

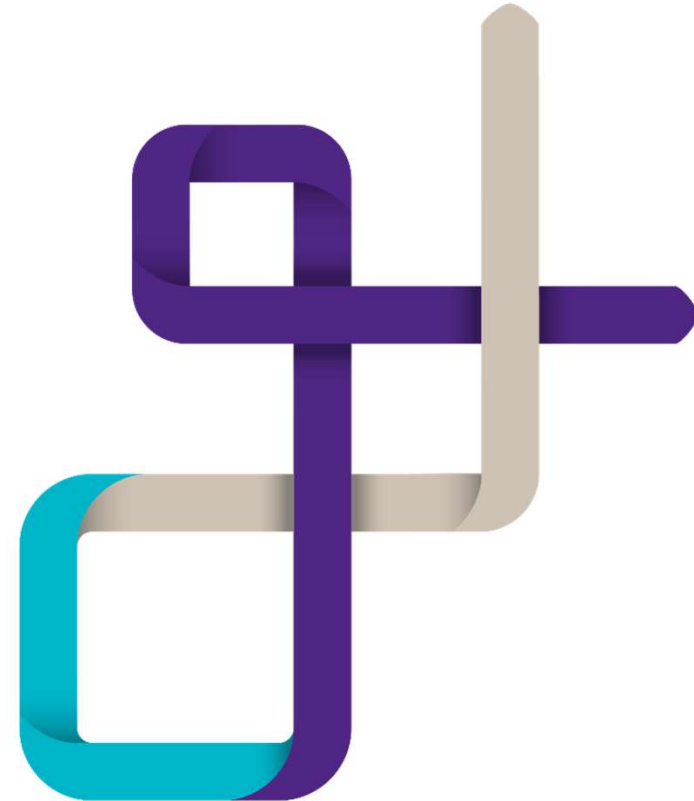


# External Audit Plan

*Year ending 31 March 2018*

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Greater Manchester Waste Disposal Authority  
January 2018



# Contents



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## Section

	Page
1. Introduction & headlines	3
2. Deep business understanding	5
3. Significant risks identified	7
4. Reasonably possible risks identified	8
5. Other matters	11
6. Materiality	12
7. Value for Money arrangements	13
8. Audit logistics, team & audit fees	14
9. Early close	15
10. Independence & non-audit services	16

## Appendices

A. Revised ISAs	18
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority 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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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Greater Manchester Waste Disposal 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 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 Greater Manchester Waste Disposal Authority. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

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

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit and Standards committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Standards 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.

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# Introduction & headlines

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## Significant risks

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

- Management override of control
- Valuation of property, plant and equipment
- Valuation of pension fund net liability
- Accounting for changes in the Authority's operations

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.

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## Materiality

We have determined planning materiality to be £2.1m, which equates to 1.5% of your 2016/17 gross cost of services expenditure. Our prior year materiality was £2.7m based on a higher 2% benchmark. We have reduced our overall materiality threshold for the current audit year to reflect the significant and non-recurring transactions associated with the changes to the private finance initiative (PFI) recycling and waste management contract.

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 £0.1m (PY £0.1m).

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## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk:

- if the Authority does not have the proper governance arrangements in place for delivering operational changes, or does not have robust financial information upon which to deliver required savings, then it will not deliver on its future plans for efficient waste services.

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## Audit logistics

Our interim visit will take place in February and our final visit will take place in June. Our key deliverables are this Audit Plan and our Audit Findings Report.

PSAA's indicative fee for the Authority for 2017/18 will be £31,418 (PY: £31,418). We have agreed to keep the Treasurer and Deputy Clerk updated on any fee implications arising from additional work in connection with the termination of the PFI scheme.

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## 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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# Deep business understanding

## Changes to service delivery

### Devolution

The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas.

The Greater Manchester (GM) Devolution Agreement, signed in 2014, aims to give residents and local leaders decision making powers and closer control of resources.

In 2016/17 it was confirmed that GM Waste Disposal Authority (GMWDA) would become part of the GM Combined Authority with effect from 1 April 2018. 2017/18 is therefore the final year that GMWDA will produce separate accounts.

### Private Finance Initiative (PFI) contract

As part of its wider and value for money programme GMWDA acquired the Special Purpose Vehicle (SPV) Viridor Laing (GM) Limited (VLGM) that runs its 25 year PFI recycling and waste management contract in September 2017.

GMWDA has established direct interim operating 'run off' arrangements with the VLGM operating contractor Viridor Waste (GM) Limited prior to the re-procurement of future operating contracts which are expected to commence operations in April 2019.

## Changes to financial reporting requirements

### Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

### Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Under the 2015 Regulations local authorities and other local government bodies are required to publish their accounts along with the auditors opinion by 31 July 2018.

## Key challenges

### Financial pressures

GMWDA revised its budget and updated its Medium Term Financial Plan (MTFP) 2021/22 in October 2017 following substantial completion of the PFI contract changes and agreement of arrangements for a run off operating contract.

The revised budget sets out a £182.8m budget requirement for 2017/18 including a £169.6m Levy requirement and contributions from reserves of £13.2m. The use of reserves is £5.9m higher than the original budget mainly due to a delay in savings from the financial element of changes to the PFI contract.

GMWDA is working with constituent Districts to review the way in which the Levy is passed onto them after the termination of the PFI contract. It proposes a new Levy Allocation Mechanism (LAM) from 2019/20 with 2018/19 transitional arrangements.

The 2018/19 budget requirement of £188.9m needs £19.3m contributions from reserves to ensure a nil Levy increase. The Authority consider this strategy as appropriate in view of expected savings from re-procured operating contracts and the overall reserve position.

We will consider the Authority's progress against its revised MTFP as part of our work on the Value for Money conclusion.

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# Deep business understanding

## Our response

- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the accounting entries for the termination of the PFI contract and relevant transactions within the SPV.
- We will consider your arrangements for managing and reporting your financial resources and your progress against planned service delivery changes, as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the Accounts and Audit Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.

# Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>The revenue cycle includes fraudulent transactions</b></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 revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from 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 GMWDA, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk for GMWDA.</p>
<p><b>Management over-ride of controls</b></p>	<p>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> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li> <li>• obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness</li> <li>• evaluate the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of property, plant and equipment</b>	<p>The Authority is completing a full updated valuation of its assets. This is to reflect the operational changes arising from the termination of its former PFI contract and establishment of a Special Purpose Vehicle (SPV) Viridor Laing (GM) Limited (VLGM) during the year.</p> <p>This represents a significant estimate by management in the financial statements and a possibly complex valuation assessment.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• Review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li><li>• Consider the competence, expertise and objectivity of the valuer</li><li>• Discuss with the valuer the basis on which the valuation is carried out and examine the key assumptions.</li><li>• Review and challenge information used by the valuer to ensure it is robust and consistent with our understanding.</li><li>• Test the changes to values to ensure they are input correctly into the Authority's records.</li></ul>
<b>Valuation of pension fund net liability</b>	<p>The Authority's net pension fund liability as reflected in its balance sheet represents a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• 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</li><li>• Evaluate 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</li><li>• Undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li><li>• Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li></ul>



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# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Accounting for changes in the Authority's operations</b>	<p>GMWDA changed the way its 25 year PFI recycling and waste management contract operates with Viridor Laing (GM) Limited (VLGM) in September 2017.</p> <p>As part of these changes it established direct interim operating 'run off' arrangements prior to the re-procurement of future operating contracts expected to commence in April 2019.</p> <p>We have identified the changes in the contractual operations and resultant complex accounting entries as a risk requiring special consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• Gain an understanding of the changed operations and accounting position in discussion with management and consultants KPMG.</li><li>• Examine and test the accuracy of the accounting entries to reflect the termination of the PFI contract and transactions within the SPV as reflected within your financial statements. This will include examining group accounts transactions arising from the acquisition of the SPV.</li></ul>

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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 July 2018.

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# Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Operating expenses</b>	Non-pay expenses on other goods and services represents a significant percentage of the Authority's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.  We identified completeness of non-pay expenses as a risk requiring particular audit attention:	We will <ul style="list-style-type: none"><li>• evaluate the Authority's accounting policy for recognition of non-pay expenditure for appropriateness;</li><li>• gain an understanding of the Authority's system for accounting for non-pay expenditure and evaluate the design of the associated controls;</li><li>• substantively test a sample of operating expenses and year-end balances and new-year payments to source documents. This is to ensure valid spend and appropriate categorisation within the net cost of services headings in the comprehensive income and expenditure statement</li><li>• test creditor reconciliations</li></ul>

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# 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 carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Authority.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Authority, copied to the Secretary of State.
- We certify completion of our audit.

## Other material balances and transactions

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

## Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity'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. We will specifically examine disclosures relating to the transfer of Authority functions to the Greater Manchester Combined Authority from 1 April 2018.

# 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

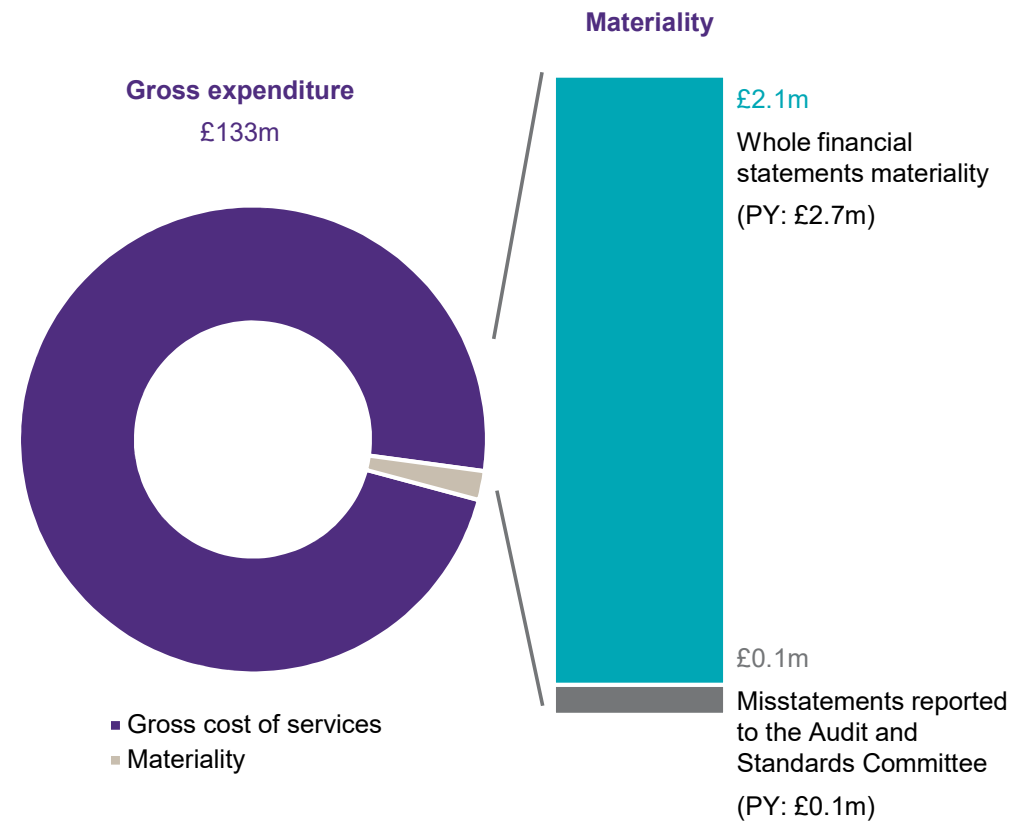
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £2.1m, which equates to 1.5% of your gross cost of services expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision. We have also determined a separate, lower, materiality level of £50k for senior officer remuneration due to the public interest in this disclosure and the statutory requirement for this to be made.

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 Audit and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards 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 the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.1m (PY £0.1m).

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



# Value for Money arrangements

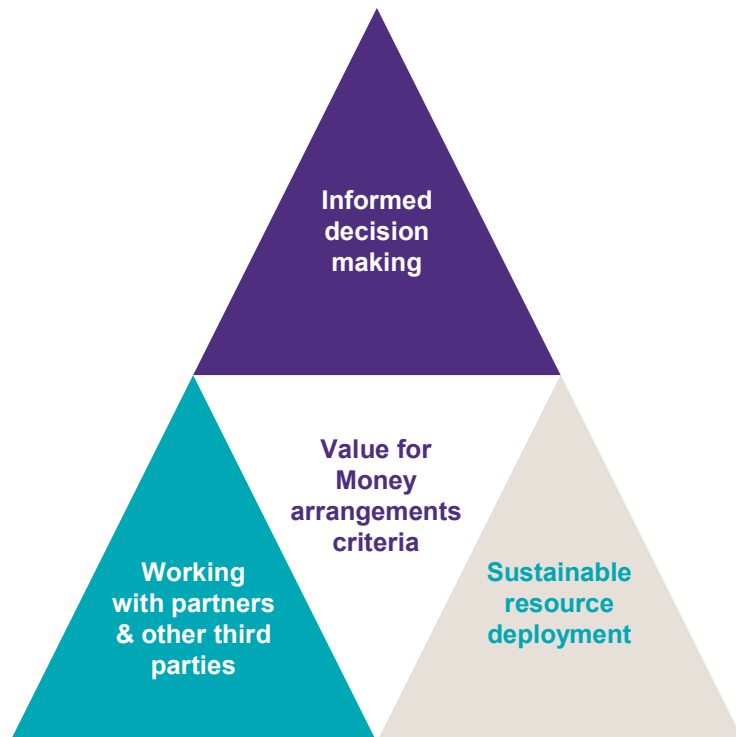
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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



## Significant VFM risks

‘Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money’.

We set out below the identified significant risk for GMWDA.



### Changes in Authority operations

GM Waste Disposal Authority (GMWDA) will become part of the GM Combined Authority with effect from 1 April 2018.

As part of its wider and value for money programme GMWDA acquired the Special Purpose Vehicle (SPV) Viridor Laing (GM) Limited (VLGM) that runs its 25 year PFI recycling and waste management contract in September 2017. GMWDA has established direct interim operating ‘run off’ arrangements with the VLGM operating contractor Viridor Waste (GM) Limited prior to the re-procurement of future operating contracts which are expected to commence operations in April 2019.

GMWDA revised its budget and updated its Medium Term Financial Plan (MTFP) 2021/22 in October 2017 following substantial completion of the PFI contract termination and agreement of arrangements for a run off operating contract. The revised budget sets out a £182.8m budget requirement for 2017/18 including a £169.6m Levy requirement and contributions from reserves of £13.2m.

There is a significant risk that if the Authority does not have the proper governance arrangements in place for delivering operational changes, or does not have robust financial information upon which to deliver required savings, then it will not deliver on its future plans for efficient waste services.

We will review the governance arrangements put in place by the Authority to establish how it is identifying, managing and monitoring progress against plans for future operational delivery and progress against savings targets.

# Audit logistics, team & audit fees



## John Farrar, Engagement Lead

Provides oversight of the delivery of the audit including regular engagement with non-executive Audit and Standards Committee and senior executive officers.

## Helen Stevenson, Audit Manager

Plans and manages the delivery of the audit including regular contact with senior executive officers.

## Patrick McCloskey, Audit Incharge

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

## Audit fees

PSAA's indicative fee for the Authority for 2017/18 will be £31,418 (PY: £31,418). We have agreed to keep the Treasurer and Deputy Clerk updated on any fee implications arising from additional work in connection with the termination of the PFI scheme.

## Our requirements

To ensure the audit is delivered on time and to avoid additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

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# Early close

## Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously. We note however that GMWDA have successfully met this earlier deadline over the past two years.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 14). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

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

In return, we will ensure that:

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

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# Independence & non-audit services

## **Auditor independence**

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are 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 Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 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.

## **Non-audit services**

We do not provide any non-audit services to the Authority.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.



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# Appendices

**A. Revised ISAs**

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# Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

<b>Section of the auditor's report</b>	<b>Description of the requirements</b>
<b>Material uncertainty related to going concern</b>	<p>We need to include a brief description of the events or conditions, if any, identified that may cast significant doubt on the Authority's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements.</p> <p>Under the revised ISA's the auditors report will include a section reporting on the auditors conclusions in relation to going concern.</p>
<b>Other information</b>	<p>We will be required to include a section on other information which includes:</p> <ul style="list-style-type: none"><li>• Responsibilities of management and auditors regarding other information</li><li>• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation</li><li>• Reporting inconsistencies or misstatements where identified</li></ul>
<b>Additional responsibilities for directors and the auditor</b>	<p>We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.</p>
<b>Format of the report</b>	<p>Under the revised ISAs the format of the auditors report will change and, in particular the opinion section appears first followed by the basis of opinion section.</p>



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