South Cambridgeshire District Council

Outline Audit Plan

Year ended 31 March 2019

September 2020

Building a better working world

South Cambridgeshire District Council 16 September 2020

Dear Audit and Corporate Governance Committee Members

Outline Audit Plan – 2018/19

We are pleased to attach our Outline Audit Plan which sets out our initial views on how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Corporate Governance Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 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 Outline Audit 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 will provide an update to this plan on completion of our planning procedures, if we identify new risks or change our audit strategy.

We have adapted our audit approach and working practices to take account of the implications and risks from COVID-19 as we see them for the preparers of financial statements and auditors for Local Government bodies. We have had initial discussions with the Council's finance team on their response and ongoing strategic, operational and financial risk assessment. We will continue to keep this area under review during the course of our audit and update our audit risk assessment and approach as appropriate. At this stage, we expect to be undertaking additional audit procedures on management's assertions and disclosures associated with preparing the accounts as a going concern in accordance with the Financial Reporting Council's Statement of Recommended Practice Note 10 for audit of public sector bodies in the United Kingdom.

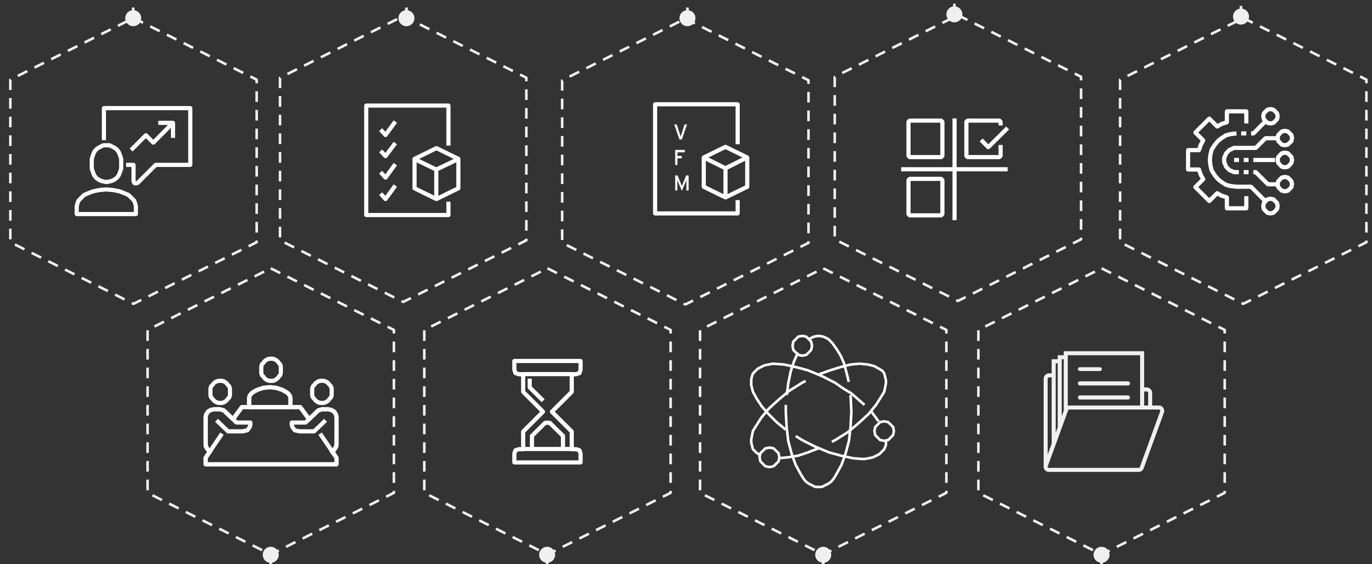
Within the plan we have also reflected on the 2017/18 audit, the lessons learned in terms of audit execution and the impact of the issues we have reported to the Committee on our risk assessment for 2018/19. Where possible we have indicated the additional areas of audit procedures and the associated indicative audit fee (using a range).

This report is intended solely for the information and use of the Audit and Corporate Governance 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 29 September 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel - 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 and Corporate Governance Committee and management of South Cambridgeshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Corporate Governance Committee and management of South Cambridgeshire District Council 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 and Corporate Governance Committee and management of South Cambridgeshire District Council 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 2018/19 audit strategy

Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Corporate Governance 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

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud Risk	No change in risk or focus	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.
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Linking to our fraud risk identified above, we have determined that the way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements.
Presentation and disclosure of accounting items	Significant risk	New risk	The Council's draft 2017/18 statements contained numerous errors and a number of instances where supporting working papers were insufficient as a result of weaknesses in the capacity and capability in the finance team. Since June 2019, the finance team has been strengthened and the Council published its 2018/19 draft statements on 11 September 2020 and has provided assurances that the accounts have been through quality assurance and all supporting working papers will be provided before the audit commences. As a result of the prior year issues we will reduce our performance materiality to 50%.
Data migration relating to new Fixed Asset Register (FAR)	Significant Risk	New risk	During 2018/19 the Council moved to a new asset management system and fixed asset register (FAR). Given output from the system is material and involves a significant level of data we have concluded that this represents a significant audit risk for the 2018/19 audit.
New financial management system	Significant risk	New risk	The Council implemented a new finance system for the 2018/19 financial year. Given the importance of the ledger on the preparation of the accounts, we recognise this as a significant audit risk.

Overview of our 2018/19 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Valuations of other land and buildings and housing	Inherent risk	No change in risk or focus	Other Land and Buildings (OLB) and housing represent significant balances in the Council's accounts (£27m and £460m respectively at 31 March 2019) and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet. As these balances are significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk balances may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.
Pension Liability Valuation & other pension disclosures	Inherent risk	No change in risk or focus	The Council's pension fund deficit is a material estimated balance (£70m at 31 March 2019) disclosed on the Council's balance sheet. Accounting for this scheme involves significant estimation and judgement, management engages an actuary 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.
Group accounts	Area of audit focus	No change in focus	The Council has been preparing group accounts for several years. We will need to carry out procedures on group consolidation processes, engage with the auditor of the two wholly owned subsidiaries to understand and assess any group risks, determine an appropriate audit strategy and audit the group accounts.
Going concern	Area of audit focus	New area of focus	Covid-19 has increased pressure on the Council's finances due to a reduction in non-government sources of revenue and increased expenditure. Whilst government initiatives are providing some financial support there is a risk to the Council's financial resilience and a need for appropriate disclosure of material uncertainties in finances over the next 18 months.
Implementation of new accounting standards IFRS9 & 15	Area of audit focus	New area of focus	From 1 April 2018 local authorities are required to adopt two new accounting standards - IFRS9 (Financial instruments) and IFRS15 (Revenue from contracts). The Council needs to demonstrate how they have adopted the new standards, determine any resulting accounting and make appropriate disclosures in the 2018/19 accounts.

Overview of our 2018/19 audit strategy

Impact of Covid-19 on the accounts and audit

Remote working
Our audit documentation tool, Canvas, and the EY Client Portal enable us to undertake the majority of our audit procedures by working remotely. To date, the Council's finance team have also been able to deal with audit queries and continue with their closedown preparations remotely.
Audit evidence
Whilst remote working is operating relatively effectively, there are likely to be some aspects of audit evidence where we will need to work collaboratively with the finance team to ensure its appropriateness and sufficiency. Dealing pragmatically with these challenges may increase the duration of the audit.
Auditor's report
Because of the ongoing uncertainty Covid-19 presents to the material accuracy of financial statements, EY (in common with other firms) has introduced a rigorous consultation process for all auditor reports. Whilst we may not be seeking to issue the Council's auditor report until later in the year, there is likely to remain in place a consultation process that may impact on the timing and the content of the audit report.

Materiality

Planning materiality
£1.974m

We have set materiality at £1.974 million, which represents 2% of the gross expenditure for 2018/19 (using the draft accounts). This is at the top end of our materiality range.

Performance materiality
£0.987m

We have set performance materiality at £836,000, which represents 50% of materiality. Under our approach we can either use 50% or 75% but because of the extent of errors in the prior year statements we are required to use 50%. This change from the prior year means that we will be testing more items.

Audit differences
£98,700

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, and collection fund) greater than £83,600. We will communicate other misstatements identified to the extent that they merit the attention of the Audit and Corporate Governance Committee.

Overview of our 2018/19 audit strategy

Materiality (continued)

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.

When carrying out audit procedures, in addition to using the materiality levels outlined above, we also take into account our view of the Council's controls and the inherent risk of a specific item of account. The stronger the controls and the lower the inherent risk, the less we are likely to test. 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.

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of South Cambridgeshire District Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness (Value for Money).

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.

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.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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.

As part of our work to identify fraud risks during the planning stages, we have identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation.

These are set out on the following page.

What will we do?

- Identifying fraud risks during the planning stages;
- Inquiry of management about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- Determining an appropriate strategy to address those identified risks of fraud; and
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

To address the residual risk of management override we perform specific procedures which include:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, for example using our journal tool to focus our testing on specific journals such as those created at unusual times or by staff members not usually involved in journal processing;
- Assessing key accounting estimates for evidence of management bias; and
- Evaluating the business rationale for significant unusual transactions.

Our response to significant risks

Inappropriate capitalisation of revenue expenditure*

Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

► Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.

► Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating property, plant and equipment additions and/or Revenue Expenditure Financed as Capital Under Statute (REFCUS) in the financial statements.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of its annual capital programme which is many times out materiality level.

This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

What will we do?

We will:

► Test property, plant and equipment additions to ensure that the expenditure incurred and capitalised is clearly capital in nature; and

► Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

We will utilise our data analytics capabilities to assist with our work, including journal entry testing. We will assess journal entries more generally for evidence of management bias and evaluate for business rationale.

Our response to significant risks

Presentation and disclosure of accounting items

Financial statement impact

We have assessed a significant risk to the material presentation and disclosure of the 2018/19 statements in light of the issues around the 2017/18 accounts preparation and audit process.

What is the risk?

The Council's draft 2017/18 statements contained numerous errors and a number of instances where supporting working papers were insufficient as a result of weaknesses in the capacity and capability in the finance team. Since January 2019, the finance team has been strengthened and the Council has put in place a plan to prepare its 2018/19 statements by the end of August. However, there remains a significant risk that the accounts may contain errors in presentation and disclosure.

In auditing the 2017/18 statements, we faced particular issues with obtaining listings to support the Council's year end debtors, creditors and aspects of collection fund income and expenditure.

What will we do?

We have been in discussions with Head of Finance and the finance team regularly since completion of the 2017/18 audit and during the Council's preparation of the 2018/19 draft statements. As a result of our experience in 2017/18, in order to identify any significant issues at an early stage, we will:

- Undertake an early detailed review of the account to assess the overall quality of accounts presented for audit (this was done and feedback provided in mid-September);
- Provide officers with a list of audit working paper requirements before we commence the detailed work on the final accounts (done); and
- Review the adequacy of the working papers provided before we commence detailed audit work.

In addition, we will assign a higher risk factor to our work on debtors, creditors and collection fund (income and expenditure).

We have lowered our performance materiality to 50%.

Our response to significant risks

Data Migration relating to the new Fixed Asset Register (FAR)

Financial statement impact

The net book value of plant, property & equipment in the 2018-19 audited accounts is £505 million.

What is the risk?

During 2018/19 the Council moved to a new asset management system and a new fixed asset register (FAR) from the current excel spreadsheet to the CIPFA accounting module. Given output from the system is material and the Council's previous FAR comprised a significant level of data we have concluded this should be treated as a significant risk in our 2018/19 audit.

What will we do?

We will:

- review the Council's reconciliation of the prior year 2017/18 closing balance to the 2018/19 opening balance in the old FAR on Excel;
- review the Council's reconciliation between the old FAR to the new CIPFA accounting system to confirm that data transfer is complete and accurate;
- consider the Council's investigation into any variances between the two systems; and
- assess the accuracy of data held on the new FAR through substantive testing of a sample of property, plant and equipment.

Our response to significant risks

New financial management system

Financial statement impact

The FMS underpins the preparation of financial statements free from material misstatement and reconcilable to the Council's financial transactions, assets and liabilities for the year.

What is the risk?

The Council migrated to a new financial management system on 1 October 2018, migrating the general ledger transactions and balances (along with sub ledger details) from Oracle to the new Tech 1 FMS.

The migration to a new finance system is a significant event that involves extensive planning and arrangements to ensure that the governance of the process maintained, the new system delivers as expected and there is no loss of financial data.
As such, we consider this to represent a significant risk to the audit.

What will we do?

The Council's move to Tech 1 was undertaken alongside Huntingdonshire and Cambridge City councils. As a consequence during 2019 we engaged support from EY Information Technology Risk & Assurance (ITRA) to perform a data migration review and obtain reasonable assurance on data integrity in the T1 FMS system following the implementation on 1 April 2018. ITRA also reviewed key financial data such as general ledger, open accounts receivable (AR), vendor and customer master data.
In addition to the above we will review the Council's own assurance arrangements over completeness and accuracy of opening balances in the T1 FMS system as this provides the starting point for the 2018/19 statements.

Other inherent risks

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
Valuation of Other Land and Buildings (OLB) and housing OLB at £27m and housing at £460m represent significant balances in the Council's accounts. They are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet. As the balances are significant, and the outputs from its valuer are subject to estimation, there is a higher inherent risk balances may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.	We will: ▶ Consider the work performed by the Council's valuer, 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 valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▶ Consider whether valuations are carried out with sufficient frequency to ensure that carrying values are not materially different from market value. ▶ Consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▶ For housing test a sample of beacon valuations to comparable sales to ensure that the approach is reasonable; ▶ Consider specifically the use of indices to derive the 31 March valuation; ▶ Consider appropriateness of changes to useful economic lives as a result of the most recent valuation; and ▶ Test accounting entries have been correctly processed in the financial statements.

Other inherent risks (continued)

What is the risk/area of focus?	What will we do?
Pension Liability Valuation & other pension disclosures 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 Cambridgeshire County Council. 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 2019 this totalled £70 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary 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 auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to South Cambridgeshire District Council; • Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus

What is the area of focus?	What will we do?
Group accounts The Council has been preparing group accounts for several years. We have yet to engage with the auditors of the subsidiary companies to understand and evaluate any risks they have recognised on the 2018/19 audits and what impact that has on our consideration of the group accounts.	• Liaise with the component auditors to understand any risks that they are recognising; • Evaluate any risks at component level on the group accounts; • Issue instructions to the component auditors we intend to place reliance on (if relevant); and • Audit the consolidation process and group accounts.

What is the area of focus?	What will we do?
Going concern disclosures Covid-19 has created a number of financial pressures throughout Local Government. For the Council its other sources of income such as investment income and car parking are being adversely impacted. Since April, government initiatives have come into place providing some financial support, however, pressure remains on the Council's finances. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 *Going Concern*, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.	In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, similar to the latter part of the 2017/18 audit, we will be seeking a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure. We will review your updated going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We expect you to disclose any material uncertainties that do exist. These disclosures should also include the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19). Our audit procedures to review these will include consideration of: ▸ Current and developing environment; ▸ Liquidity (operational and funding); ▸ Mitigating factors; ▸ Management information and forecasting; and ▸ Sensitivities and stress testing.

Other areas of audit focus (continued)

What is the area of focus?	What will we do?
Implementation of new accounting standards	
IFRS 9 Financial instruments This new accounting standard will change: ▸ How financial assets are classified and measured; ▸ How the impairment of financial assets are calculated; and ▸ The disclosure requirements for financial instruments. There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 9. A statutory override is available for certain classes of financial assets.	We will: ▸ Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. ▸ Consider the classification and valuation of financial instrument assets. ▸ Review the implementation of the new expected credit loss model impairment calculations for assets. ▸ Check additional disclosure requirements for compliance with the CIPFA Code.
IFRS 15 Revenue from contracts with customers The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue may change and new disclosure requirements introduced.	We will: ▸ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. ▸ Consider application to the Council's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and ▸ Check additional disclosure requirements.

03 Value for Money Risks

Value for Money

Background

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. This is known as our value for money (VFM) conclusion. For 2018/19 this is based on the overall evaluation criterion: "In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:
"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Initial risk assessment

For the 2017/18 audit we qualified the VFM conclusion in relation to Council's weaknesses in meeting financial reporting duties for publishing draft and audited accounts and the VFM criteria 'Informed decision making', specifically the Council's arrangements for producing reliable and timely financial reporting that supports the delivery of strategic priorities. In our July 2020 Audit Results Report we included recommendations for improving financial reporting, which management accepted. For 2018/19, our initial VFM risk assessment is that we have a significant risk in respect of the VFM criteria 'Informed decision making' and the Council's arrangements for producing reliable and timely financial reporting that supports the delivery of strategic priorities. Our initial response will be to follow up the recommendations we reported to the Committee in July 2020.

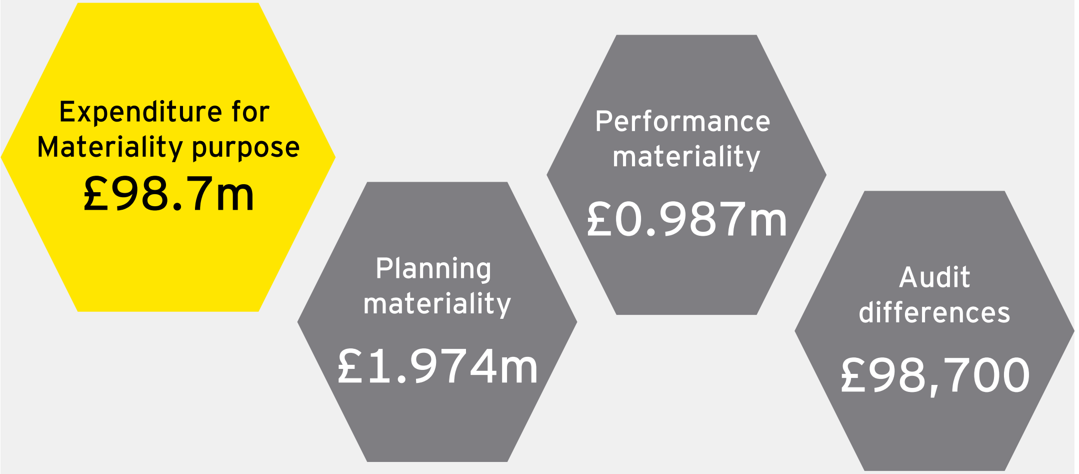
We will continue to revisit this assessment as our audit progresses and update the Audit and Corporate Governance Committee of any changes.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £1.974 million. This represents 2% of the Council's 2018/19 gross expenditure as per the draft accounts. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit and Corporate Governance 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. This can either be 50% or 75% of planning materiality. We have used 50% because of the number of errors in the prior year accounts. This is a decrease on the percentage used last year.

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 and collection fund 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 and Corporate Governance Committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality threshold of £5,000 for related party transactions and members' allowances. For officers remuneration including exit packages we will apply materiality of £5,000 in line with bandings. This reflects our understanding that an amount less than our materiality would not influence the economic decisions of users of the financial statements in relation to these disclosures.

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 review and report on the Council's financial statements and 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 objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards
- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

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.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

Our intention is to carry out a fully substantive audit in 2018/19 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2018/19, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

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 and Corporate Governance Committee.

Internal audit:

We will engage with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.

2	A	Full scope audits
Nil	B	Specific scope audits
1	C	Review scope audits
Nil	D	Specified procedures
Nil	E	Other procedures

Scope definitions

Full scope: where a full audit is performed to the materiality levels assigned by the group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: where the component team performs procedures specified by the group audit team to respond to an identified risk.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scoping the group audit (continued)

Scoping coverage

Based on our discussions with management to date and knowledge from the 2017/18 audit we anticipate:

- Relying on the audit work of the component auditor in respect of Ermine Street Housing. The impact of this subsidiary on group income and expenditure will be immaterial, however, it does hold significant property assets that require valuation and alignment of accounting policies. Our focus is on those balances that could contain a risk of material misstatement.
- Undertaking other procedures in relation to Shire Homes Lettings Ltd. To date this entity is not impacting materially on the group. Our focus will be on ensuring that this remains materially correct in 2018/19.

We will update the Committee if there are any changes to our scoping coverage throughout the audit.

Key changes in scope from last year

- The Council's accounts remain subject to full audit by the primary audit team
- Ermine Street Housing was a full scope audit in previous years, and as such there have been no changes to that entity.
- Shire Homes Lettings Ltd will be covered by other procedures in 2018/19.

Details of specified procedures

In order to respond to the risk identified in relation to the valuation of land and buildings we will seek to rely on the work of the component auditor.

We will consider whether the scoping decisions remain appropriate based on the 2018/19 accounts of the two entities.

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below where we should need to rely on the work of a component auditor.

- We provide specific instruction to component team and our expectations regarding the detailed procedures;
- We set up initial meeting with component team to discuss the content of the group instructions;
- We will consider the need to perform a file review of component team's work where appropriate; and
- We will attend a closing meeting with component team to discuss their audit procedures and findings.

06 Audit team and use of specialists

Audit team

The engagement team continues to be led by Suresh Patel and managed by Mark Russell, with support from Jacob McHugh. The team have established good working relationships with the Committee and the finance team and have significant public sector audit experience.

Use of specialists

Our approach to the involvement of specialists, and the use of their work.

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 & Housing	Council's valuers - Wilkes Head and Eve (housing) & Valuation Office Agency (VOA) (non-housing) EY Real Estates Team (if required)
Pensions Disclosure	Council's Actuary (Hymans Robertson) EY Pensions Advisory Team
Financial Instruments	Linked Asset Services (management specialist)
NNDR appeals provision	Analyse Local (management specialist)

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:

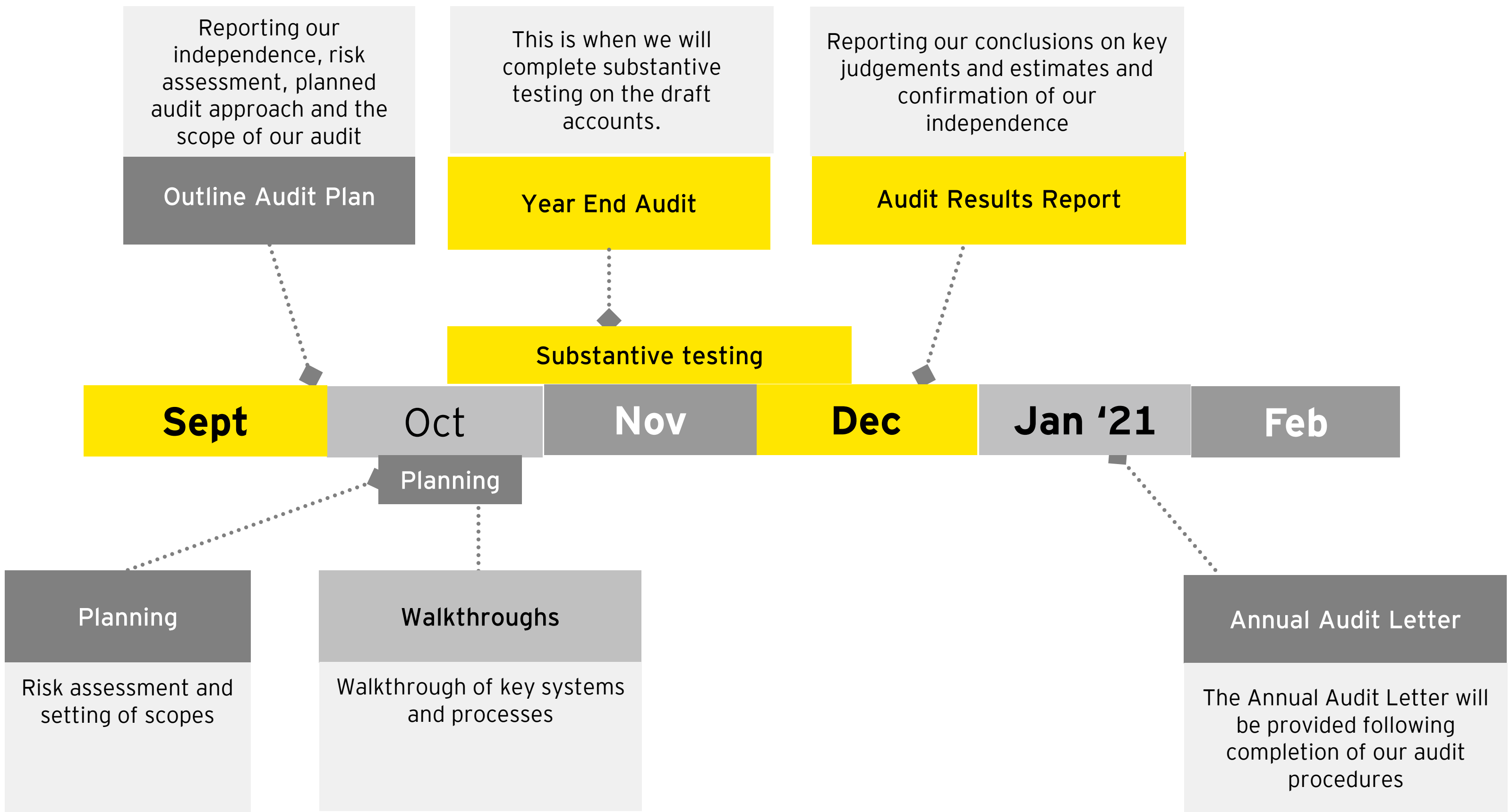
- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work;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

07 Audit timeline

Proposed audit timeline

Proposed timeline

In light of the timing of completing the 2017/18 audit and the Council's timetable for preparing the 2018/19 accounts, we have discussed with officers a timetable that allows the finance time sufficient time to prepare the 2018/19 statements and supporting working papers, and enables us to plan in detail the audit and deliver the audit of the accounts with a well resourced engagement team. From time to time matters may arise that require immediate communication with the Audit and Corporate Governance Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



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 June 2016, 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 the 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. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	▸ 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 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; ▸ Written confirmation that all covered persons are independent; ▸ 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 any contingent fee arrangements for non-audit services provided by us or our network firms; 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 also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted. 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 consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Suresh Patel, 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 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 permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's Ethical Standards or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, there are no non-audit services and therefore we do not need any additional safeguards.

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 self interest threats at the date of this report.

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.

Relationships, services and related threats and safeguards (cont'd)

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.

Description of service	Related independence threat	Period provided/duration	Safeguards adopted and reasons considered to be effective
We have been engaged to undertake the audit of the Housing Benefits Subsidy Claim 2018/19. We commenced some of the agreed upon procedures on the certification arrangements. Our current fee level is £9,190 however we will update you should this amount change.	Self review threat – figures included in the return are also included in the 2018/19 financial statements.	Relates to 2018/19 return for the period to 31 March 2019.	We have assessed the related threats to independence and note that although certain figures in the return are included in the financial statements the agreed upon procedures are being performed after the signing of the financial statements for 2018/19. The agreed upon procedures focus on the specific requirements of the certification arrangements and we place limited reliance on this work for the purposes of the financial statements audit. No other threats to independence have been identified.

Other communications

EY Transparency Report 2019

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 2019:

https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf

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.

	Planned fee 2018/19 (£)	Final Fee 2017/18 (£)
Scale Fee – Code work	40,021	51,975
Additional risks and areas of focus (Note 1)		
- Group accounts	4,000-5,000	5,000
- Additional audit overruns & delays	-	142,000
- Impact of 50% performance materiality& higher risk factors (Note 2)	10,000-20,000	-
- Data migration relating to new Fixed Asset Register (FAR) (Note 3)	1,500-7,500	-
- New financial management system use of EY ITRA (Note 4)	7,500-9,000	-
- Going concern (Note 5)	TBC	-
- New accounting standards	TBC	-
- Impact of Covid-19 on the audit opinion and EY consultations (Note 6)	TBC	-
Total audit	TBC	198,975
Non-audit services:		
Housing Benefits (note 7)	9,190	10,870
Total other non-audit services	9,190	10,870
Total fees	TBC	209,845

All fees exclude VAT

Note 1: Where possible we have included a range for the additional fees associated to known new risks and areas of audit focus. We will revisit these ranges on completion of the work and seek agreement with the Section 151 officer.

Note 2: Using the lower testing threshold of 50% of performance materiality in addition to using higher risk factors will increase sample sizes and require additional audit input.

Note 3: Additional testing relating to the new FAR.

Note 4: Additional input from EY IT specialists

Note 5: To review the Council's going concern assessment and associated disclosure.

Note 6: Additional inputs to ensure we are giving the right assurances in the audit opinion. This will involve internal EY consultation.

Note 7: You engage us separately as the reporting accountant to the DWP on your claim for housing benefit subsidies. This is outside the PSAA contact.

The fees presented is based on the following assumptions:

Officers meeting the agreed timetable of deliverables;

Our accounts opinion being unqualified;

Appropriate quality of documentation is provided by the Council;

The Council has an effective control environment; and

Consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed in advance.

Appendix B

Required communications with the Audit and Corporate Governance Committee

We have detailed the communications that we must provide to the Audit and Corporate Governance Committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit and Corporate Governance 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. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Outline Audit Plan - September 2020
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 - December 2020

Appendix B

Required communications with the Audit and Corporate Governance Committee (continued)

Our Reporting to you

Required communications	What is reported?	When and where
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 - December 2020
Fraud	▸ Enquiries of the Audit and Corporate Governance 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 - December 2020
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 - December 2020
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 Plan - September 2020; and Audit Results Report - December 2020

Required communications with the Audit and Corporate Governance Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report - December 2020
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 and Corporate Governance 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 and Corporate Governance Committee may be aware of	Audit Results Report - December 2020
Internal controls	▶ Significant deficiencies in internal controls identified during the audit	Audit Results Report - December 2020
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - December 2020
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - December 2020
Auditors report	▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report - December 2020

Required communications with the Audit and Corporate Governance Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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 plan - September 2020 Audit Results Report - December 2020
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 - December 2020

Appendix C

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, including the board's statement that the annual report is fair, balanced and understandable, the Audit and Corporate Governance Committee reporting appropriately addresses matters communicated by us to the Audit and Corporate Governance 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.

EY | Assurance | Tax | Transactions | Advisory