cut-off of post year end payments is appropriate • Verify creditors to supporting documentation and subsequent payments to ensure that creditors are correctly classified and recorded in the correct period
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	<p>Work planned:</p> <ul style="list-style-type: none"> • Document the processes and controls in place around accounting for employee remuneration • Undertake walkthrough tests to confirm the operation of the controls • Agree staff costs per the financial statements to the General Ledger and the payroll system • Undertake monthly trend analysis to gain assurance that there have been no significant omissions from staff costs recorded
Housing benefit expenditures	Welfare benefit expenditure improperly computed	<p>Work planned:</p> <ul style="list-style-type: none"> • Document the processes and controls in place around accounting for welfare benefits • Undertake walkthrough tests to confirm the operation of the controls • Undertake a reconciliation of expenditure to welfare benefits system • Undertake a reconciliation of welfare benefit income to grant claim and cash received • Undertake Initial testing in accordance with the methodology required to certify the housing benefit subsidy claim including, <ul style="list-style-type: none"> • housing benefit discovery testing • housing benefit analytical review • uprating model • software tool

Other risks identified (continued)

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 the previous section but will include:

- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA / SO LACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Group audit scope and risk assessment

ISA 600 requires that as group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
West Mercia Energy	No	<ul style="list-style-type: none"> Analytical 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Desktop review performed by Grant Thornton
Shropshire Towns and Rural Housing (STaRH)	No	<ul style="list-style-type: none"> Analytical 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Desktop review performed by Grant Thornton
ip&e Ltd	Yes	<ul style="list-style-type: none"> Audit of component financial information 	<ul style="list-style-type: none"> Risk of material misstatement due to errors in ip&e Ltd accounts or consolidation errors 	<ul style="list-style-type: none"> We will write to the auditors of ip&e Ltd to obtain assurance over their accounts We will consider the need to perform additional tests to obtain sufficient assurance.

Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO 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 across:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of good governance Understanding and using appropriate cost and performance information to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VFM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission, Ofsted and any outputs from the recent LGA review.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

Following the completion of this risk assessment, we will issue a separate planning document setting out our planned work for 2015/16 to meet our duties in respect of the VFM conclusion. This will include any significant risks identified, along with details of the work we plan to carry out to address these risks.

Reporting

The results of our VFM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Key dates



Date	Activity
January 2016	Planning
February / March 2016	Interim site visit for accounting and housing benefits certification planning
February 2016	Presentation of audit plan to Audit Committee
June / July 2016	Year end fieldwork and progression of housing benefits certification work
July / August 2016	Audit findings clearance meeting with Chief Finance Officer
September 2016	Report audit findings to those charged with governance (Audit Committee)
September 2016	Sign financial statements opinion
September 2016	Submission of the consolidated schedules for Whole of Government Accounts
September / October 2016	Housing benefit certification work completed
November 2016	Annual Audit Letter

Fees and independence

Fees

	£
Council audit	133,845
Grant certification	13,945
Total audit fees (excluding VAT)	147,790

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly. We will review with level of work involved in providing assurance over the transfer of services to ip&e Ltd and report any changes in fee to you once agreed with the Head of Finance, Governance and Assurance.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Audit of West Mercia Energy (Fee being equally split between Shropshire, Herefordshire and Worcestershire)	9,824
• Grant work outside the PSAA regime – to be confirmed	TBC
Non-audit services	TBC

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

Independence and ethics

We confirm that there are no significant facts or matters that in fact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- An employee of Grant Thornton UK LLP is now a Parish Councillor in Shropshire with effect from October 2013. This employee will not be involved in the audit, grant certification work or any non-audit services work that is carried out.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance		
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications		
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		
Confirmation of independence and objectivity		
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.		
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		
Non compliance with laws and regulations		
Expected modifications to the auditor's report, or emphasis of matter		
Uncorrected misstatements		
Significant matters arising in connection with related parties		
Significant matters in relation to going concern		
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud		



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