



Southend-on-Sea Borough Council

AUDIT PLAN TO THE AUDIT COMMITTEE

Audit for the year ending 31 March 2018

Date of issue: 9 April 2018

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INTRODUCTION

PURPOSE AND USE OF OUR REPORT

We have pleasure in presenting our Audit Planning Report to the Audit Committee. This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process.

It summarises the planned audit strategy for Southend on Sea Borough Council ('the Council') for the year ending 31 March 2018; comprising materiality, key audit risks and the planned approach to these; together with the audit timetable and the BDO team. Audit planning is a collaborative and continuous process and our audit strategy, as reflected in this report, will be reviewed and updated as our audit progresses. In particular, we will review our approach following our interim audit site visit. We will communicate any significant changes to our audit strategy, should the need for such change arise.

The planned audit strategy has been discussed with Management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

The contents of this report relate only to those matters that came to our attention during the conduct of our normal audit procedures, which are designed primarily for the purpose of expressing our opinion on the financial statements. As the purpose of the audit is for us to express an opinion on the financial statements for the year ending 31 March 2018, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones that exist. As part of our work, we consider internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work is not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Audit Committee. In preparing this report, we do not accept or assume responsibility for any other purpose or to any other person.

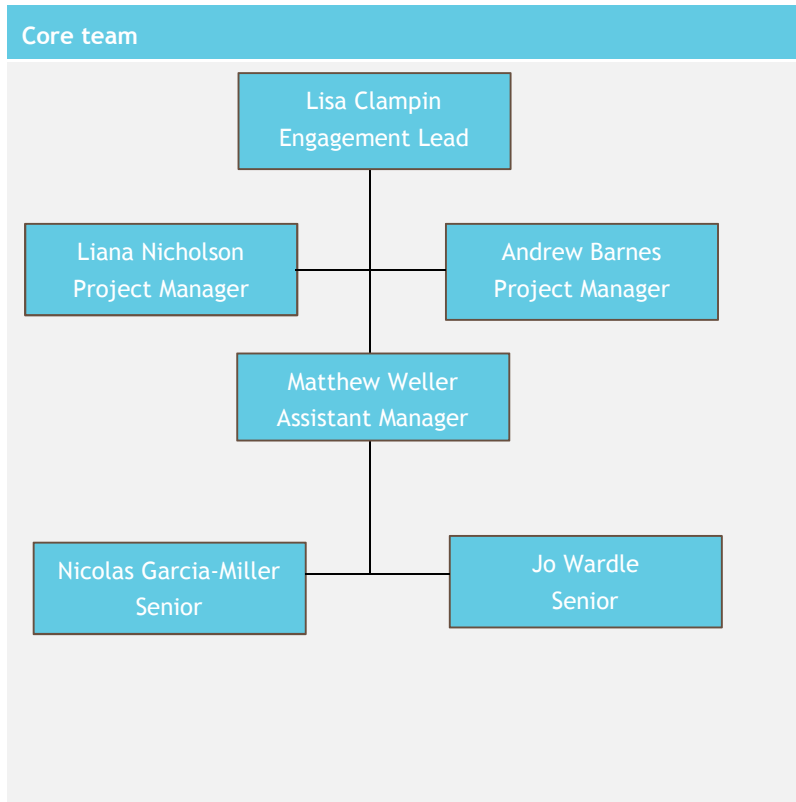
AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department), the PCAOB (Public Company Accounting Oversight Board) who oversee the audits of US public companies) and CPAB (Canadian Public Accountability Board), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for audits of listed companies and public interest entities.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Lisa Clampin Engagement Lead	Tel: 01473 320716 lisa.clampin@bdo.co.uk	Oversee the audit and sign the audit report
Liana Nicholson Project Manager	Tel: 01473 320715 liana.nicholson@bdo.co.uk	Management of the audit
Andrew Barnes Project Manager	Tel: 01473 320745 andrew.barnes@bdo.co.uk	Management of the audit (until April 2018 - Maternity cover)
Matthew Weller Assistant Manager	Tel: 01473 320804 matthew.weller@bdo.co.uk	High level supervision of the audit team
Nicolas Garcia-Miller Senior	Tel: 0207 893 2647 nicolas.garcia-miller@bdo.co.uk	Day to day supervision of the audit team
Jo Wardle Senior	Tel: 01223 266335 joanna.x.wardle@bdo.co.uk	Additional supervision support of the audit team

Lisa Clampin is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

In meeting this responsibility, she will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

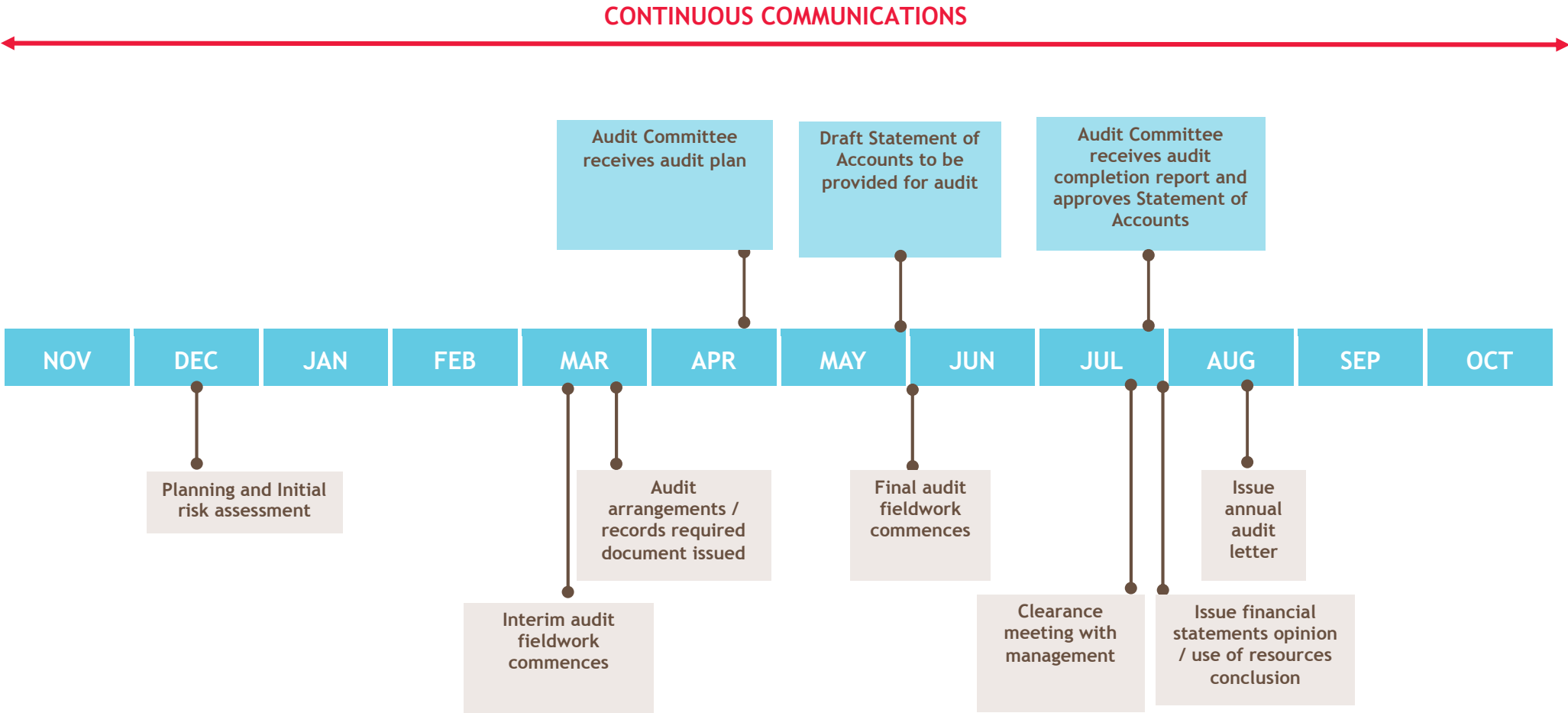
- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

She is responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit Office (NAO) Code of Audit Practice, International Standards on Auditing (UK) and other guidance issued by the NAO.

Our objective is to form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
1 The financial statements give a true and fair view of the financial position of the group and Council and its expenditure and income for the period in question.	2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.	3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).	4 The return required to facilitate the preparation of the Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.	5 The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

ADDITIONAL POWERS AND DUTIES

6 Where necessary: To consider the issue of a report in the public interest. To make a written recommendation to the Council.	7 Where necessary: To allow electors to raise questions about the accounts and consider objections. To apply to the court for a declaration that an item of account is contrary to law. To consider whether to issue an advisory notice or to make an application for judicial review.
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MATERIALITY

GROUP AND COMPONENT MATERIALITY		
	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Group	£7,700,000	£192,500
Significant components:		
• Council	£7,700,000	£192,500
<p>Please see Appendix I for detailed definitions of materiality and triviality.</p> <p>At this stage, planning materiality for the group and the Council has been based on 2% of the prior year gross expenditure. This will be revisited when the draft financial statements are received for audit.</p> <p>The clearly trivial amount is based on 2.5% of the materiality level of the group. The Council, as parent entity, has a separate clearly trivial level also using the same 2.5%.</p>		

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the group and Council's financial statements and the Council's use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the group, Council and other component entities' businesses and the specific risks it faces. We discussed the changes to the businesses and management's own view of potential audit risk to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements, group-wide controls and the consolidation process, and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and Council-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to audit risks.

Approach to components of the group financial statements

Our approach is designed to ensure we obtain the requisite level of assurance across the whole group.

Total coverage is expected to be as shown opposite, which is based upon prior year figures. We do not expect any significant changes in the proportion of expenditure and net assets in 2017/18.

SCOPE	EXPENDITURE COVERAGE 2016/17	NET ASSETS 31/3/17	EXPENDITURE COVERAGE 2015/16	NET ASSETS 31/3/16
Full scope procedures	£378m	£393m	£422m	£437m
Trust Funds	£1m	£17m	£1m	£17m
South Essex Homes	£10m	(£9m)	£10m	(£5m)
Southend Care (expected figures for 2017/18)	£6m	(£0.4m)	N/A	N/A
Total	£395m	£400.6m	£435m	£449m

OVERALL AUDIT STRATEGY

Group matters

COMPONENT NAME	% GROUP EXPENDITURE	% GROUP NET ASSETS	COMPONENT AUDITOR	OVERVIEW OF WORK TO BE PERFORMED	OVERVIEW OF THE NATURE OF OUR PLANNED INVOLVEMENT IN THE WORK PERFORMED BY THE COMPONENT AUDITOR
Full scope procedures:					
Council	95.7%	98.1%	BDO UK	Code audit of the financial statement prepared under CIPFA Code of Practice on Local Authority Accounting	Undertaken by the group audit team
Non-significant component procedures:					
Trust funds	0.3%	4.2%	N/A	PPE existence subject to specified procedures and analytical review.	Specified tests undertaken by the group audit team
South Essex Homes Limited	2.5%	(2.2%)	Scrutton Bland	Analytical review of financial statements prepared by the component entity assessed against expectations and prior year amounts.	N/A
Southend Care Limited	1.5%	(0.1%)	TBC	Analytical review of financial statements prepared by the component entity assessed against expectations	N/A

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the authority's financial statements and use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the authority's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk to gain an understanding of the authority's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to audit risks.

Audit risks and planned audit responses

For the financial statements audit, under International Standard on Auditing (ISA) 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties

- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the authority in forming our risk assessment and audit strategy.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit planning and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

OVERALL AUDIT STRATEGY

Fraud risk assessment

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believe that the risk of material misstatement due to fraud in the authority's financial statements is low and that controls in operation would prevent or detect material fraud. Management informed us that there have not been any cases of material fraud to their knowledge. However, Management made us aware of an immaterial fraud that has taken place within the Housing Department that could affect our risk assessment if there are any associated significant internal control deficiencies. We discussed this with the finance, internal audit and fraud investigation teams. We will make further enquiries of the procurement team to complete our assessment of the risk of the potential for other undiscovered frauds having occurred that might have a material impact.

We are required to discuss with those charged with governance their oversight of management's processes for identifying and responding to risks of all fraud.

We expect Audit Committee Members, as those charged with governance, to let us know if there are any actual, suspected or alleged instances of fraud of which they are aware.

New Auditing Standards from 2017/18

This is the first year of application of a revised set of International Standards on Auditing (ISAs) applicable to the UK. These include enhanced requirements in respect of the audit of disclosures, other information published with the accounts and of going concern, as well as changes to the structure and content of the audit opinion.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing standards, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. 	Not applicable.

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Property, plant and equipment valuations	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value or fair value (as applicable) at the balance sheet date.</p> <p>The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets that should be accounted for.</p> <p>As part of the 5 year rolling re-valuation programme, all schools have been re-valued in 2017/18, alongside other assets. Upon review of the revaluation schedules for all these assets, the upwards revaluations were seen to total £32m and downwards revaluations totalled £0.6m.</p> <p>2017/18 is the second year that the Council has used the current external valuers and we identified a material error in the indexation percentages they provided for the HRA housing stock in the first year, which increases our view of the associated level of audit risk.</p> <p>We concluded that there is a significant risk of material misstatement of asset values.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review the instructions provided to the valuer as well as the valuer's skills and expertise in order to determine if we can rely on them as a management expert Confirm that the basis of valuation for assets valued in year is appropriate based on their usage Confirm that the valuation movements are consistent with the expectations provided by independent data about the property market Confirm that the assets not specifically valued in the year have been properly assessed to confirm that their reported values remain materially correct Confirm that an instant build modern equivalent asset basis has been used for assets valued at Depreciated Replacement Cost. 	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions	<p>The net pension liability comprises the Council's share of the market value of assets held in the Essex County Council pension fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around other factors, such as inflation, when calculating the liability.</p> <p>There is a risk that the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Agree the disclosures to the information provided by the pension fund actuary • Review the competence of the management expert (actuary). • Obtain assurance over the controls for providing complete and accurate data to the actuary. • Contact the administering authority and request confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data • Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. 	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>
Expenditure and Funding Analysis	<p>During the prior year audit, we identified inconsistencies in the methodology for preparing the expenditure funding analysis note between the disclosures made in the financial statements in respect of 2016/17 and those made in respect of 2015/16.</p>	<p>We will review the methodology for preparing this note and ensure it is consistent with the final agreed methodology from 2016/17.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Revenue and expenditure recognition	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risk can be identified as affecting the accuracy and existence of income and expenditure.</p> <p>We do not consider there to be a specific significant risk over any one income or expenditure stream recorded in the Comprehensive Income & Expenditure Statement.</p> <p>Errors regarding the year-end income cut off for fees and charges were identified in each of the previous two years. The net impact on the 2016/17 accounts of these errors was an estimated overstatement of income of £217k. As this is a recurring issue, and the procedures in respect of the year-end cut off have not changed, we consider this a risk of non-trivial misstatement, specifically over the cut-off of fees and charges and therefore completeness of income at year-end.</p>	<p>We will:</p> <ul style="list-style-type: none"> Test an increased sample of transactions to ensure that income and expenditure has been recorded in the correct period and that all income and expenditure that should have been recorded has been recorded Trace an increased sample of items picked from the pre and post year-end bank statements to supporting documentation to confirm the completeness of the amounts recorded. 	Not applicable.
Southend Care Limited	<p>The Council has a new subsidiary company in 2017/18 (Southend Care Limited). As the transactions for this are material and have not historically been accounted for this presents a risk of non-trivial misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> Agree the numbers consolidated into the financial statements to the audited financial statements for Southend Care Limited Confirm that the processes and procedures for consolidation are in line with our expectations. 	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Property, plant and equipment existence	<p>Our initial review of the fixed asset register identified a small number of assets that the Council no longer holds. This was one transit van with a net book value of nil, a number of rooms removed as part of the past remodelling of two HRA sheltered accommodation schemes with a net book value of £1.1m and three garages with a net book value of £8,049.</p> <p>We have identified similar issues in previous years and the identification of these further assets indicates that a risk of material misstatement still exists.</p> <p>The Council is running further reports to fully quantify the extent of these errors prior to closing the accounts for the year.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Review the work that the Council has undertaken to identify further assets on the fixed asset register that the Council no longer holds • Trace a sample of general fund, investment property and heritage assets to title deeds confirming the Council's ownership of the assets • Trace a sample of Housing Revenue Account assets to the housing rent system, confirming that rental income is being received on the assets and thus that they exist • Agree a sample of investment property assets to the lease document held for these assets • Physically verify a sample of general fund, heritage asset and investment property assets. 	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Sustainable finances	<p>The latest Medium Term Financial Strategy to 2021/22 has identified the key influences on the Council's financial position including the changes to Government funding, with moves to 100% localisation of business rates and cessation of Revenue Support Grant. The MTFS has also taken account of expected annual inflationary and pay award pressures, impact of interest rates, the on-going effect of existing policies, pressures and growth in priority services.</p> <p>The budget has been balanced for 2018/19, following the identification of a further £7.2 million savings that need to be delivered during the year. However, budget gaps have been identified in 2019/20 (£7.5 million), 2020/21 (£4.9 million) and 2021/22 (£4.5 million).</p> <p>Delivering the required savings from 2018/19 will be a challenge and is likely to require implementation of difficult decisions around service provision and alternative delivery models. There is a significant risk that this will not be achieved, impacting on the financial sustainability of the Council in the medium term.</p>	<p>We will review the:</p> <ul style="list-style-type: none"> Assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied. Delivery of the budgeted savings in 2017/18 and the plans to deliver the identified savings for 2018/19. Strategies to close the budget gap after 2018/19. 	<p>We will review core grant data published by central government.</p>

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters that may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2018.

Our investigations have identified that one BDO employee is married to an officer of the Council. As a safeguard against this potential independence threat, the BDO employee will have no role to play in our audit or any other services provided to the Council.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
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LISA CLAMPIN - Engagement lead	4
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LIANA NICHOLSON - Project manager	1
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ANDREW BARNES - Project manager (Maternity Cover)	2
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Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2018 have been set at the scale fees proposed by the PSAA. These are:

	2017/18 Proposed fee £	2016/17 Actual fee £
Code audit fee	142,816	142,816
Certification fee (Housing benefits subsidy)	21,284	21,284
Total code audit and certification fees:	164,100	164,100
Fees for non-audit services - audit related (see below)	14,000	14,000
Fees for non-audit services - other	0	1,200
TOTAL FEES	178,100	179,300

NON AUDIT SERVICES FEES ANALYSIS

Audit related services:

Teachers Pensions certification fee	7,000
Pooled capital receipts certification fee	3,500
Homes and Communities Agency Information Management System compliance assurance fee	3,500
Total	14,000

Billing arrangements

We raise invoices for the Code audit fee on a quarterly basis, at £35,704 per quarter, from June 2017. Following our firm's standard terms of business, full payment will be due within 14 days of receipt of invoice. Fee invoices for other services, including the certification of the housing benefits subsidy claim, will be raised as the work is completed.

Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Director of Finance & Resources. Where this requires a variation to the scale fee, we will seek approval from PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee. At this stage, nothing has come to our attention that would require us to seek approval to amend the scale fee.

Fee basis

Our fee is based on the following assumptions:

- The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.
- Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.
- We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.
- Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY


Continued

REASSESSMENT OF MATERIALITY

- We will reconsider 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 if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.



The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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