

# Joint External Audit Plan

*Year ending 31 March 2019*

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Police and Crime Commissioner for West Mercia  
and Chief Constable for West Mercia  
January 2019



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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 PCC or the Chief Constable or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audits of both the Police and Crime Commissioner for West Mercia ('the PCC') and the Chief Constable for West Mercia ('the Chief Constable') for those charged with governance. Those charged with governance are the PCC and the Chief Constable.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of both the PCC and the Chief Constable. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audits 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 :

- PCC's, Chief Constable's and group's financial statements that have been prepared by management with the oversight of those charged with governance (the PCC and the Chief Constable); and
- Value for Money arrangements in place at each body for securing economy, efficiency and effectiveness in their use of resources.

The audit of the financial statements does not relieve management, the PCC or the Chief Constable of their responsibilities. It is the responsibility of the bodies 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 PCC and the Chief Constable are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the PCC and the Chief Constable's business and is risk based.

## Significant risks

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

- Management override of controls
- Valuation of the pension fund net liability
- Valuation of land and buildings

We will communicate significant findings on these areas as well as any other significant matters arising from the audits to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £4.6m (PY £4.5m) for the group, the PCC and the Chief Constable, which equates to 1.9% of the PCC's prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.230m (PY £0.225m).

## Value for Money arrangements

Our risk assessment procedures are still ongoing at the time of drafting our report. We will include the outcome of this risk assessment in our audit committee update to the Audit Committee in April 2019.

## Audit logistics

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

Our fee for the audit will be £26,380 (PY: £34,260) for the PCC and £14,438 (PY: £18,750) for the Chief Constable, subject to management meeting our requirements set out on page 14.

## 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..

# Key matters impacting our audit

## External Factors

### The wider economy and political uncertainty

Police funding continues to be stretched with increasing cost pressures and complexity. The provisional funding settlement for 2019/20 includes £161 million more grant funding than the previous year and in order to protect Government grant funding in real terms, and will enable PCCs to increase their police precept level by a maximum of £2 a month without holding a local referendum.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty (update as appropriate). The PCC and Chief Constable will need to ensure that they are prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

### Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

We do not anticipate that these will have a significant impact for West Mercia PCC or Chief Constable.

## Internal Factors

### New audit methodology

We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the PCC and the Chief Constable into our risk assessment and testing approach.

### Dissolution of the Strategic Alliance

Warwickshire and West Mercia have been in a strategic alliance since 2012, with the aim of delivering services more efficiently and effectively and ensuring that the public get better value for money.

On 9 October 2018, West Mercia's PCC and Chief Constable issued a joint announcement of their intention to withdraw from the alliance. It is anticipated that the split will complete within 12 months.

Work is ongoing to determine how both forces will move forward, and the potential impact that the dissolution could have both operationally and financially.

## Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusions.

We will consider whether your financial position leads to material uncertainty about the going concern of the group and PCC or the Chief Constable and will review related disclosures in the financial statements.

We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

You will see changes in the terminology we use in our reports that will align more closely with the ISAs

We will ensure that our resources and testing are best directed to address your risks in an effective way.

We will consider the impact of splitting the alliance as part of our audit risk assessment and detailed procedures.

The progress the force makes with assessing and addressing future financial and operational impacts will feed into our work around going concern, as well as the work we perform to form our value for money conclusion for the year.

# Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to 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	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Police and Crime Commissioner for West Mercia (parent)	Yes	Audit of the financial information of the component using component materiality	See pages 7 to 10	Full scope UK statutory audit performed by Grant Thornton UK LLP
Chief Constable for West Mercia (subsidiary)	Yes	Audit of the financial information of the component using component materiality	See pages 7 to 10	Full scope UK statutory audit performed by Grant Thornton UK LLP

## Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

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 2019.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions</b>	PCC & Chief Constable	<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 group, 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 the PCC and Chief Constable for West Mercia, mean that all forms of fraud are seen as unacceptable</li> </ul> <p><b>Therefore we do not consider this to be a significant risk for the PCC and Chief Constable.</b></p>
<b>Management over-ride of controls</b>	PCC & Chief Constable	<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>The PCC and Chief Constable face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>evaluate the design effectiveness of management controls over journals</li> <li>analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of land and buildings (Rolling revaluation)</b>	<b>PCC</b>	<p>The PCC revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the PCC and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate 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>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• test revaluations made during the year to see if they had been input correctly into the PCC's/ group's asset register</li> <li>• evaluating 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 at year end.</li> </ul>
<b>Valuation of the pension fund net liability</b>	<b>PCC and Chief Constable</b>	<p>The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved in the group's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the group's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the group to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</li> </ul>

# Other risks identified

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in **July** 2019.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Employee remuneration</b>	PCC and Chief Constable	<p>Payroll expenditure represents a significant percentage of the Chief Constable's (and therefore the group's) operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• evaluate the PCC's and the Chief Constable's accounting policies for recognition of payroll expenditure for appropriateness;</li> <li>• gain an understanding of the entities' system for accounting for payroll expenditure, and evaluate the design of the associated controls;</li> <li>• obtain year-end payroll reconciliation and ensure amounts in the accounts can be reconciled to the ledger and through to payroll reports. Investigate any significant adjusting items;</li> <li>• agree payroll related accruals (e.g. unpaid leave accrual) to supporting documentation and review any estimates for reasonableness. Consider whether this may be understated and whether any omissions to the accruals exist; and</li> <li>• perform substantive analytical procedures on payroll data disaggregated by month. Ensure the audit team have gained assurance over the completeness of staff FTEs before undertaking this work.</li> </ul>
<b>Operating expenses</b>	PCC and Chief Constable	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Chief Constable's (and therefore the group's) operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention.</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• evaluate the PCC's and Chief Constable's accounting policies for recognition of non-pay expenditure for appropriateness;</li> <li>• gain an understanding of the PCC's and Chief Constable's systems for accounting for non-pay expenditure and evaluate the design of the associated controls;</li> <li>• test the reconciliation of creditors ledger to the general ledger;</li> <li>• document the accruals process and the controls management have put in place, including GRNI. Challenge any key underlying assumptions, the appropriateness of source data used and the basis for calculations; and</li> <li>• obtain a listing from the cash book of non-pay related payments made in April. Test a sample and ensure that any payments have been charged to the appropriate year and any accruals which should have been accrued, have been.</li> </ul>



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## Other risks identified

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Police Pension schemes benefits payable</b>	<b>Chief Constable (and group)</b>	<p>The Chief Constable administers three police pension schemes, with the Police Pension Fund Account being included in the Chief Constable's and therefore the group's financial statements.</p> <p>We identified completeness and accuracy of pension benefits payable as a risk requiring particular audit attention.</p>	<p>We will</p> <ul style="list-style-type: none"><li>• gain an understanding of the Chief Constable's systems for calculating, accounting for and monitoring pension benefit payments and evaluate the design of the associated controls;</li><li>• test the reconciliation of pension benefit payments recorded in the general ledger to subsidiary systems; and</li><li>• undertake substantive testing of pension benefit lump-sum payments made in the year.</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 read your Narrative Reports and Annual Governance Statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the PCC and Chief Constable.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statements are in line with guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - Issue of a report in the public interest or written recommendations to the PCC or the Chief Constable under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

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

## 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.

# Materiality

## The concept of materiality

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

## Materiality for planning purposes

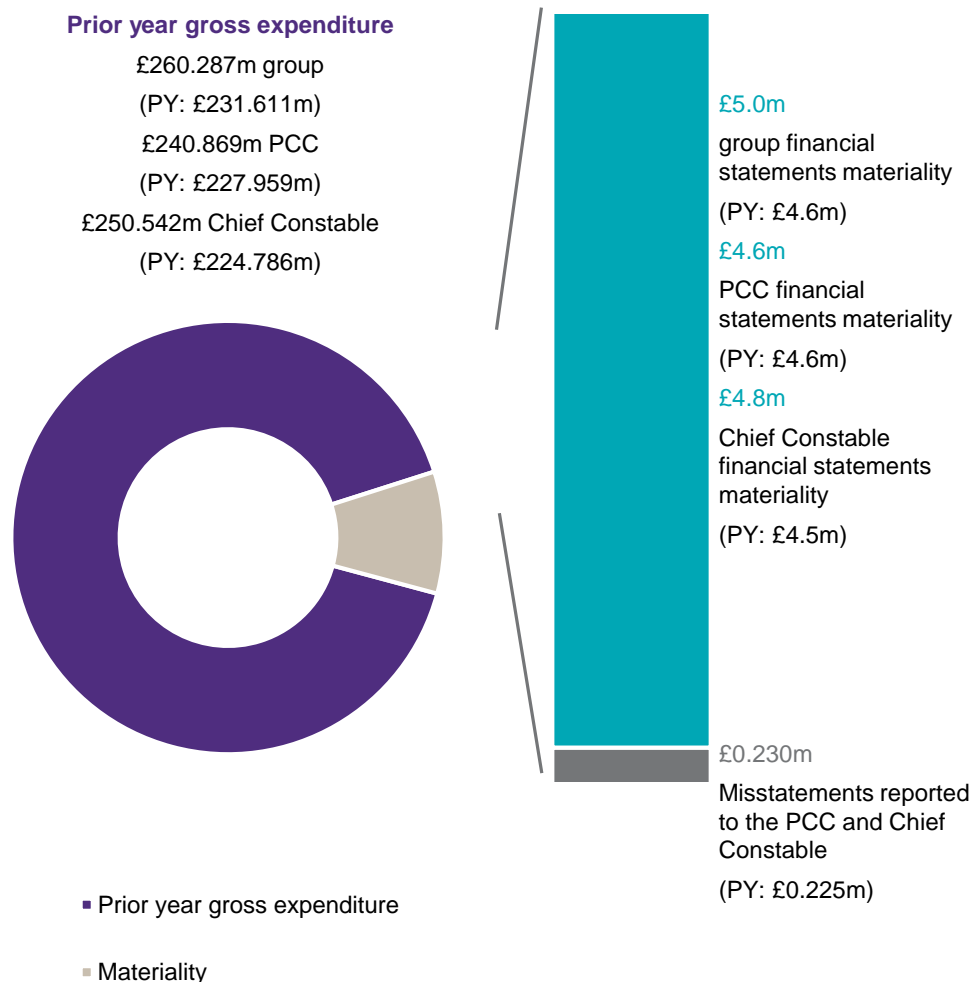
We have determined financial statement materiality's based on a proportion of the gross expenditure of the group, the PCC and the Chief Constable for the financial year. In the prior year we used the same benchmark. For our audit testing purposes we apply the lowest of these materiality's, which is £4.6m (PY £4.5m), which equates to 1.9% of the PCC's prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.230m for [add areas for lower specific materiality level ie Senior officer remuneration].

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 PCC and Chief Constable

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 PCC and Chief Constable 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 group, the PCC and the Chief Constable, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.230m (PY £0.225m).

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



# Value for Money arrangements

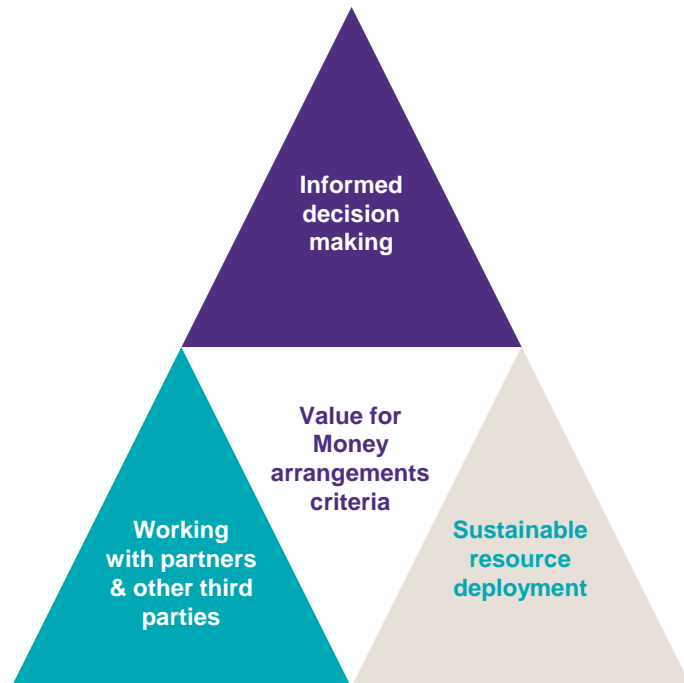
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Police, auditors are required to give a conclusion on whether the PCC and the Crime Commissioner each have proper arrangements in place to secure value for money.

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:

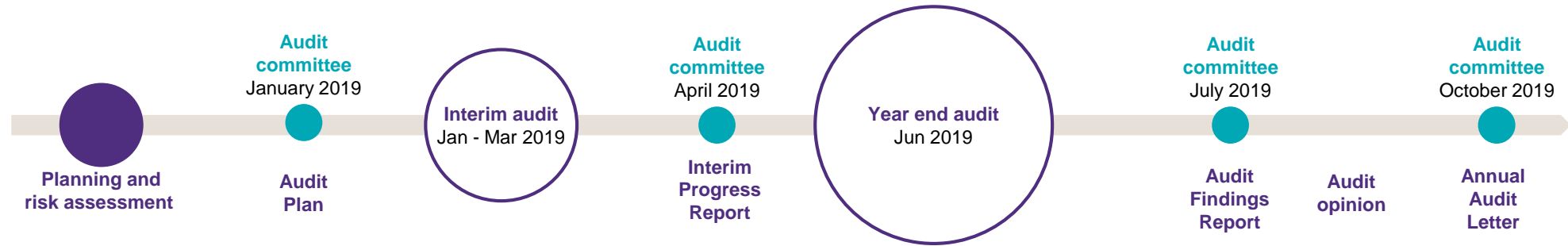


## Significant VFM risks

Significant VFM risks are those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the PCC or the Chief Constable to deliver value for money.

Our risk assessment procedures are still ongoing at the time of drafting our report. We will include the outcome of this risk assessment in our audit committee update to the Audit Committee in March 2019.

# Audit logistics, team & fees



## Alex Walling, Engagement Lead

Alex will be the main point of contact for Committee members and Executive Officers. She will provide challenge and share good practice, and ensure our audit is tailored specifically to you. Alex is responsible for the overall quality of our audit, and will sign your audit opinion.



## Laurelin Griffiths, Audit Manager

Laurelin will work with the senior members of the finance team ensuring the smooth delivery of our testing, and the agreement of accounting issues on a timely basis. She will supervise our on-site staff and undertake reviews of the team's work and ensure that our reports are clear, concise and understandable.



## Martin Stevens, Audit Incharge

Martin's role will be to be the day to day contact for finance staff. He will take responsibility for ensuring there is effective communication and understanding by the finance team of audit requirements.

## Audit fees

The planned audit fees under the Code are £26,380 (PY: £34,260) for the PCC, and £14,438 (PY: £18,750) for the Chief Constable, which are in line with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, the PCC and the Chief Constable and its activities, do not significantly change.

## Our requirements

To ensure the audits are delivered on time and to avoid any 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.

Any proposed fee variations will need to be approved by PSAA.

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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.

We confirm that we have implemented policies and procedures to meet the requirements of 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 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PCC and the Chief Constable. No other services were identified.

# Audit approach

## Use of audit, data interrogation and analytics software

### LEAP



#### Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



### IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also use other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

### Appian

#### Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

### Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



#### REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



#### ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



#### VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



#### INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



#### FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



#### INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

