Grant Thornton

External Audit Plan

Year ending 31 March 2020

Cumbria County Council

September 2020

Contents

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

1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Cumbria County Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Cumbria County Council. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

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

- Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Assurance committee); 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 and Assurance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Group Accounts	The Council is required to prepare group financial statements that consolidate the financial information of Cumbria Waste Holdings Limited, and its related subsidiaries.
Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Valuation of land and buildings • Valuation of net pension fund liability • Management over-ride of controls • Covid-19 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 materiality to be £12.920m (PY £16.172m) for the group and £12.396m (PY £15.405m) for the Council, which equates to 1.3% of your 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 £0.646m (PY £0.809m) for the group and £0.620m for the Council (PY £0.784m).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk: • Medium term financial plan (MTFP) and financial sustainability
Audit logistics	Our audit fieldwork will take place between September and November 2020. 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 £114,154 (PY: £93,254) for the Council, subject to the Council meeting our requirements set out on page 13 and there being no further changes to the scope of our audit.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

2. Key matters impacting our audit

Factors

Covid-19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented.

The Secretary of State announced that, for the 2019/20 accounting period he would be extending the period for publication of principal authority accounts to 30 August 2020. For principal authorities, this meant that the whole chain of publication requirements was amended. The audited financial statements are now to be published by 30 November 2020. IFRS 16 implementation has been delayed by 1 year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards, which have been issued but are not yet effective are still required for IFRS 16 (Leases).

The Council's 2019/20 accounts include £1.044m related to costs arising from measures to address the COVID-19 pandemic at the end of March funded by £1.044m of additional government grant. This funding was part of the £16.085m COVID-19 grant received from government at the end of March 2020. The remaining balance of £15.041m was transferred to Earmarked Reserves to fund related expenditure in 2020/21.

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. This has been exacerbated by the impact of Covid-19. For Cumbria County Council, the most significant risk to the 2019/20 budget was in relation to the demand led budgets, particularly children's social care and a range of pressures and uncertainties in adult social care. To help mitigate these risks funding was provided and savings plans were developed to manage demand. The Council's Medium Term Financial Plan to 2021/22 included new savings of £22.730m.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions, which require greater audit scrutiny.

Our response

- We identified a significant financial statement level audit risk relating to the impact of Covid-19. See page 9 for details
- We will be working remotely during your accounts audit. Although there are some audit tasks which are best undertaken in person, we will be able to complete the majority, if not all, of the audit remotely.
- There are a number of key issues which your finance team will have had to consider as part of the year-end closedown and accounts production, including the impact on reserves and financial sustainability and whether a material uncertainty around going concern exists. Material uncertainties in relation to the valuation of land and buildings and disclosures in relation to critical judgements and estimation uncertainty.

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance and is subject to final PSAA agreement.

3. Group audit scope and risk assessment

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

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Cumbria County Council	Yes		• Significant risks for the audit are set out on pages 6 to 9.	Full scope UK statutory audit performed by Grant Thornton UK LLP.
Cumbria County Holdings Limited	No		• None	Analytical review performed by Grant Thornton UK LLP.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Council only	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, 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 Cumbria County Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Cumbria County Council.	As this presumed risk has been rebutted, no specific response is required.
Management over-ride of controls	Council only	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 Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. Our 2018/19 audit identified two control weaknesses in relation to the Council's manual journal review process and journal upload tool. We are aware that both of these weaknesses have been addressed by management during the 2019/20 financial year. We therefore identified management override of control, in particular journals, management estimates, judgements and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	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. • carry out specific procedures in relation to the control weaknesses identified during our 2018/19 audit.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council Only	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 (£843.082 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified the 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, and a key audit matter.	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 an auditor's expert) and performing any additional procedures suggested within the report • obtain assurances from the auditor of Cumbria Local Government Pension Scheme 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.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Land and Buildings	Council Only	The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£555.239m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management need to ensure the carrying value in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. An arithmetic error was discovered in the depreciated replacement cost (DRC) valuation template used to calculate the value of some of the Council's buildings in 2018/19. Management has investigated the issue and identified a potential understatement on land and buildings of £17.474m, in assets revalued as at 31 March 2019. Further more, assets that had not been revalued in 2018/19 were assessed again to determine whether the Balance Sheet was still materially correct. This piece of work concluded that there was a potential understatement of some £35m, at which stage a further 63 desktop valuations of buildings has been recently undertaken with the final figure being £32.001m. The Council is proposing a prior period adjustment in 2019/20 accounts to correct for this issue. 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.	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 • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year-end. • review workings and key assumptions associated with the proposed prior period adjustment to the Council's Land and Buildings as at 31 March 2019.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Covid-19	Council Only	The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. The pandemic circumstances will have had an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: - remote working arrangements and redeployment of staff to critical front line duties may impact on the quality of the production of the financial statements, and the evidence we can obtain through physical observation - volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic • evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence. • engage an auditor's valuation expert to support our work on land and building valuations.

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.

6. Other matters

Other work

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

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

Other material balances and transactions

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

Going concern

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

7. Materiality

The concept of materiality

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

Materiality for planning purposes

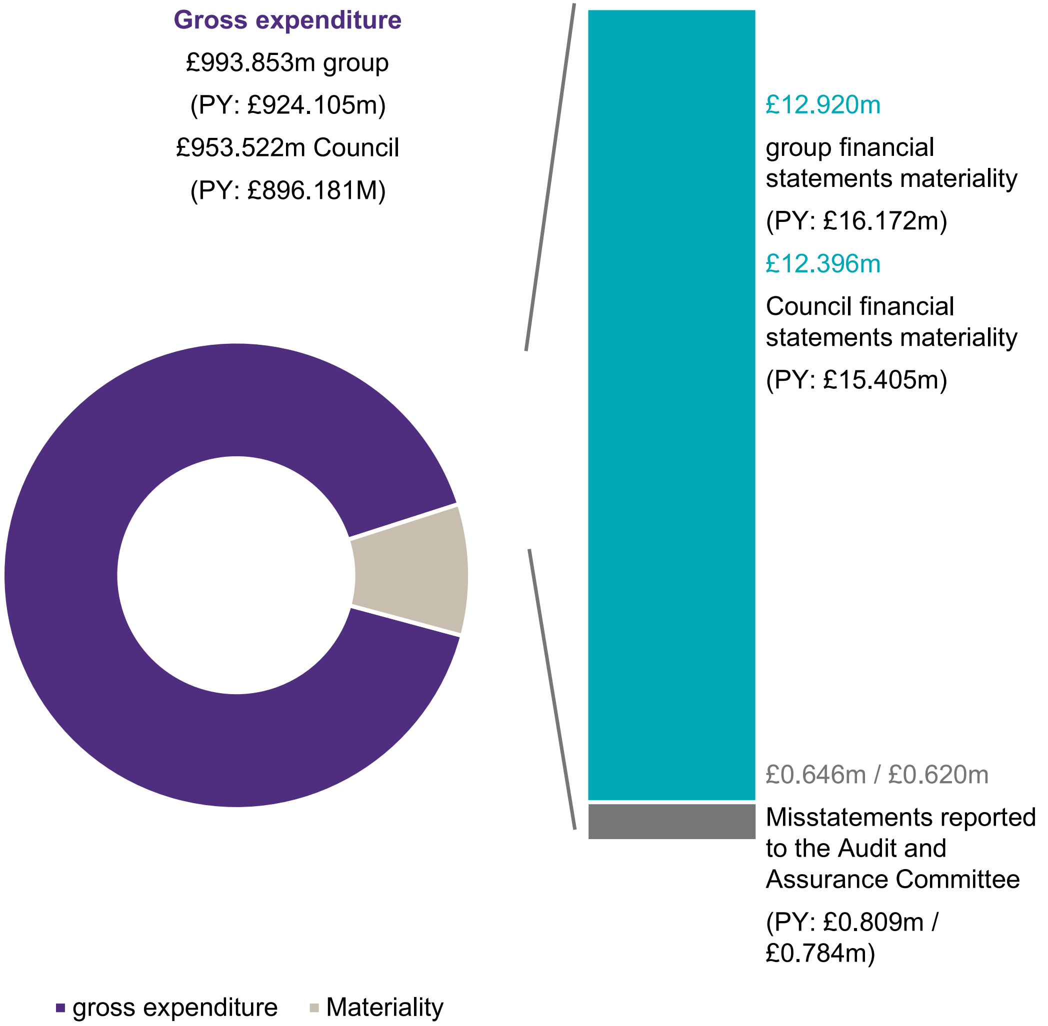
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality for our audit is £12.920m (PY £16.172m) for the group and £12.396m (PY £15.405m) for the Council, which equates to 1.3% of your gross expenditure for the year. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redmond. We design our procedures to detect errors in specific accounts at a lower level of precision, which we have determined to be £20,000 for senior officer remuneration.

We reconsider 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 and Assurance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit 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. We propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.646m (PY £0.809m) for the group and £0.620m for the Council (PY £0.784m).

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 and Assurance Committee to assist it in fulfilling its governance responsibilities.



8. Value for Money arrangements

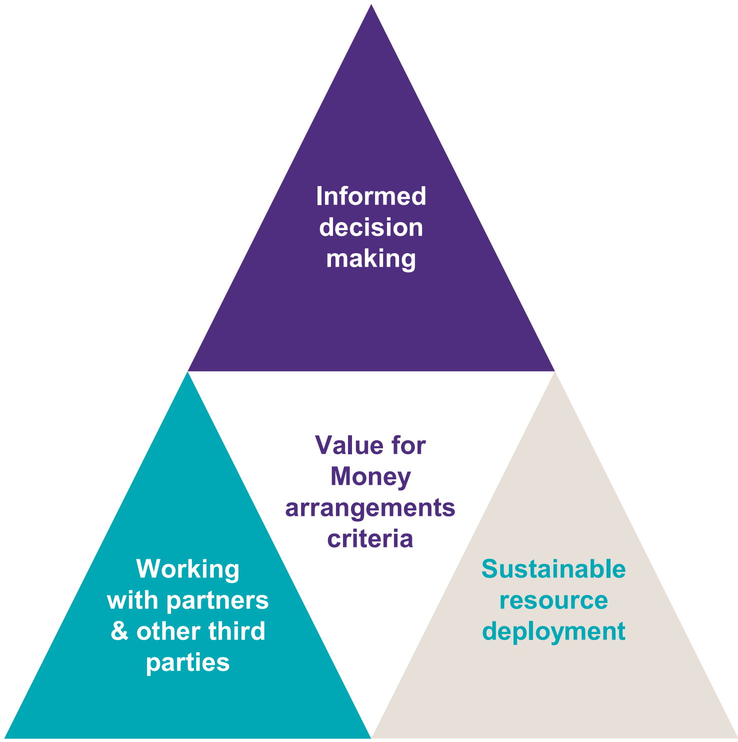
Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



Significant VFM risk

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.

Medium term financial plan (MTFP) and financial sustainability

The Council's MTFP covers the 5 year period 2020-2025 and identifies a further £44.0m of savings required in the period. There is a budget gap of £26.3m for the last three years of the MTFP, with work ongoing to identify future savings. The MTFP also identifies a number of significant pressures, relating to demand, inflation and investment in transformation and priorities. The Council's government funding position beyond 2020-21 is unknown.

The Council's 2019/20 outturn was to budget but there were variances in Directorate outturns at year-end. The most significant overspends were due to demand for services within the People Directorate with an overspend of £18.4m, driven mainly by pressures in children and families and younger adults. This was offset by underspends in other directorates. The Council budget set in February 2019 included £22.73m of new savings. Overall 75.0% of the savings were delivered in year giving a shortfall of £5.674m. The Covid-19 pandemic impacted the Council's operations in Q4. The Council's 2019/20 accounts includes £1.044m of Covid-19 related costs, which was funded by £1.044m of additional government grant. Whilst the long term impacts of Covid-19 are unknown, it is likely to pose significant challenges to service delivery and therefore financial sustainability for a number of years.

Given the 2019/20 outturn, savings gaps in the MTFP, uncertainties around the future funding settlement and disruption brought by Covid-19, the MTFP and financial sustainability of the Council represents a significant risk to our VFM conclusion. In response to the risk we will; review arrangements for developing the MTFP; review progress on delivery of the MFTP, identification of future required savings and managing demand pressures; challenge key assumption in the MTFP and review arrangements put in place to manage the financial impact of Covid-19.

Our VFM Risk assessment is ongoing and we are continuing to consider the arrangements that the Council has put in place to manage the significant disruption brought by the Covid-19 pandemic. We will particularly focus on arrangements for working with partners across Health and Social Care. Should our work identify further significant VFM significant risks, we will communicate this to the Audit and Assurance Committee via our Audit Findings Report.

9. Audit logistics & team

Gareth Kelly, Engagement Lead

Gareth will lead the engagement. He will direct the audit team, attend Audit and Assurance committees and be your first point of contact for any issue in relation to the audit process. Gareth will be responsible for issuing our opinion on your financial statements

Richard Anderson, Audit Manager

Richard will be responsible for the management of the audit. He will supervise and co-ordinate the team and ensure our audit work is delivered to the agreed timetable. Richard will meet regularly with the finance team to discuss audit issues.

Alec Walton, Audit In-charge

Alec will be responsible for the day to day delivery of our audit fieldwork. He will work with your finance team to ensure an efficient and quality audit is achieved.

Client responsibilities

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

Our requirements

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

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

10. Audit fees

Planned audit fees 2019/20

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

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

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

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£114,615	£93,254	£114,154
Total audit fees (excluding VAT)	**£114,615**	**£93,254**	**£114,154**

Assumptions:
In setting the above fees, we have assumed that the Council will:
- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	88,254	
Increased challenge and depth of work	3,300	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Materiality	4,000	As outlined on page 11 of this Plan, we have reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	3,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
Property Plant and Equipment Valuation	4,350	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
Property Plant and Equipment Valuation – work of experts	5,000	We have engaged our own audit expert – Wilks, Head and Eve to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin the valuation of land and buildings.
Covid-19 new significant risk	5,000	As highlighted on page 9 of this audit plan, we will carry out additional procedures in relation to our financial statement level risk in relation to the impacts of Covid-19.
Journals control weakness	750	As highlighted on page 6 of this audit plan, we will carry out additional procedures in relation to the journal control weaknesses identified during the 2018-19 audit.
Revised scale fee (to be approved by PSAA)	**114,154**	

11. 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 two significant matters that could have a real or perceived impact on our independence, objectivity and integrity, and as your auditors we are required to draw it to your attention:

- Richard McGahon was the external audit manager for Cumbria County Council, between 1 June 2018 and 9 July 2018. Richard McGahon applied for the post of Head of Internal Audit at Cumbria County Council and was successfully appointed to that post on 10 December 2018. Given Richard McGahon has no involvement in accounts preparation, and as our team does not place direct reliance on internal audit work, the real and perceived threat to independence, objectivity and integrity is low. However, there remains a perceived threat of independence, and this has been mitigated by putting in place the following safeguard, the appointment of an Engagement Quality Control Reviewer, who is another Engagement Lead who acts as an additional review partner.
- Jamie Wright was the external audit in-charge for Cumbria County Council, between December 2016 to September 2019 and the external audit manager between September 2019 to November 2019. In November 2019, Jamie applied for the post of Group Finance Manager at Cumbria County Council and was successfully appointed to the post on 19 November 2019. We have obtained confirmation from Director of Finance at Cumbria County Council that Jamie will have no direct involvement in preparation of financial statements. The role will support the Directorate of Community and Corporate Services and will be involved in the co-ordination of the corporate budget monitoring returns. We are therefore satisfied that the real and perceived threat to independence, objectivity and integrity is low. There remains a perceived threat of independence, and this has been mitigated by putting in place the following safeguard, the appointment of an Engagement Quality Control Reviewer, who is another Engagement Lead who acts as an additional review partner. The Engagement Quality Control reviewer never worked with Jamie during his time at Grant Thornton. Richard Anderson and Gareth Kelly can continue to act as engagement manager and engagement lead respectively, on the grounds of seniority, with both Richard and Gareth being senior to Jamie prior to his departure from Grant Thornton. We have however introduced a further safeguard, the remainder of the audit team needs to be staffed by a team from outside of our Carlisle office, who have not previously worked with Jamie Wright.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following other services were identified

Service	£	Threats	Safeguards
Audit related:			
Certification of Teachers Pension Claim	6,500	Self-Interest Self-review Management	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 £6,500 in comparison to the total fee for the audit of £114,154 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. There is a perceived self-review and management threat, to be safeguarded by the fact we will carry out the work after the audit and the Council is making decisions on changes to the claim and it has informed management in place.

11. Independence & non-audit services

Other services provided by Grant Thornton (continued)

Service	£	Threats	Safeguards
Audit related:			
Harbour Authority Accounts specified procedures	1,000	Self-Interest Self-review Management	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 £1,000 in comparison to the total fee for the audit of £114,154 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. There is a perceived self-review and management threat, to be safeguarded by the fact we will carry out the work after the audit and the Council is making decisions on changes to the claim and it has informed management in place.
Non-audit related:			
CFO Insights Licence	12,500	Self-Interest Self-review	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 £12,500 in comparison to the total fee for the audit of £114,154 and in particular relative to Grant Thornton UK LLP's turnover overall. It is a fixed fee and there is no contingent element to it. The licence provides direct access to the information, Grant Thornton LLP are not advising on the areas to review or being part of the decision making process and therefore it does not impact on our Value for Money Conclusion work. These factors all mitigate the perceived self-interest and self review threats to an acceptable level
Contract Assurance	50,730	Self-Interest Self-review	Note this same review was previously reported in our 2018/19 Audit Findings Report.The level of this non-recurring contingent fee taken on its own is not considered a significant threat to independence as the fee for this work is £50,730 in comparison to the total fee for the audit of £114,154, and in particular relative to Grant Thornton UK LLP's turnover overall. The Grant Thornton Contract assurance team are independent of the local engagement team. They are not directing on the areas to review or being part of the decision making process and therefore it does not impact on our Value for Money Conclusion work. This review has also been subject to approval from Public Sector Audit Appointments Limited received on 20 June 2019. These factors all mitigate the perceived self-interest and self-review threats 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 the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Assurance 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.

The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf

Appendices

A. Audit Quality – national context

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

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

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

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

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

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.