

# West Midlands Fire and Rescue Authority Audit Plan

Year ending 31 March 2023

West Midlands Fire and Rescue Authority  
25 September 2023



# Contents



## Your key Grant Thornton team members are:

### Avtar Sohal

Key Audit Partner

T 0121 232 5420

E [avtar.s.sohal@uk.gt.com](mailto:avtar.s.sohal@uk.gt.com)

### Sarah Jassal

Audit Manager

T 0121 232 5123

E [sarah.j.jassal@uk.gt.com](mailto:sarah.j.jassal@uk.gt.com)

### Nikiwe Sibanda

Assistant Manager

T 0121 232 5150

E [nikiwe.m.gumbanjera.sibanda@uk.gt.com](mailto:nikiwe.m.gumbanjera.sibanda@uk.gt.com)

Section	Page
Key matters	3
Introduction and headlines	5
Significant risks identified	7
Other matters	11
Progress against prior year recommendations	12
Our approach to materiality	16
IT Audit Strategy	18
Value for Money Arrangements	19
Audit logistics and team	20
Audit fees	21
Independence and non-audit services	24
Communication of audit matters with those charged with governance	25

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.

# Key matters



## National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Funding for Fire and Rescue authorities continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation, workforce challenges and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

## Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In March 2023, we issued [About time?](#), which explored the reasons for delayed publication of audited local authority accounts. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

# Key matters



## Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Head of Finance & Procurement.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will consider progress made against previously agreed recommendations – see page 12.
- We will continue to provide you and your Audit & Risk Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit & Risk Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk with regards to management override of control – refer to page 8.



# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Midlands Fire and Rescue Authority ('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 the Authority.

We draw your attention to both of these documents.

## 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 & Risk Committee); and we consider whether there are sufficient arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit & Risk 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.



# Introduction and headlines

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Presumed risk of management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liabilities

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 £2.8m (PY £2.6m) for the Authority, which equates to around 2% of the gross operating costs for the year in the draft financial statements submitted for audit.

As part of our risk assessment, we have considered the impact of unadjusted prior period errors and other factors, and applied a performance materiality adjustment to 70% of materiality, resulting in performance materiality of £1.96m (PY £1.82m)

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 £0.14m (PY £0.13m).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. We will continue to update our risk assessment until we issue our Auditor's Annual Report.

## New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

## Audit logistics

Our planning work has taken place in February and September 2023, and our final visit will begin in November 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £53,114 (PY: £61,300) for the Authority, subject to the Authority delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Authority's Ethical Standard (revised 2019) 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.

# 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
<p>Presumed risk of fraud in revenue recognition</p> <p>ISA (UK) 240</p>	<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>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to improper recognition.</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of revenue streams at the Authority, we have determined that the risk of fraud arising from improper revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including the Fire Authority, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore, we have concluded that this is not an area of significant risk for the Authority.</p> <p>We will continue to review and test, on a sample basis, material revenue transactions, ensuring that it remains appropriate to rebut the presumed risk fraud in revenue recognition.</p>
<p>Risk of fraud related to expenditure recognition</p> <p>PAF Practice Note 10</p>	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.</p>	<p>Having considered the risk factors and the nature of expenditure streams at the Authority, we have determined that the risk of fraud arising from improper expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate expenditure recognition</li> <li>• opportunities to manipulate expenditure recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including the Fire Authority, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore, we have concluded that this is not an area of significant risk for the Authority.</p> <p>We will continue to review and test, on a sample basis, material expenditure transactions, ensuring that it remains appropriate to rebut the risk fraud in expenditure recognition.</p>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	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.	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design and 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 judgments 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>

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK) 315]



# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Authority's pension fund net liabilities represent a significant estimate in the financial statements.</p> <p>The pension fund net liabilities are considered a significant estimate due to the values involved (£1.3 billion in total in the Authority's balance sheet as at 31 March 2023, comprised of a small surplus of £1m on the Local Government Pension Scheme (LGPS) and an aggregate deficit of £1.3 billion on the Firefighter Pension Schemes (FFPS)), and the sensitivity of the estimate to changes in key assumptions.</p> <p>Management have engaged the services of actuaries to estimate the current value of net liabilities as at 31 March 2023. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular, the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability.</p> <p>We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regards to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.</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 liabilities are not materially misstated, and evaluate the design of the associated controls</li> <li>• evaluate the instructions issued by management to their management experts (the actuaries) for this estimate and the scope of the actuaries' work</li> <li>• assess the competence, capabilities, and objectivity of the actuaries who carried out the Authority's pension fund valuations</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuaries to estimate the liabilities</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 reports from the actuaries</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consultancy actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> <li>• obtain assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions date, and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements (LGPS only)</li> </ul>

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto. Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

# Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Authority revalues its land and buildings annually, to ensure that the carrying value is not materially different from the current value at the financial statements date.</p> <p>Management have engaged the services of a valuer to estimate the current values of a sample of these assets as at 31 March 2023, as part of a five yearly cyclical approach.</p> <p>These valuations represent a significant estimate by management in the financial statements due to the size of the values involved (£143m in the Authority's balance sheet as at 31 March 2023), and judgement required to estimate values based on source data (such as floor areas and costing of in-year improvements) and subjective inputs (such as obsolescence factors and selection of build costs indices). Additionally, management will need to ensure the carrying value in the financial statements of any assets not revaluated in year is not materially different from the current value at the financial statements date.</p> <p>We have therefore identified valuation of land and buildings as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for 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 experts</li> <li>• discuss with the valuers the basis on which the valuation was carried out to ensure that the requirements of the Code are met</li> <li>• challenge the information and assumptions used by the valuers 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>• evaluate management's assessment of the carrying value of assets not revalued by the valuer at the financial statements date.</li> </ul>

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' [ISA (UK) 315]

# 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 to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set 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 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
  - issuing a report in the public interest or written recommendations to the Authority under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - 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.

# Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the Authority's financial statements, which resulted in three recommendations being reported in our 2021/22 Audit Findings Report. We are pleased to report that management have confirmed that all of our recommendations have been implemented.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p><b>Review of the Fixed Asset Register</b></p> <p>We identified assets within the Fixed Asset Register which had been disposed of. These assets had nil net book value but gross book value and accumulated depreciation of £1.3m. We recommended that the Authority should review the fixed asset register periodically to ensure that assets no longer in use are removed in a timely manner.</p>	<p>Management have indicated that the asset register is now reviewed annually including checks on assets no longer in use.</p> <p>We will confirm this as part of our detailed testing of fixed assets.</p>
✓	<p><b>Completeness of the ledger</b></p> <p>We identified that the general ledger was imbalanced by £1.25 following the data migration to a new financial system. We recommended that the Authority should further investigate the imbalance to help increase understanding of the data migration process and provide assurance over the completeness of the ledger.</p>	<p>Management have further investigated the discrepancy and the issue was resolved with reports produced to substantiate the amount of the imbalance.</p> <p>We will test the completeness of the general ledger as part of our audit procedures.</p>
✓	<p><b>Depreciation Policy</b></p> <p>We identified some assets where asset lives were inconsistent with stated accounting policies, resulting in premature depreciation. We recommended that the Authority review asset lives to ensure consistent application of accounting policies, and to ensure that assets are categorised correctly in the fixed asset register.</p>	<p>Management have confirmed that the useful economic lives applied to assets are reviewed annually as part of the Statement of Accounts process, to ensure consistency and correct categorisation.</p> <p>We will confirm this as part of our detailed testing of fixed assets.</p>

# Progress against prior year audit recommendations

Our IT audit identified a further eight recommendations which were included in the 2021/22 Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
	<p>Inadequate control over self-assigning roles in Oracle Cloud by privileged users</p> <p>In the Oracle system, users can self-assign roles. These roles should be approved through the formal authorisations process for user access Management but we were unable to confirm formal documented approvals were in place. We recommended that management should put proper processes and controls in place for the self-assignment of user access for privileged users to ensure that the activities are consistently performed, logged and monitored</p>	To be confirmed
	<p>User access within Oracle is not appropriately revoked for terminated employees</p> <p>We identified that a sampled leaver's user account was still active/enabled within Oracle after the leaving date and that the leaver's account was last logged in 46 days after leaving. We recommended that management should ensure that a comprehensive user administration policy and associated procedures are in place to revoke application access in a timely manner.</p>	To be confirmed
	<p>Inadequate control over privileged (individual and generic) accounts within Oracle</p> <p>We identified that that there were 212 users from 3<sup>rd</sup> party support provider who had admin access. It was further noted that 1 user was a senior member of IT management. In addition, we found 5 generic accounts where there was no evidence of appropriate access controls. We recommended that management should undertake a review of all user accounts on Oracle to identify all individual accounts and review access settings and controls to prevent misuse.</p>	To be confirmed



# Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
	<p><b>Lack of controls over granting user access within Oracle</b></p> <p>When a new employee joins the organisation, their access rights to a system/network should be approved by an appropriate individual before being granted according to the job role. Our audit identified for a new starter joining the organisation, the permissions were not specified on the access request.</p> <p>We recommended that management should</p> <ul style="list-style-type: none"> <li>• develop formal user access management procedures to ensure activities are consistently performed, logged and monitored</li> <li>• grant permissions based upon the role and responsibilities of the users and on the principle of least privilege, with regular review of permissions</li> <li>• Implement a process to record, approve and action the new user requests based on user role, team and access level</li> </ul>	To be confirmed
	<p><b>Lack of review of information security/audit logs within Oracle</b></p> <p>The applications are configured to generate audit logs which would identify unauthorised access attempts or inappropriate use. We found that logs are not monitored or reviewed periodically. We recommended that security event logs are reviewed at least weekly by a person who is independent of those involved in the administration of the application and underlying database.</p>	To be confirmed
	<p><b>Lack of User Acceptance Testing completed for Oracle changes</b></p> <p>Evidence was not available to confirm that user acceptance testing was performed and approved before moving a sampled change into production.</p> <p>We recommended that management should ensure that change management procedures are recommunicated to staff so that testing is performed and approved prior to introducing a change into the live environment. Documentation should be retained to identify who and when changes have occurred in the system</p>	To be confirmed

# Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
	<p><b>Business users not involved in conducting User Acceptance Testing in Oracle</b></p> <p>Our audit identified that the no evidence was available to show that the testing for a Sampled change was re-performed by appropriate business and system administration users. We recommended that management should ensure that change management procedures are recommunicated to staff so that testing is performed and approved prior to introducing a change into the live environment. Changes should be approved by business users to ensure the changes being made have been appropriately tested and approved.</p>	To be confirmed
	<p><b>Inadequate control over privileged (individual and generic) accounts within Active Directory</b></p> <p>We identified that that there was an individual admin account where the user was a member of senior IT management and 1 account where we could not determine the role of the user. We also identified 17 generic user accounts where there was no evidence of appropriate access controls.</p> <p>We recommended that management should undertake a review of all user accounts on Oracle to identify all individual accounts and review access settings and controls to prevent misuse.</p>	To be confirmed

# Our approach to 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.

Matter	Description	Planned audit procedures
1	<b>Determination</b> We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. Materiality has been determined at £2.8m which equates to around 2% of your gross expenditure for the period.	We determine materiality in order to: <ul style="list-style-type: none"> <li>– establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements</li> <li>– assist in establishing the scope of our audit engagement and audit tests</li> <li>– determine sample sizes and</li> <li>– assist in evaluating the effect of known and likely misstatements in the financial statements</li> </ul>
2	<b>Other factors</b> An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. <ul style="list-style-type: none"> <li>– We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £30,000.</li> </ul>

# Our approach to 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.

Matter	Description	Planned audit procedures
3	<b>Reassessment of materiality</b> Our assessment of materiality is kept under review throughout the audit process.	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 materiality.
4	<b>Other communications relating to materiality we will report to the Audit &amp; Risk Committee</b> Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit & Risk 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 report to the Audit & Risk Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. 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 £0.14m (PY £0.13m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit & Risk Committee to assist it in fulfilling its governance responsibilities.

# IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Spend/Income	Planned level IT audit assessment
Oracle Fusion	Financial reporting and payroll	£195m gross expenditure in the CIES	We will test design and implementation of the ITGCs.



# Value for Money arrangements

## Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:



### Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



### Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



### Governance

How the body ensures that it makes informed decisions and properly manages its risks.

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

# Audit logistics and team



## Nikiwe Sibanda, Assistant Manager

Key audit contact responsible for the day-to-day management and delivery of the audit work.

## Sarah Jassal, Audit Manager

Manages the delivery of the audit, including supervision of the work of the audit team, review of audit work and liaison with the finance team

## Avtar Sohal, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers

## Audited Entity responsibilities

Where audited bodies 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 audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity 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 an entity 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 Statement 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 for testing
- 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.

# Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for the Authority to begin with effect 2018/19. The fee agreed in the contract was £29,750. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 (and the revision of the scale fee to £35,064 for 2022/23) please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Authority's IT Infrastructure and IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Authority's business model, which may result in us needing to perform additional inquiries to understand the Authority's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the ITGCs as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £2,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with the Head of Finance & Procurement.

# Audit fees

	Actual Fee 2021/22	Proposed fee 2022/23
Authority Audit	£61,300	£53,114
Total audit fees (excluding VAT)	£61,300	£53,114

## Assumptions

In setting the above fees, we have assumed that the Authority will:

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

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis

Revised Scale Fee published by PSAA	£35,064
<b><i>New issues (not included in the Scale Fee)</i></b>	
Additional work on Value for Money (VfM) under new NAO Code	£8,000
Increased audit requirements of revised ISAs 540 / 240 / 700	£4,625
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£2,925
Enhanced audit procedures for Payroll – Change of circumstances	£500
Increased audit requirements of revised ISAs 315/ 240	£2,000
<b>Total proposed audit fees 2022/23 (excluding VAT)</b>	<b>£53,114</b>

All variations to the scale fee will need to be approved by PSAA



---

# Independence and 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 Authority'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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority.

## Other services

No other services provided by Grant Thornton were identified.

# Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	
Respective responsibilities of auditor and management/those charged with governance	•		ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	
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	•	•	This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.
Significant matters in relation to going concern	•	•	
Significant findings from the audit		•	
Significant matters and issue arising during the audit and written representations that have been sought		•	We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.
Significant difficulties encountered during the audit		•	
Significant deficiencies in internal control identified during the audit		•	
Significant matters arising in connection with related parties		•	<b>Respective responsibilities</b>
Identification or suspicion of fraud[ deliberate manipulation] involving management and/or which results in material misstatement of the financial statements [ not typically Authority tax fraud]		•	
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.
Expected modifications to the auditor's report, or emphasis of matter		•	

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

