
Report To:	Audit Committee	Date:	7 January 2014
Report By:	Acting Corporate Director Environment, Regeneration & Resources	Report No:	FIN/01/14/AP/JB
Contact Officer:	Jan Buchanan	Contact No:	01475 712225
Subject:	External Audit Plan 2013-14		

1.0 PURPOSE

- 1.1 The purpose of this report is to present the External Audit Report for 2013/14 produced by Grant Thornton.

2.0 SUMMARY

- 2.1 The attached report summarises the plan for the 2013-14 external audit.
- 2.2 A representative from Grant Thornton will be in attendance at the meeting in order to address any issues arising from the report.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members note the matters raised in this report.

Alan Puckrin
Acting Corporate Director Environment, Regeneration & Resources

The Audit Plan for Inverclyde Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

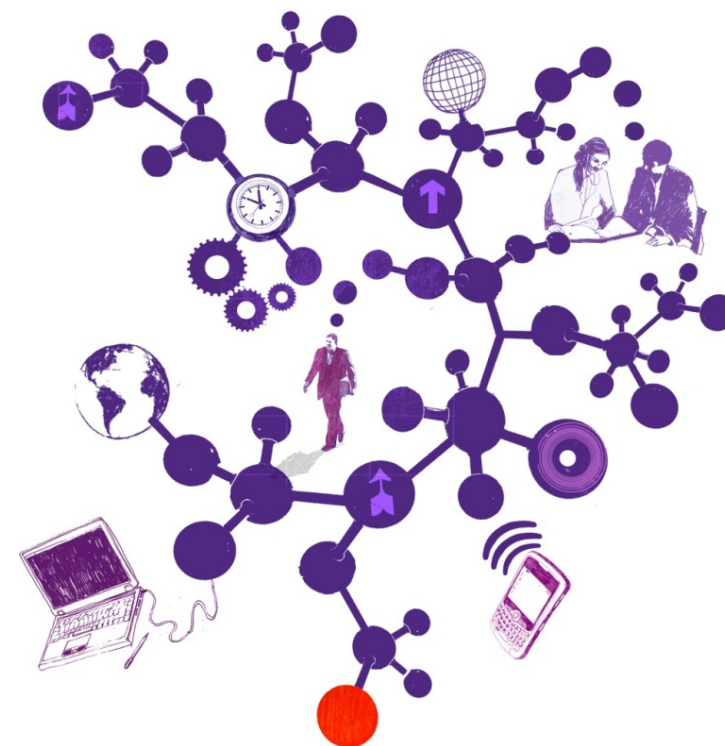
Year ended 31 March 2014

7 January 2014

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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.

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TO BE UPDATED

Developments relevant to your organisation and the 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 Audit Scotland Code of Audit Practice and associated guidance.

Table 1– Sector Developments:

Developments and other requirements					
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Minor changes to the CIPFA Code of Practice • Building on the 2012-13 'Decluttering of the Accounts' exercise • Removal of Police and Fire associates from the group financial statements 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2013-14 • Welfare reform Act 2012 • Requirement for s106 charities to be audited for the first time 	<p>3. Governance and Performance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) first time adoption • Explanatory foreword – building on current good practice • Preparation of performance indicators under the new SOLACE Benchmarking indicator regime 	<p>4. Partnership Working</p> <ul style="list-style-type: none"> • The Council is working within Community Planning Partnerships • The Council has interests in a number of arms length external organisations (ALEOs) and joint committees 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans • Planned use of reserves to fund expenditure 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required • The Council submits returns to the National Fraud Initiative (NFI)
Our response					
<ul style="list-style-type: none"> • We will ensure that the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing and through use of disclosure checklists • We will work with the Council as it identifies further areas for improvement in clarity in the financial statements • We will support the Council as it decides on new consolidation policies in light of these changes 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance. • We will plan and carry out full audits of the Council's four s106 charities 	<ul style="list-style-type: none"> • We will review the systems and arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge • Working with internal audit we will assess the Council's systems and processes for collecting and correctly reporting performance data 	<ul style="list-style-type: none"> • We will work with the Council in the coming year to support its development of community planning partnerships • We will review the Council's management, governance and performance monitoring of their ALEOs • In particular, we will continue to monitor the Council's relationship with ALEO Riverside Inverclyde 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2013-14 budget, including consideration of performance against the savings plan • We will focus audit testing on the use of reserves 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Scotland requirements • We will review the Council's arrangements for complying with the National Fraud Initiative requirements.

An audit focused on risks

We undertake a risk based audit, focussing audit effort on those areas where we have identified a risk of material misstatement in the financial statements. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. The International Standards on Auditing identify two overall significant risks inherent in any financial statements. These are separately disclosed in the significant risks table on page 9.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the financial statements is not material we do not carry out detailed substantive testing.

Table 2 – Audit Risks:

Section of the financial statements	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk identified?	Description of Risk	Will substantive testing be carried out?
Net cost of services operating expenditure	Yes	Operating expenses	Medium	Other	Operating expenses and associated creditors and accruals may be misstated	✓
Net cost of services employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses and associated accruals may be misstated	✓
Net cost of services housing tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits may be calculated incorrectly	✓
Net cost of services other revenues (fees & charges)	Yes	Other revenues	Low	None	We have not identified a risk of material mis-statement	✓
Financing and Investment income	No	Borrowings	Low	None	We have not identified a risk of material mis-statement	×
Financing and Investment expenditure	Yes	Borrowings	Low	None	We have not identified a risk of material mis-statement	✓

An audit focused on risks (continued)

Section of the financial statements	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk identified?	Description of Risk	Will substantive testing be carried out?
Taxation and non-specific grants income	Yes	Grant Revenues, Non-domestic rates revenue, Council tax revenue	Low	None	We have not identified a risk of material mis-statement	✓
Surplus/deficit on the revaluation of non-current assets	No	Property, Plant and Equipment	Low	None	We have not identified a risk of material mis-statement	×
Actuarial pension gains, losses and pension Interest cost	Yes	Employee remuneration	Low	None	We have not identified a risk of material mis-statement	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	None	We have not identified a risk of material mis-statement	✓
Heritage asset	Yes	Property, Plant & Equipment	Low	None	We have not identified a risk of material mis-statement	✓
Intangible assets	No	Intangible assets	Low	None	We have not identified a risk of material mis-statement	×
Investments (long & short term)	Yes	Investments, Financial instruments	Low	None	We have not identified a risk of material mis-statement	✓
Debtors (long & short term)	Yes	Other revenues	Low	None	We have not identified a risk of material mis-statement	✓
Assets held for sale	No	Property, Plant & Equipment	Low	None	We have not identified a risk of material mis-statement	×
Inventories	No	Inventories	Low	None	We have not identified a risk of material mis-statement	×
Cash & cash Equivalents	Yes	Cash	Low	None	We have not identified a risk of material mis-statement	✓
Borrowing (long & short term)	Yes	Debt, Financial instruments	Low	None	We have not identified a risk of material mis-statement	✓

An audit focused on risks (continued)

Section of the financial statements	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk identified?	Description of Risk	Will substantive testing be carried out?
Creditors (long & Short term)	Yes	Operating expenses	Medium	Other	Creditors and accruals mis-stated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provisions	Low	None	We have not identified a risk of material mis-statement	✓
Pension liability	Yes	Employee remuneration	Low	None	We have not identified a risk of material mis-statement	✓
Reserves	Yes	Equity	Low	None	We have not identified a risk of material mis-statement	✓

Significant risks identified

Table 2 on pages 5 - 7 shows the risks we have identified associated with material accounting cycles in the financial statements. Alongside these risks, the International Standards on Auditing outline two presumed significant risks of material misstatement which are applicable to all audits. These are listed below, and relate to the financial statements as a whole.

"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).

Table 3 – Significant Risks:

Significant risk	Description	Substantive audit procedures
The revenue cycle may include fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<ul style="list-style-type: none">• Performance of substantive testing on material revenue streams• Substantive sample testing of debtors and income accruals• Review of revenue recognition policies• Review of unusual significant transactions• Testing of journal entries
Management over-ride of internal controls may result in material mis-statement	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<ul style="list-style-type: none">• Assessment of the design and implementation of controls in key systems• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions• Discussions with internal audit

Other risks

(ISA 315) "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."

In this section we outline the other risks of material misstatement which we have identified as a result of our planning. This provides more detail on the risks identified in the table on pages 5 to 7.

Table 4 – Other Risks:

Reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses and creditors	Operating expenses and associated creditors and accruals may be misstated or recorded in the incorrect period	<ul style="list-style-type: none"> We have begun our review of the systems and controls that the Council have in place to pay and record expenditure We have 'walked through' a transaction to demonstrate that appropriate controls are in place and designed effectively From this work, we have not identified any control weaknesses or errors 	<ul style="list-style-type: none"> Performance of 'attribute testing' on a sample of expenditure items Substantive testing of a sample of year end creditors and accruals Testing of both expenditure transactions and a sample of creditors and accruals to ensure 'cut-off' is correct (ie. that they are recorded in the right period).
Employee remuneration	Remuneration expenses and associated accruals may be misstated	<ul style="list-style-type: none"> We have begun our review of the systems and controls that the Council have in place over payroll We have 'walked through' a transaction to demonstrate that appropriate controls are in place and designed effectively From this work, we have not identified any control weaknesses or errors 	<ul style="list-style-type: none"> Performance of 'attribute testing' on a sample of payroll transactions and deductions Substantive testing of a sample of year end payroll accruals Analytical procedures to identify any discrepancies in monthly payrolls and consider whether the payroll expenditure is in line with our expectations based on substantiating evidence Testing of the reconciliation between the payroll system and the amounts recorded in the financial statements Detailed review of the remuneration report
Welfare Expenditure	Welfare benefits may be calculated incorrectly	<ul style="list-style-type: none"> We have begun our review of the systems and controls that the Council have in place to calculate, pay and record benefit expenditure We have 'walked through' a transaction to demonstrate that appropriate controls are in place and designed effectively From this work, we have not identified any control weaknesses or errors 	<ul style="list-style-type: none"> Performance of detailed HB COUNT testing of a sample of housing benefit and council tax benefit payments Performance of other substantive benefits tests as directed by Audit Scotland Testing of the reconciliation between the benefits system and the amounts recorded in the financial statements

Group audit scope and risk assessment

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

In 2013-14 the Council will no longer consolidate a share of Strathclyde Police or Fire Services as a result of the Police and Fire Reform changes effective from 1 April 2013. The Council has a number of other associates and a number of subsidiaries, including the Common Good and four 'Section 106' charities. International Financial Reporting Standard 1 gives entities an option to only include information in the financial statements which they judge to be material. The Council is considering whether the group entities are material, and we will consider the judgements management make to come to a conclusion regarding whether consolidation is required.

As part of our year end procedures we will consider whether the Council's accounting for groups is materially correct. The table below sets out the entities that are fully or partially controlled by the Council.

Table 5 – Group Audit bodies:

Component	Risks identified	Planned audit approach
Inverclyde Leisure	No risks identified other than the two standard ISA significant risks of fraud in revenue recognition and management override of controls	Full scope UK statutory audit performed by Welsh Walker accountants. If consolidated, we plan to rely on the work of Welsh Walker
Riverside Inverclyde	In 2012-13 the audited financial statements of Riverside Inverclyde were not available until December 2013 after Inverclyde Councils accounts had been certified. This was due to difficulties valuing the James Watt Dock asset of Riverside Inverclyde. There remain uncertainties about the valuation of these Riverside Inverclyde assets. We have also identified potential governance and performance risks, as set out on the next two pages	Full scope UK statutory audit performed by Scott Moncrieff. If consolidated, we plan to rely on the work of Scott Moncrieff. We will review the arrangements for the development of the governance framework and how the Council ensure Best Value.
Renfrewshire Valuation Joint Board	No risks identified other than the two standard ISA significant risks of fraud in revenue recognition and management override of controls	Full audit performed by Audit Scotland. If consolidated, we plan to rely on the work of Audit Scotland
Strathclyde Partnership for Transport	No risks identified other than the two standard ISA significant risks of fraud in revenue recognition and management override of controls	Full audit performed by KPMG. If consolidated, we plan to rely on the work of KPMG
Strathclyde Concessionary Travel Scheme Joint Board	No risks identified other than the two standard ISA significant risks of fraud in revenue recognition and management override of controls	Full audit performed by KPMG. If consolidated, we plan to rely on the work of KPMG
Inverclyde Common Good	No risks identified other than the two standard ISA significant risks of fraud in revenue recognition and management override of controls	As this will be a disclosure note in the financial statements, we will test a sample of transactions and agree the Common Good accounts to the ledger
Various Charities and Trusts	No risks identified. We have been appointed by the Accounts Commission to audit and provide an opinion on four of the Council's section 106 charities form 2013-14	As above, we will agree the charities and trust figures disclosed to the ledger and the audited charity financial statements

Governance

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The Council is responsible for putting in place arrangements for the conduct of its affairs, including compliance with applicable guidance, ensuring the legality of activities and transactions and monitoring the adequacy and effectiveness of these arrangements in practice. The Council's Audit Committee has a key role in monitoring these arrangements.

The Audit Scotland Code of Audit Practice gives the auditor a responsibility to review and, where appropriate, report findings on the Council's corporate governance arrangements as they relate to:

- the Council's review of its systems of internal control, including its reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct, and arrangements in relation to the prevention and detection of corruption
- the financial position of the Council.

This section sets out our approach to auditing key governance developments.

Annual Governance Statement (AGS)

In 2013-14 the Council will prepare an AGS for the first time. An AGS records the governance ethos of the organisation and assurances around the achievement of the vision and strategic objectives of the Council. It summarises the local code of governance, including the internal control frameworks, arrangements for risk management, financial governance and accountability.

A team of staff from several Council departments are putting in place processes to underpin and support the assertions made in the AGS. In coming to a conclusion regarding whether the AGS has been properly prepared and is in line with our knowledge of the Council, we will review the underlying systems that support the AGS.

Riverside Inverclyde (RI)

Table 5 on the previous page, sets out the financial reporting risks associated with RI. During the year, Inverclyde Council and Scottish Enterprise commissioned a scheduled independent mid-term review of RI against its stated objectives and the effectiveness of RI. The mid-term review showed that not all of these objectives had been met or were on target.

As part of our standard audit procedures on ALEOs, we will review the Council's controls and the governance structures in place to monitor whether expenditure passed to RI represents Best Value. We made a number of recommendations in our 2012-13 Annual Report to Members which we will follow up in 2013-14.

National Fraud Initiative

The Council participates in the National Fraud Initiative, the UK wide data-matching exercise designed to prevent and detect fraud in public bodies.

We will use our interim visit to review the Council's progress and actions in following up the matches identified.

Reporting

Our work on governance, including the Annual Governance Statement, will be reported in our Annual Report to Members, scheduled for September 2014. If we have any concerns regarding governance we will report these to management or the Audit Committee as appropriate throughout the year.

Performance and Best Value

Introduction

The Local Government in Scotland Act 2003 established Best Value as a statutory requirement for all councils. The Act defines Best Value as 'continuous improvement in the performance of the authority's functions'. The objective of Best Value is to ensure that councils deliver better and more responsive public services by:

- balancing the quality of services with cost
- continuously improving the services provided
- being accountable and transparent, by listening and responding to the local community achieving sustainable development in how the council operates
- ensuring equal opportunities in the delivery of services.

The Act also places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and meeting their community planning responsibilities.

Performance information

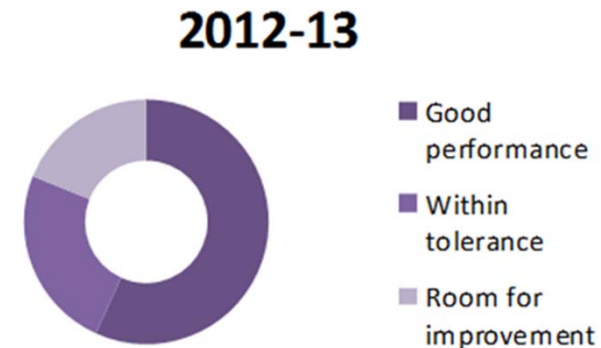
Audit Scotland continues to stress the critical role of self-evaluation and good quality performance information in allowing Councils to demonstrate that they are delivering efficient and effective services.

Statutory Performance Indicators (SPIs) are one of the key ways that Council performance is measured and reported to the public. There have been a number of changes to the SPI requirements and regulation in 2013-14, aimed at streamlining the range of performance indicators the Council is required to report.

We will work with internal audit to consider whether the SPI reporting gives sufficient evidence that the Council are achieving Best Value in their performance.

In 2012-13 the Council's performance indicators showed 'good performance' in 57% of indicators. This indicates that the Council are performing well in a number of areas, despite the constraints imposed by the difficult funding position. In particular a 9% improvement in disabled access to buildings and 6.9% increase in the number of homeless people housed into permanent accommodation. Visits to leisure facilities and museums have fallen slightly according to the indicators.

Figure 1 – 2012-13 performance indicators



Performance and Best Value (continued)

Shared Risk Assessment (SRA)

The SRA process is carried out in each council by the Local Area Network (LAN). The LAN comprises representatives of all the scrutiny bodies who engage with councils. The role of the LAN is to ensure that information and intelligence held by each audit and inspectorate body is shared, enabling external scrutiny to be targeted on the areas of greatest risk. The purpose of the Shared Risk Assessment (SRA) process is to produce an Assurance and Improvement Plan (AIP) for each council, setting out scrutiny risks and the proposed scrutiny responses over a rolling three year period. The AIP update 2013-16 was issued in April 2013.

The Local Area Network concluded that the Council continues to build on the good work it has established over the past few years. It has made progress in its corporate arrangements and has good awareness of where it needs to improve. The majority of the areas remain unchanged from last years assessment.

No specific scrutiny work was identified for 2013-14, however further information is required in relation to the outcome area – Thriving, Diverse Economy and the Scottish Housing Regulator (SHR) raised significant concerns around some aspects of the Council's services to the homeless. The SHR plans to regularly monitor performance in this area.

The LAN meet in December 2013, to discuss evidence each of the Regulators have gathered against the outcome areas. The 2014-17 AIP update will be published in April 2014.

National Studies

Audit Scotland carry out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland.

Audit Scotland ask us to ensure that local government bodies review the national studies relevant to them at a committee level and act on them accordingly. As external auditors, we are required to consider:

- whether the Council has discussed the national report at committee level
- whether the Council has carried out a self-assessment against the national report
- whether an action plan has been developed as a result of any self-assessment

We will ensure that there are sufficient mechanisms in place for the Council to review and learn from the recent national studies.

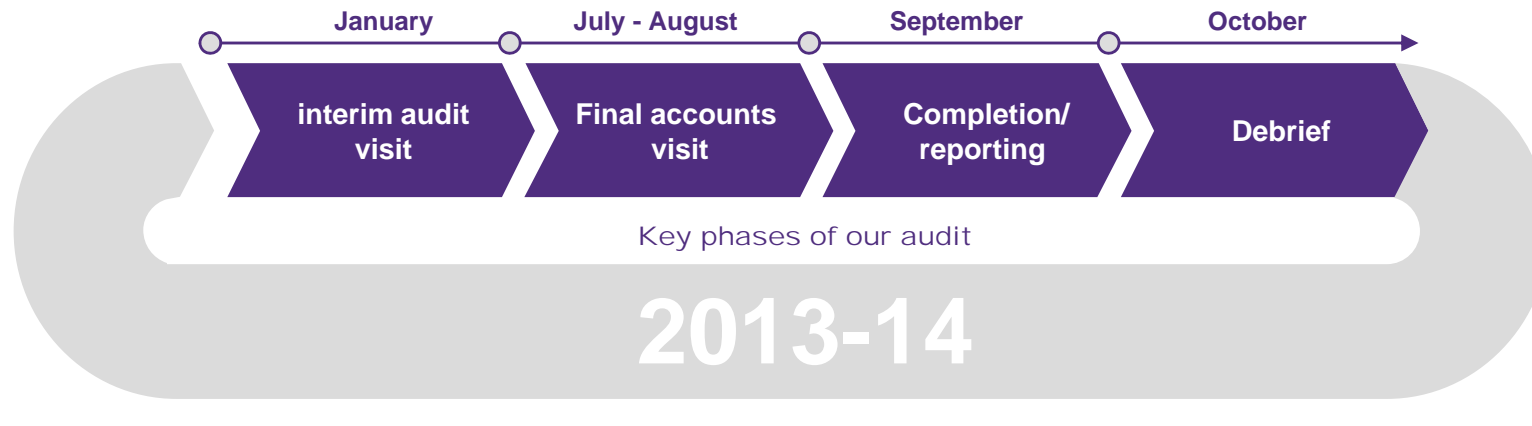
We expect Audit Scotland to direct us to follow up at least one of their performance audit reports, which we will complete as part of our 2013-14 audit.

Reporting

Our work on performance will be reported in our Annual Report to Members, scheduled for September 2014. We will formally report the Council's 2013-14 statutory performance indicators to Audit Scotland in line with the September 2014 deadline.

Logistics and our team

The audit cycle



Date	Activity
November 2013	Planning meetings
January 2014	Interim site work
January Audit Committee	This audit plan is presented to Audit Committee
1 July 2014	Year end fieldwork commences
Early September 2014	Audit findings clearance meeting
September Audit Committee	Audit Committee meeting to report our findings
By 30 th September 2014	Sign financial statements and conclusion
Throughout	Finalise work on grant claims
October 2014	Issue Annual Report to Members

Our team

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Fees and independence

Fees

	2013-14 £	2012-13 £
Council audit and grant certification	259,500	265,000
Total	259,500	265,000

Our fee of £259,500 represents a 2% reduction on prior year.

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
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Service	Fees £
None	Nil

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

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 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

We have been appointed as the Council's independent external auditors by the Accounts Commission, the body responsible for appointing external auditors to Local Authorities in Scotland. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Audit Scotland Code of Audit Practice ('the Code') 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.

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		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓



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