Appendix 3

Grant Thornton

The Audit Plan for ESPO (Eastern Shires Purchasing Organisation)

Year ending 31 March 2020

June 2020

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

Contents

Introduction & headlines

Purpose

- This document provides an overview of the planned scope and timing of the statutory audit of ESPO Joint Committee ('the Joint Committee') for those charged with governance.

Scope of our audit

We are responsible for forming and expressing an opinion on the Joint Committee's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee)

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Joint Committee 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 Joint Committee is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Joint Committee's business and is risk based. The significant risks identified for the 19/20 audit and our proposed approach are set out in the table below and in further detail later in this document.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Income from Invoiced Turnover • Management override of controls • Valuation of the pension fund net liability. • Transition from LG Code to FRS102 • Impact of 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 in September 2020.
Materiality	We have determined planning materiality to be £1.728m for the Joint Committee, which equates to 2% of your forecasted gross revenue revenue 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 £0.086m (PY £0.086m). Further details of our approach to materiality are outlined at page 9.
Audit logistics	Our audit planning session took place in April and our final visit will take place in August/September. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is outlined overleaf. We have agreed an initial base fee of £32,000. There is a likelihood of some fee variation this year owing to the impact of the transition from LG code to FRS102 and the impact of Covid 19 pandamic.
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..

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Significant risks identified

Significant risks are defined by professional standards 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.

Significant risk	Description	Further work planned
The revenue cycle includes fraudulent transactions (Invoiced Turnover)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. For ESPO Joint Committee we have concluded that the greatest risk of material misstatement relates to Invoiced Turnover, in relation to Stores, Direct, Gas and Rebate Income. We have therefore identified the occurrence and accuracy of Invoiced Turnover as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the Joint Committee's accounting policy for recognition of Invoiced Turnover for appropriateness; • gain an understanding of the Joint Committee's system for accounting for income from Invoiced Turnover, evaluate the design of the associated controls and observe them in operation; • Agree, on a sample basis amounts recognised as income from Invoiced Turnover in the financial statements to ensure that accurately accounted for in line with accounting policies, that income is appropriately recognised and that there is appropriate evidence of receipt of funds.
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. The Joint Committee faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	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.

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Significant risks identified (continued)

Significant risk	Description	Further work planned
Valuation of the pension fund net liability	The Joint Committee'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 (£6 million in the Joint Committee's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Joint Committee's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement	We will: • update our understanding of the processes and controls put in place by management to ensure that the Joint Committee'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 Joint Committee's pension fund valuation; • assess the accuracy and completeness of the information provided by the Joint Committee to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Shropshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified (continued)

Significant risk	Description	Further work planned
Conversion of financial statements from LG Code to FRS102	The Joint Committee has decided to change its accounting framework for the preparation of its financial statements from the LG Code to UK GAAP FRS102 for the year ending 31 March 2020 Section 35 of FRS102 applies to organisation who are first time adopters of FRS102. The section describes the requirements and disclosures for the Joint committee to take into account when preparing the financial statements under FRS102 which include • The date of transition is the beginning of the earliest period for which an entity presents full comparative information in accordance with FRS 102. • Reconciliations and explanations of the impact of adoption of FRS 102 are required. • In the opening statement of financial position, the entity should: recognise all assets and liabilities as required by FRS 102; not recognise items if FRS 102 does not permit recognition; reclassify items previously recognised as required by the FRS; and apply FRS 102 in measuring all recognised assets and liabilities. A number of specific voluntary exemptions are provided which an entity can apply in preparing its first financial statements that comply with FRS 102 The Joint Committee will need to review and update the accounting policies adopted by the financial statements so that they are consistent with the requirements of UK GAAP FRS102.	We will: • review the financial statements and related disclosures that support the transition from the LG Code and FRS102 to ensure that the Joint Committee has appropriate adopted the framework • review the process and arrangements the Joint Committee has to restate prior year figures for the year ending 31 March 2019 and test these to ensure that the conversion has been appropriately completed

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Significant risks identified (continued)

Significant risk	Description	Further work planned
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. We expect current circumstances may have an impact on the production and audit of the financial statements for the year ended 31 July 2020, including and not limited to; • Remote working arrangements may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility will increase the uncertainty of assumptions applied by management to 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 July 2020, 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

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in September 2020.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA 315)

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Other matters

Other work

- We read your Director's Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.

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 Joint Committee's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

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

Materiality for planning purposes

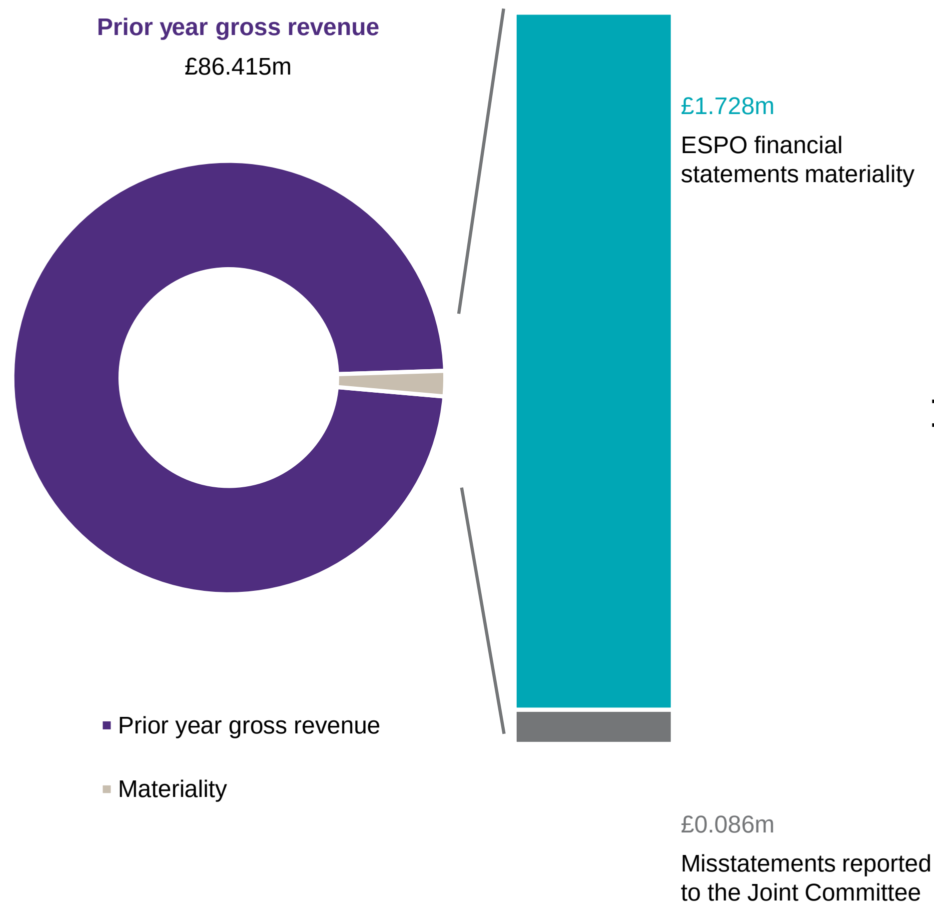
We have determined financial statement materiality based on a proportion of the gross revenue of the Joint Committee for the financial year. Materiality at the planning stage of our audit is £1.728 million, which equates to 2% of your forecasted gross revenue for the year. We design our procedures to detect errors in specific accounts at a lower level of precision. Accordingly, senior officer remuneration materiality has been reduced to £20,000 due to its sensitive nature and public interest.

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

Matters we will report to the Joint 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 Joint Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of ESPO, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £86,000.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Joint Committee to assist it in fulfilling its governance responsibilities.



Audit logistics, team & fees

Planning and risk assessment

Audit planning
January 2020

Joint committee
June 2020

Audit Plan

Year end audit
w/c TBC

Joint committee
TBC

Audit Findings Report

Accounts signed
TBC

Audit opinion

John Gregory, Engagement Lead

John will be the main point of contact for the Chair, Director and Committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. John will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit.

Avtar Sohal, Senior Audit Manager

Avtar will work with the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. He will attend Audit Committee with John, and supervise Allison in leading the on-site team. Avtar will undertake reviews of the team's work and draft clear, concise and understandable reports.

Allison Thomas, Audit Incharge

Allison will be the day to day contact for the audit, organising our visits and liaising with ESPO staff. She will lead the on-site team and will monitor deliverables, manage our query log ensuring that any significant issues and adjustments are highlighted to management as soon as possible.

Audit fees

- The planned audit fees are £32,000 for the financial statements audit completed in line with the terms of our engagement. In setting your fee, we have assumed that the scope of the audit, and the Joint Committee and its activities, do not significantly change.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, 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
- supply supporting schedules to all figures in the accounts by the agreed dates and in accordance with the agreed upon information request list
- make all appropriate staff available during the period of the audit to help locate information and to provide explanations.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff and that you are kept informed of progress during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Fees and independence

Fees

	£
Joint Committee audit for 2019/20	32,000
Additional audit work for Conversion of LG Code to FRS102	2,500
Additional audit work for the Impact of Covid 19	2,500
Total	**37,000**

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Joint Committee and its activities have not changed significantly
- The Joint Committee will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

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

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	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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

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

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

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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