London Borough of Hillingdon
Outline Audit Planning Report

Year ended 31 March 2022

11 April 2022

Building a better working world

Audit Committee
London Borough of Hillingdon
Uxbridge
UB8 1UW

11 April 2022

Dear Audit Committee Members

We are pleased to attach our Outline Audit Planning Report, which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. We are currently completing our detailed planning procedures and will update the Committee if we identify any further risks or change our audit strategy.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 28 April 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

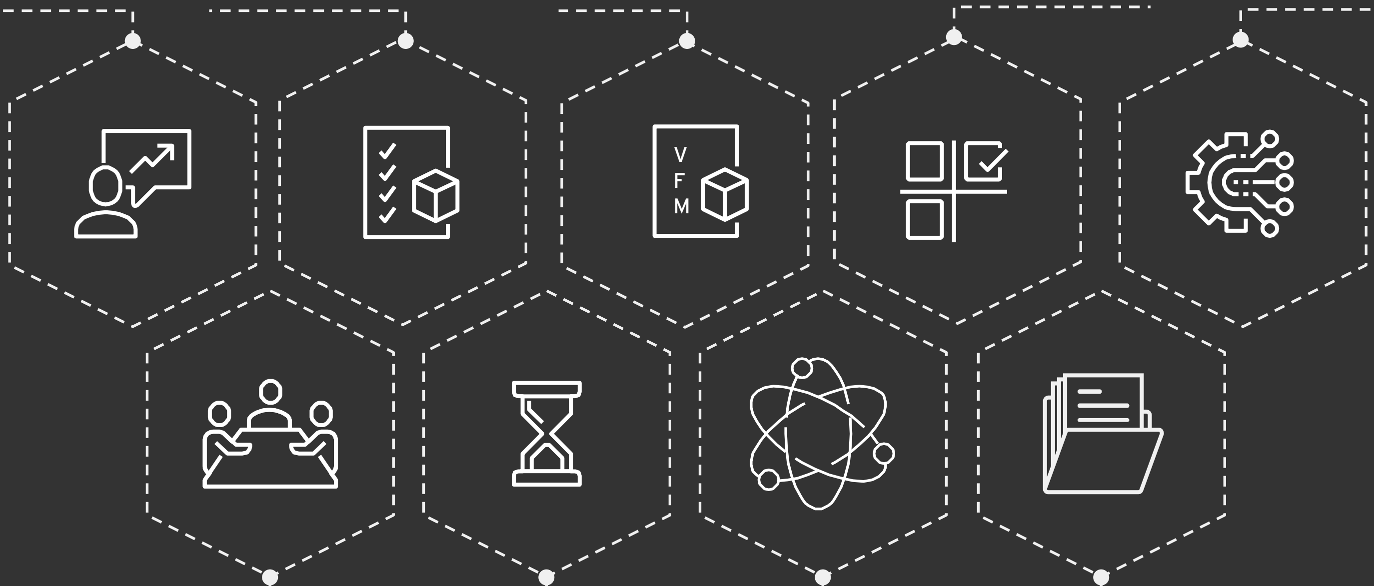
Helen Thompson

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of London Borough of Hillingdon in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of London Borough of Hillingdon those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of London Borough of Hillingdon for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2021/22 audit strategy

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risks	Risk identified	Change from PY	Details
Management Override: Misstatements due to fraud or error	Fraud risk	No change in risk	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk	For 2021/22, we have identified that there is a risk of inappropriate capitalisation of revenue spending.
Accounting adjustments made in the 'Movement in Reserves Statement'	Fraud Risk	No change in risk	Linking to our risk due to fraud and error above we have considered the accounting adjustments made in the Movement in Reserves Statement as a separate specific risk, given the financial pressure the Council is under to achieve its revenue budget and maintain reserve balances above the minimum approved levels.
Valuation of land and buildings valued under the Depreciated Replacement Cost ('DRC') method and the Existing Use Value ('EUV') method	Significant risk	Expanded risk	As at 31 March 2021, the Council recognised significant DRC and EUV assets of £579m and £134m, respectively. Valuation of these assets involves higher risk estimates due to the significant assumptions and judgments involved in their valuation, which triggers the use of experts by management and EY likewise. These estimates give scope for material errors, thus we identified a significant risk on the valuation of these assets.
Derecognition of infrastructure assets upon subsequent expenditure/replacement	Significant risk	New significant risk	An issue has been raised via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part/component has been replaced or decommissioned. This matter is currently under consideration by CIPFA and we anticipate that a significant risk might arise as a result. If we consider appropriate to downgrade the risk subsequent to more information becoming available, we will update the Committee.

Overview of our 2021/22 audit strategy

Audit risks and areas of focus (continued)			
Risks	**Risk identified**	**Change from PY**	**Details**
Pension liabilities and the IAS 19 valuations	Inherent risk	No change in focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Hillingdon Local Government Pension Scheme.
Valuation of Council Dwellings	Inherent risk	Focus has been narrowed down	The carrying amount of council dwellings represents a significant balance in the Council's accounts (£786m at 31 March 2021) and it is being revalued by management's external specialists on an annual basis. The valuation approach for social housing involves estimates and assumptions, which has led us to identify an inherent risk on the valuation assertion.
Consideration of Group Boundary	Inherent risk	No change in focus	During 2018/19, the Council created a housing company, Hillingdon First Limited. Depending on the qualitative and quantitative size of the company, the finance team will need to consider the need to prepare Group Accounts. No such requirement arose up to 2020/21. We will re-assess the interpretation of the preparation of Group Accounts as part of the 2021/22 audit.
New central government grants and other Covid-19 funding streams	Inherent risk	Downgraded from significant to inherent risk	The Council received a series of grants from the UK government during 2020/21 and 2021/22 in support for the pandemic crisis management. We identified the accounting treatment of those grants as an inherent risk due to factors discussed in Section 02.
Disclosures on Going Concern	Area of focus	Downgraded from inherent risk	The unpredictability of the current environment gives rise to a risk that the Council might not appropriately disclose the key factors relating to going concern, underpinned by the Council's actual year end financial position and forecasted performance for the going concern period of 12 months after the auditor's report date.

Overview of our 2021/22 audit strategy

Materiality

Planning materiality
£13.7m

Consistent with our prior year's approach, we calculated our planning materiality as 1.8% of the forecast gross expenditure (based on the PY outturn) of the Council. As a result, our planning materiality for the audit planning purposes is consistent with the prior year's final materiality.

Performance materiality
£10.3m

Performance materiality represents 75% of planning materiality, consistent year on year.

Audit differences
£0.7m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account, and collection fund) greater than £0.7m. We will communicate other misstatements identified to the extent that they merit the attention of the Audit Committee.

Specific materiality

We identified accounts or disclosures for which misstatements of less than PM could be expected to influence the economic decisions of users of the financial statements.

Thus, we have set a materiality of £5,000 for officers' remuneration, related party transactions, members' allowances and exit packages disclosures in the financial statements. This reflects our understanding that an amount less than our main materiality could influence the economic decision of the users of the financial statements in relation to these areas. This specific materiality is set at the remuneration banding used in the officer emoluments note.

Overview of our 2021/22 audit strategy

Audit scope

This Outline Audit Planning Report covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and

- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

For 2021/22, we will be applying a digital audit approach which puts data at the heart of the audit. Throughout the audit, we begin each task by considering data first, whether it is planning for the audit, performing risk assessment, or responding to risks.

When planning the audit we take into account several key inputs:
- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this outline audit planning report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of the Council's audit, we will discuss these with management as to the impact on the scale fee.

Overview of our 2021/22 audit strategy

Audit scope (continued)

Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

- We will provide a commentary on the Council's arrangements against three reporting criteria:
    - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
    - Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
    - Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

- The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Timeline

In December 2021, the Department for Levelling Up, Housing and Communities ('DLUHC') announced proposals to extend the deadline for the publication of audited accounts to 30 November for 2021/22.

We are working with the Council to deliver the audit ahead of 30 November. In Section 07 we include a provisional timeline for the audit.

02 Audit risks

Our response to significant risks

Management Override: Misstatements due to fraud or error

(Fraud Risk)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error due to management override of internal controls.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For London Borough of Hillingdon, we have assessed that this risk could manifest in:

- Inappropriate journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Council.
- Management bias in key accounting estimates and judgements.

What will we do?

We will:

- Identify fraud risks during the planning stages;
- Inquire of management about risks of fraud and the controls put in place to address those risks;
- Understand the oversight given by those charged with governance of management's processes over fraud;
- Consider the effectiveness of management's controls designed to address the risk of fraud;
- Determine an appropriate strategy to address those identified risks of fraud;
- Perform mandatory procedures in relation to journal entries, and other adjustments made in the preparation of the financial statements;
- Assess the nature of any significantly unusual transactions identified.
- Consider if management bias is present in the key accounting estimates and judgements in the financial statements.

Our response to significant risks (continued)

Inappropriate capitalisation of revenue expenditure

(Fraud Risk)

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

What is the risk?

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services.

The Council's Constitution requires the Corporate Director of Finance to prepare a Capital Strategy which:

a. Sets out the principles the Council will follow in its capital planning.

b. Outlines the methodology for inclusion of schemes within the capital programme.

c. Sets out the arrangement for management of capital schemes.

d. Identifies the capital schemes to be undertaken over the following four financial years and how those schemes will be funded.

Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve the budget increases the risk that the financial statements may be materially misstated.

Whilst there is no more than normal pressure on the Council to meet the outturn position, due to the historically large size of the capital programme, there is a risk of inappropriate capitalization of revenue expenditure.

What will we do?

We will:

- Review of the capital programme to assess what schemes are included and identify anything unusual or unexpected;
- Review capital expenditure incurred by the Council to ensure that it has been correctly classified as capital rather than revenue; and
- We will specifically test PPE additions with a specific focus on incorrect capitalisation of revenue expenditure.

Our response to significant risks (continued)

Misstatements due to fraud or error – accounting adjustments made in the 'Movement in Reserves Statement'

(Fraud Risk)

Financial statement impact

We have identified a specific risk of misstatement due to fraud or error that applies to accounting adjustments made in the Movement in Reserves Statement and it could result in a misstatement of 'Cost of Services' reported in the Comprehensive Income and Expenditure Statement.

What is the risk?

The Council is under financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels.

We consider the risk applies to accounting adjustments made in the movement in reserves statement.

The adjustments between accounting basis and funding basis under Regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management could misstate accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning:

- Revenue Expenditure Funded from Capital Under Statute (REFCUS);
- Capital grants;
- Depreciation, impairments and revaluation losses;
- Capital expenditure funded by revenue; and
- Minimum Revenue Provision.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Sample testing REFCUS to ensure the expenditure meets the definition of allowable expenditure, or is incurred under direction from the secretary of state;
- Reconciling entries for consistency to other audited accounts within the financial statements, for example our work on property, plant and equipment to support adjustments made for depreciation, impairments, revaluation losses, and application of capital grants;
- Reviewing the Council's policy and application of the 'Minimum Revenue Provision'; and
- Using our data analytics tool to identify and test journal entry adjustments made in the movement in reserves statement.

Our response to significant risks (continued)

Valuation of land and buildings valued under the Depreciated Replacement Cost ('DRC') method and the Existing Use Value ('EUV') method

Financial statement impact

Misstatements that occur in relation to valuation could affect the year end carrying value of DRC and EUV assets valued by the Council as at 31 March 2021 at £579m and £134m, respectively.

What is the risk?

The value of DRC and EUV assets represents a significant balance in the Council's accounts and it is subject to revaluation changes and impairment reviews.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

DRC and EUV assets are subject to regular review by the external valuers – Wilkes Head and Eve (WHE).

Valuation of these assets involves higher risk estimates due to the significant assumptions and judgments involved in their valuation, which triggers the use of experts by management and EY likewise. These estimates give scope for material errors, thus we identified a significant risk on the valuation of these assets.

What will we do?

- Understand the Council's approach to DRC and EUV assets and the valuation methodology to be adopted in 2021/22;
- Determine the impact of any upwards/downwards valuations and based on our materiality levels consider the impact on the 2021/22 financial statements;
- We plan to use our internal valuation specialists to challenge management's assumptions and assertions;
- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuer;
- Review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test that accounting entries have been correctly processed in the financial statements.

Our response to significant risks

Derecognition of infrastructure assets upon subsequent expenditure/replacement

Financial statement impact

Infrastructure assets make up a significant share of the Council's property balance. The net book value of infrastructure assets amounted to £182m as of 31 March 2021.

What is the risk?

An issue has been raised via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part/component has been replaced or decommissioned.

Asset registers do not tend to record infrastructure capital expenditure with sufficient detail and geographical specifics to enable identification of prior cost of replaced parts/components and related accumulated depreciation. So, it can be challenging to identify the cost and accumulated depreciation balances that need to be derecognised.

If parts/components have not been derecognised when replaced or decommissioned:

a. For assets that have been fully depreciated, the gross cost of the asset and accumulated depreciation will be overstated in the property, plant and equipment note to the balance sheet. This will be a matching error, so no impact on the net book value reported on the balance sheet.
b. For assets replaced or decommissioned ahead of their useful economic life (UEL), i.e., the asset is not fully depreciated and has a positive net book value at year end, the error will also impact the balance sheet, where asset values will be overstated.

What will we do?

This matter is currently under consideration by CIPFA and we anticipate that a significant risk might arise as a result. Thus we have preliminarily recognised this risk in the outline audit planning report. Any possible changes in our risk assessment will be communicated to the Committee in due time.

Under the current circumstances, we plan to undertake the following procedures:

- Discuss the procedures applied by the Council to ensure the subsequent capital spend is recognised in accordance with the Code, i.e., where the subsequent expenditure concerns the replacement of a part/component, what procedures are performed to identify and derecognise the carrying amount of the old part/component (and any associated accumulated depreciation).
- Obtain evidence to match the subsequent expenditure to the carrying amount of the replaced part or component that is being derecognised.
- If the carrying amount of the replaced part or component cannot be identified, test the Council's use of the cost of the replacement as a proxy for the deemed carrying amount of the replaced part, ensuring the calculation appropriately adjusts the cost for depreciation and impairment.

As more information becomes available to us, the above procedures will be adjusted to respond to the most current developments.

Other areas of audit focus (continued)

What is the inherent risk?	What will we do?
<u>Pension Liability Valuation</u> The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council (transferred from Surrey County Council in September 2021). The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £739 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuaries to the relevant Pension Funds. Accounting for this scheme involves significant estimation and judgement and therefore management engages actuaries to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: ▸ Liaise with the EY Team as auditors of Hillingdon Pension Fund, to obtain assurances over the information supplied to the actuary in relation to London Borough of Hillingdon. ▸ Assess the work of the main Pension Fund's actuary (i.e. Hymans Robertson acting as actuary for London Borough of Hillingdon Pension Fund), including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; ▸ Engage with EY Pensions to undertake procedures to create an auditor's estimate for the pension liability; ▸ Consider any updated information in respect of the impact of national issues, when relevant; ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus (continued)

What is the inherent risk?	What will we do?
<u>Valuation of Council Dwellings</u> The carrying amount of Council Dwellings represents a significant balance in the Council's accounts and is subject to revaluation changes on an annual basis. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	‣ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ‣ Sample test key asset information used by the valuers in performing their valuation (e.g. nature and number of beacons, valuation of units within beacons); ‣ Consider if there are any specific changes to assets/beacons that have occurred and that these have been communicated to the valuer; ‣ Consider the appropriateness of management's consideration of estimation uncertainty; ‣ Test whether accounting entries were correctly processed in the financial statements.
<u>Consideration of Group Boundary</u> During 2018/19, the Council created a housing company, Hillingdon First Limited. Depending on the qualitative consideration of and quantitative size of the company, the finance team will need to consider the preparation of Group Accounts.	We will re-assess the Council's assessment of the need to prepare Group Accounts as a result of transactions occurring within the subsidiary within the financial year.

Other areas of audit focus (continued)

What is the inherent risk?	What will we do?
New central government grants and other Covid-19 funding streams Central Government have provided a number of different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies. The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2021/22. Whilst there is no change in the CIPFA Code or Accounting Standard (IFRS 15) in respect of accounting for government grant funding, the various nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment within the 2021/22 statements. We downgraded this risk from significant to inherent because we identified no audit differences in the 2020/21 audit and we are more familiar with certain funding streams.	In order to address this risk, we will carry out a range of procedures including: ▸ Sample testing government grant income to ensure that it has been correctly classified as specific or non-specific in nature; ▸ Reviewing the Council's decision for new grant or funding arrangements whether it is acting as principal or agent; ▸ Sample testing government grant income to ensure that it has been correctly classified in the financial statements based on any restrictions imposed by the funding body; ▸ Checking the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as risks, but are still important when considering the areas of audit focus.

What is the area of focus?	What will we do?
<u>Going concern disclosure</u> There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 and of the overall inflation on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure its going concern assessment is thorough and appropriately comprehensive. The Council is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.	We will meet the requirements of the auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by: • Challenging management's identification of events or conditions impacting going concern. • Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias). • Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern. • Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern. • Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.

03 Value for Money Risks

Value for Money

Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

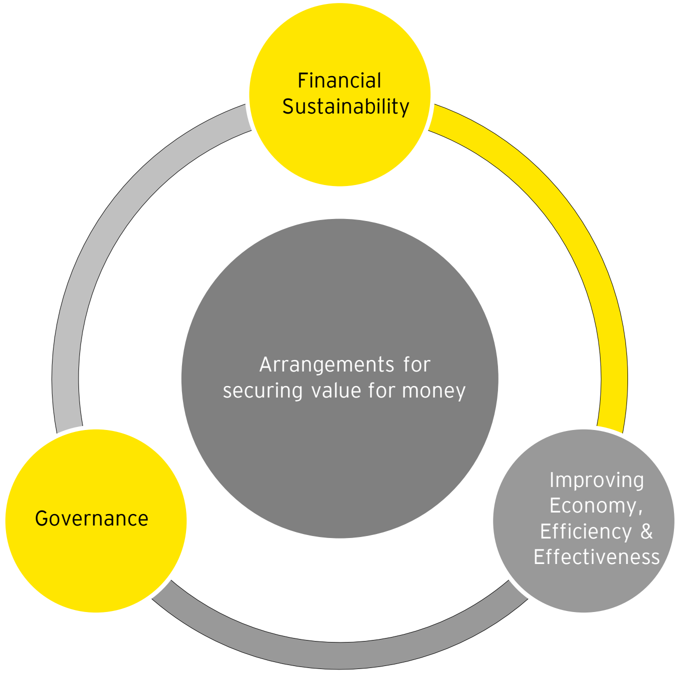
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement;
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for Money

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2021/22 VFM planning

We have yet to complete our detailed VFM planning.

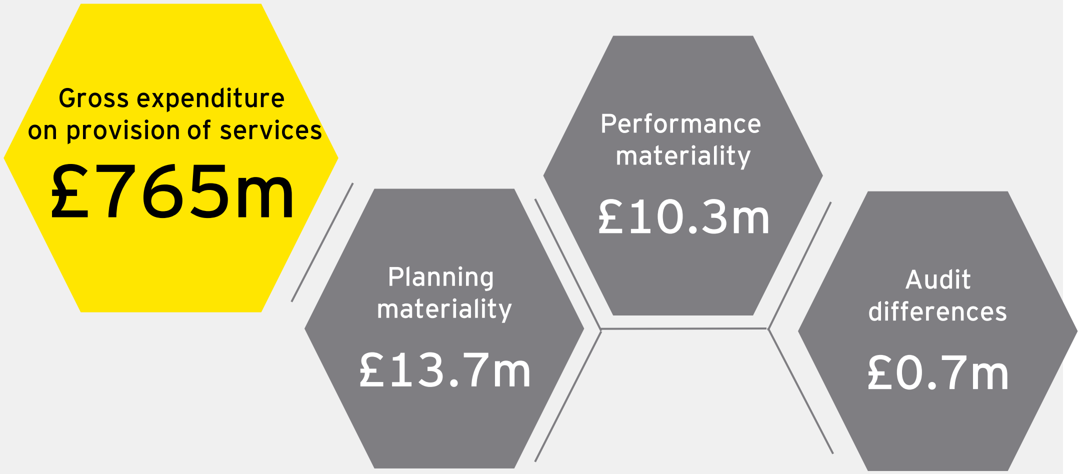
We will update the next Audit Committee meeting on the outcome of our VFM planning and our planned response to any additional identified risks of significant weaknesses in arrangements.

04 Audit materiality

Audit materiality

Materiality

For planning purposes, we have set materiality for 2021/22 at £13.7m. This represents 1.8% of the Council's prior year gross expenditure on provision of services, consistent year on year. When setting the materiality threshold, we took into account that the Council meets the Local Audit & Accountability Act 2014 criteria for a major local audit based on its size. We have also considered its overall risk profile and public interest in comparison to other councils. We will reassess materiality throughout the audit. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account, & collection fund financial statements that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

Specific materiality – We identified accounts or disclosures for which misstatements of less than PM could be expected to influence the economic decisions of users of the financial statements.
Thus, we have set a materiality of £5,000 for officers' remuneration, related party transactions, members' allowances and exit packages disclosures in the financial statements. This reflects our understanding that an amount less than our main materiality could influence the economic decision of the users of the financial statements in relation to these areas. This specific materiality is set at the remuneration banding used in the officer emoluments note.

Materiality

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

For more details, refer to **Specific materiality** discussion on the previous slide.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether 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.

Our opinion on other matters:
- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:
- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)
As outlined in Section 03, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantively testing transactions and amounts.

As in previous years, we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

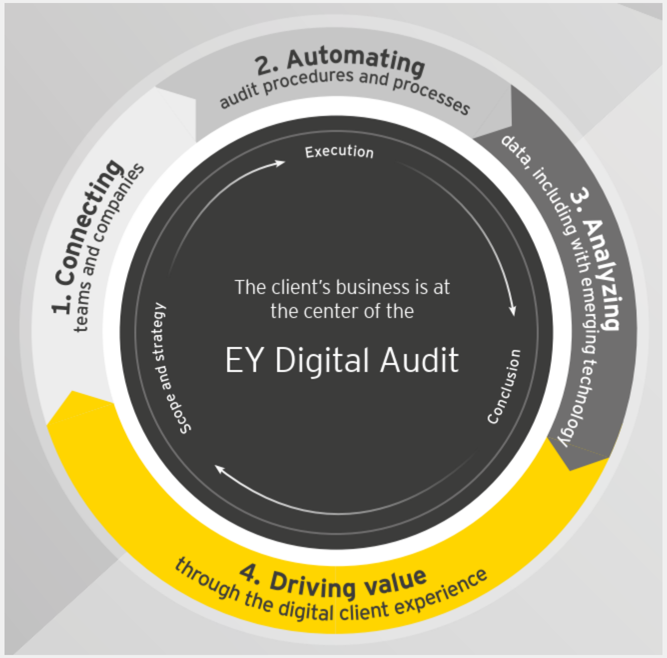
For 2021/22 we will be applying a Digital Audit approach which puts data at the heart of the audit. Throughout the audit, we begin each task by considering data first, whether it is planning for the audit, performing risk assessment, or responding to risks.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.



Scope of our audit

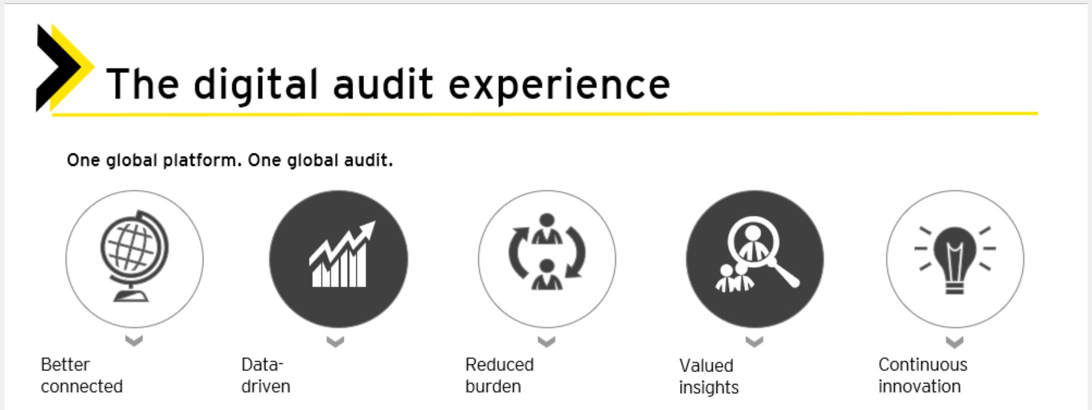
Audit Process overview

The Digital Audit enhances our ability to:

- Understand changes in the business and processes
- Evaluate and respond to fraud risks
- Evaluate going concern
- Evaluate impairment
- Focus on cash

The Digital Audit experience includes use of the Client Portal which has a number of benefits:

- reduces email communication, saving you time when supporting the audit;
- provides on demand visibility into the status of audit requests, improving project management; and
- better security of data and automatic uploading into EY Canvas, creating confidence that data has been properly provided.



Audit Process overview

Internal audit

We will review internal audit plans and the results of their work. We will reflect on these when designing our overall audit approach and when developing our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that could have a material impact on the financial statements.

06 Audit team

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Real Estates; Management's external experts: Wilkes Head and Eve and Jones Lang LaSalle We will also consider any valuation aspects that require EY valuation specialists to review any material specialist assets and the underlying assumptions used.
Pensions	EY Pensions; Management's external expert: Hymans Robertson.

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

Indicative timetable of communication and deliverables

Timeline

Below is an indicative timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	**March – April 2022**	Audit Committee	Outline Audit Planning Report
Walkthrough of key systems and processes	**March – April 2022**		
Year end audit	**July – September 2022**		
Audit Completion procedures	**September 2022**	Audit Committee	Audit Results Report Audit Opinions
	September – November 2022 (TBC)	Audit Committee	Auditor's Annual Report and Completion Certificates

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit/additional services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we have not identified any threats that would require mitigation safeguards. We therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we have an investment in the Council; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is below 1:1. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Relationships, services and related threats and safeguards

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2021
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021: https://www.ey.com/en_uk/about-us/transparency-report-2021

09 Appendices

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The fee for 2021/22 reflects the year 4 of the new 5 year contract awarded by PSAA.

	Planned fee 2021/22	Final Fee 2020/21
	£	£
Scale Fee (Note 1)	121,096	121,096
2020/21 PSAA expected additional minimal core fees: (Note 2)		
- VFM	-	10,000 to 19,000
- ISA 540 accounting estimates	-	4,400
- Covid-19 grants, property valuations, etc.	TBC	TBC
Total current scale and additional fees	TBC	**TBC**
Proposed increase to the scale fee (Note 1)	TBC	**82,728**
Non-audit services (Housing Benefits)	TBC	30,600
Non-audit services (Housing Capital Receipts)	7,750 - 8,250	7,900
Non-audit services (Teacher's Pensions)	13,500 - 14,000	13,500
Total other non-audit services	**TBC**	**52,000**

All fees exclude VAT

Notes:

1. We proposed an increase of £82,728 to the scale fee. We are currently in discussion with PSAA nationally about an increase to the scale fee. This is yet to be determined by PSAA and it is subject to change in 2021/22.
2. In August 2021, PSAA published 'Additional information for 2020/21 audit fees'. PSAA commissioned external independent technical research for setting standardised fee variations to assess the expected impact on audit work programmes of a range of new and updated audit requirements. PSAA determined a minimum range for VFM (£10k-£19k) and a minimum amount for ISA540 (£4.4k).
3. Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee**.**

		Our Reporting to you
Required communications	**What is reported?**	**Where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Outline Audit Planning Report
Significant findings from the audit	▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process	Audit results report – September 2022 (TBC)
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements.	Audit results report – September 2022 (TBC)
Misstatements	▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management	Audit results report – September 2022 (TBC)

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**Where**
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit results report – September 2022 (TBC)
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report – September 2022 (TBC)
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Outline audit planning report Audit results report – September 2022 (TBC)
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – September 2022 (TBC)

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**Where**
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit results report – September 2022 (TBC)
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report – September 2022 (TBC)
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report – September 2022 (TBC)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – September 2022 (TBC)
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report – September 2022 (TBC)
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Outline audit planning report Audit results report – September 2022 (TBC)

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▶ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.