

The Audit Plan for Buckinghamshire County Council

Year ending 31 March 2016

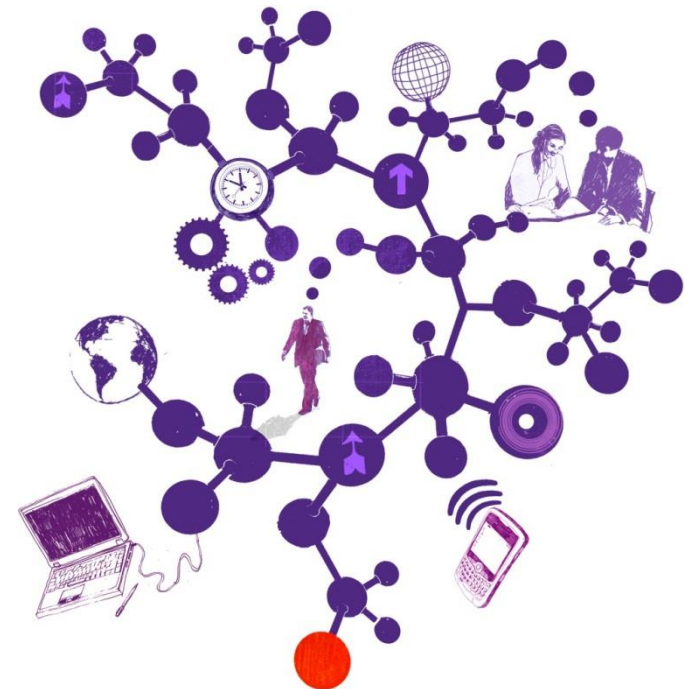
3rd February 2016

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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.

Buckinghamshire County Council
County Hall
Walton Street
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3rd February 2016

Dear Members of the Regulatory and Audit Committee

Audit Plan for Buckinghamshire County Council for the year ending 31 March 2016

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

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

Our responsibilities under the Code are to:

- give an opinion on your financial statements
- satisfy ourselves you have made proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

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

Yours sincerely

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Understanding your business

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

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- You are facing the loss of all revenue support grant funding from central government by 2018/19 and will lose £52.7m over the four years to 2019/20 as a result of reductions in non-domestic rate top-up grant funding.

2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- You have joined seven other local authorities and three LEPs to seek devolution of additional powers around transport.

3. Children's Services

- In August 2014 you were rated inadequate by OFSTED in relation to your Children's Services function.
- In response to this you have implemented an Improvement Plan to address the concerns raised by OFSTED over a two-year period.

4. Future Shape

- You have continued with the implementation of the Future Shape programme, an ambitious initiative to create a more commercially minded culture and to prepare you for the financial and operational challenges of the future.
- The Future Shape Programme was rolled out on 1st April 2015 for your divisions except for Adult's and Children's Services, which are on a later timescale.

5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.
- For 2015/16 you have moved the date for approval of the final version of the accounts by the Regulatory and Audit Committee forward from September to 28 July.



Our response

- We will consider your plans for addressing your financial position as part of our work to reach our VFM conclusion.

- We will consider your plans as part of the local devolution agenda as part of our work in reaching our VFM conclusion.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will review progress made against the Improvement Plan as part of our work in reaching our VFM conclusion.

- We will liaise with officers to consider how successful Future Shape has been at transforming your culture and embedding new ways of working.
- We will review the governance arrangements in place in relation to the roll-out of the Future Shape Programme to Adult's and Children's Services.

- We will work with you to identify areas of your accounts production which can be re-engineered to support early close.
- We aim to complete all substantive work in our audit of your financial statements by 31 July 2016 as a 'dry run'.
- We will present our Audit Findings Report to the 28 July meeting of the Regulatory and Audit Committee.

Developments and other requirements relevant to your audit

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

Developments and other requirements

1. Fair value accounting

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

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Highways Network Assets

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

4. Joint arrangements

- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.

5. Going concern

- You are required by the interpretation of IAS 1 within the CIPFA Code to provide disclosures regarding your status as a going concern.
- Such disclosure must appropriately reflect the risks faced from reductions in central government funding.



Our response

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

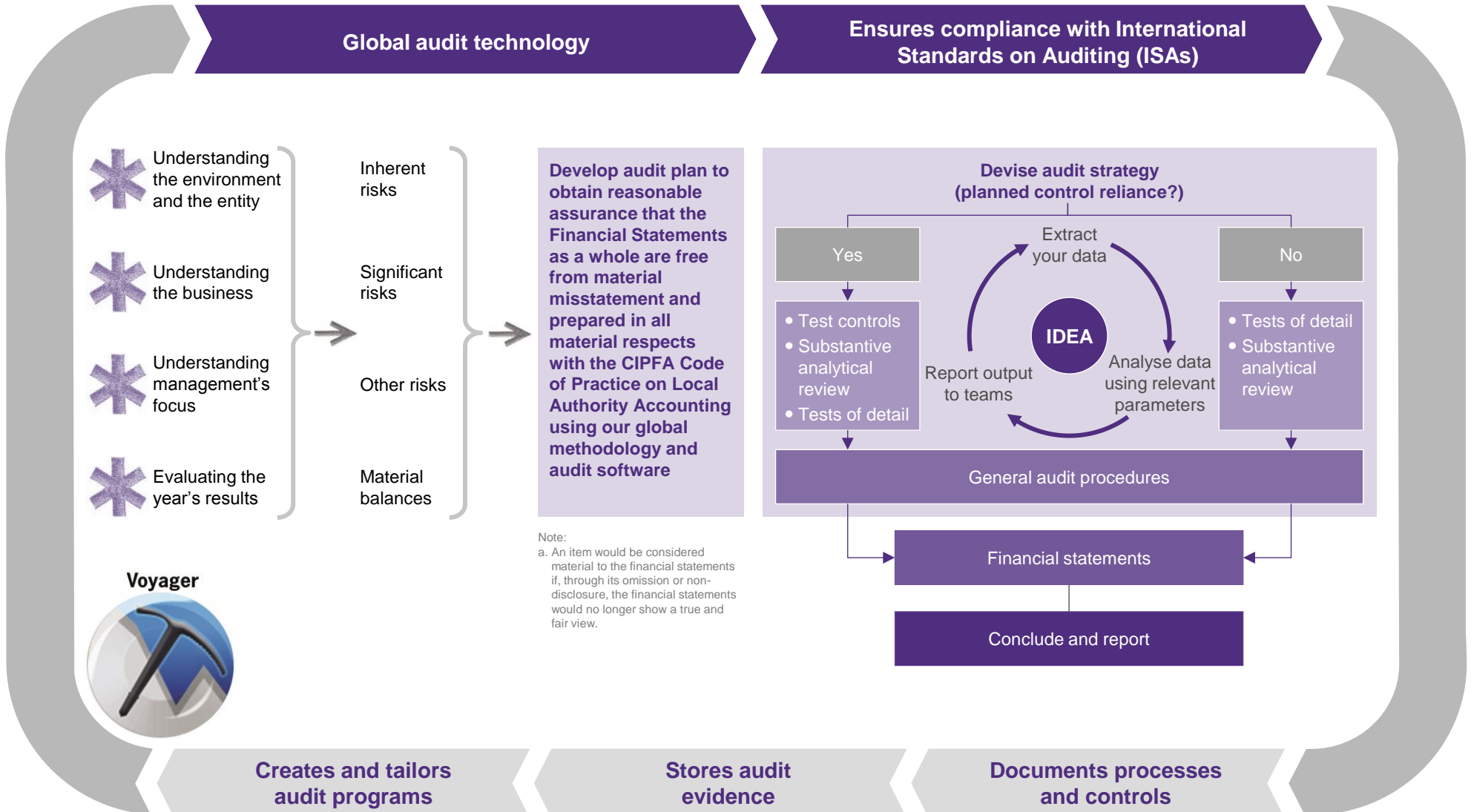
- We will review your Narrative Statement to assess whether it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

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

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.

- We will review the adequacy of the disclosures in the accounts regarding going concern.
- We will review the reasonableness of assumptions used in preparation of post-year end financial forecasts.

Our audit approach



Materiality

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

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £15,206k (being 2% of gross cost of services expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £760k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified no such items that warrant a lower materiality level to be set.

Significant risks identified

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

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of your revenue streams we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • your culture and ethical frameworks mean that all forms of fraud are seen as unacceptable
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Risk-based testing of journal entries • Review of unusual significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of pension fund net liability	Your pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary
Valuation of property, plant and equipment	You revalue your assets on a rolling basis over a five year period. The Code requires that you ensure that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	<ul style="list-style-type: none"> • Agreement of revaluation adjustments to the report of the external valuer • Review of the appropriateness of the methodology and assumptions applied in performance of revaluations • Review of management's processes and assumptions for the calculation of the estimate • Review of the competence, expertise and objectivity of any management experts used • Review of the instructions issued to valuation experts and the scope of their work • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • Testing of revaluations made during the year to ensure they are input correctly into the fixed asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value

Other risks identified

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

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

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<ul style="list-style-type: none"> • Testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces • Testing of operating expenditure payments • Testing of year end payable balances • Procedures to test whether the cut-off of expenditure is appropriate
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<ul style="list-style-type: none"> • Testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces • Trend analysis and risk identification for monthly payroll costs • Testing of payroll payments, assessing whether payments are made in accordance with the individual's contract of employment

Other risks identified (continued)

Other material balances and transactions

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

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

Other audit responsibilities

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

Group audit scope and risk assessment

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

Component	Nature of entity	Your group assessment	Audit approach	Assurance gained & issues raised
Adventure Learning Foundation	Charity providing outdoor education and sports services	Not under the control of the Council	Review governance arrangements for the charity at year-end to check whether it falls under the Council's control	Our audit work has not identified any issues in respect of the Council's group assessment
Buckinghamshire Care	Limited company providing care and support services to older people and adults with a disability	Under the control of the Council – entity not sufficiently material to require consolidation	Review the expected final reported position for 2015/16 to confirm whether the company is material to the Council's accounts	Our audit work has not identified any issues in respect of the Council's group assessment
Buckinghamshire Law Plus	Limited company providing legal services to not-for-profit and other public sector entities	Under the control of the Council – entity not sufficiently material to require consolidation	Review the expected final reported position for 2015/16 to confirm whether the company is material to the Council's accounts	Our audit work has not identified any issues in respect of the Council's group assessment
Buckinghamshire Learning Trust	Charity delivering services to schools and early year settings	Not under the control of the Council	Review governance arrangements for the charity at year-end to check whether it falls under the Council's control	Our audit work has not identified any issues in respect of the Council's group assessment
Buckinghamshire Museum Trust	Charity overseeing the running of Buckinghamshire County Museum	Not under the control of the Council	Review governance arrangements for the charity at year-end to check whether it falls under the Council's control	Our audit work has not identified any issues in respect of the Council's group assessment

Value for Money

Background

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

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

The NAO guidance identifies one single criterion for auditors to evaluate:

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

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

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter. We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

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

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we have considered :

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

The significant risks identified from our risk assessment are set out below:

Sub-criteria	Risk
Informed decision making	No VfM risks have been noted in relation to this sub-criteria
Sustainable resource deployment	You have implemented an improvement plan in response to the findings noted by Ofsted in their report dated August 2014. There is a risk that management of the improvement plan will not be sufficient to deliver the required improvements in the quality of Children's Services.
Sustainable resource deployment	In light of the increasing funding pressures that you face, there is a risk that you will not be able to generate new revenue streams or deliver saving cuts of sufficient scale to maintain a balanced budget over the period covered by the Medium Term Financial Plan.
Sustainable resource deployment	There is a risk that governance arrangements in relation to the roll-out of the Future Shape project and the extension of the programme to Adult's and Children's Services will not be sufficient to deliver strategic priorities.
Working with partners and other third parties	There is a risk that your contract management procedures do not allow you to procure and monitor supplies and services effectively.

Results of interim audit work

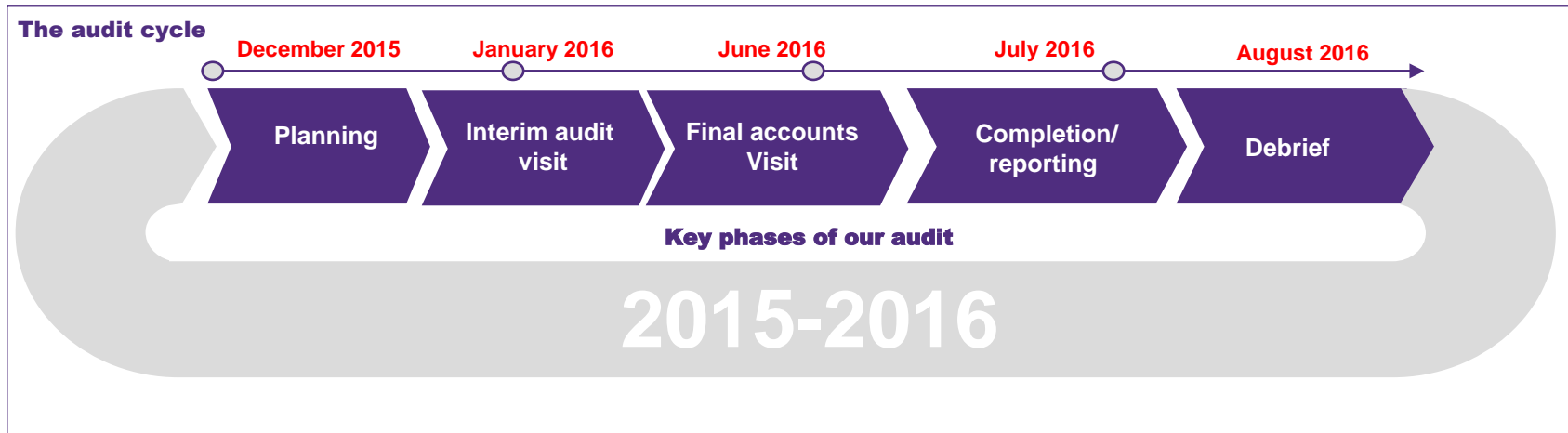
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Review of information technology controls	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>

Key dates



Date	Activity
21 st December 2015	Planning
18 th January 2016	Interim site visit
3 rd February 2016	Presentation of audit plan to Regulatory and Audit Committee
6 th June 2016	Year end fieldwork
Late July 2016	Audit findings clearance meeting with Director of Assurance
28 th July 2016	Report audit findings to those charged with governance (Regulatory and Audit Committee)
30 th July 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	88,088
Audit of Buckinghamshire Care group	18,000
Total audit fees (excluding VAT)	106,088

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- Management will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Service	Fees £
Audit related services:	
• Certification of teachers pension return	7,000
• Testing of Skills Funding Agency sub-commissioning arrangements	4,000
Non-audit related services:	
• Tax services for Buckinghamshire Care group	3,750

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

Independence and ethics

We confirm that there are no significant facts or matters that 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 requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

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

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

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

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

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



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