



# EASTBOURNE BOROUGH COUNCIL

AUDIT PLAN TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ending 31 March 2018

Date of issue: 26 February 2018

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# INTRODUCTION

## PURPOSE AND USE OF OUR REPORT

We present our Audit Plan to the Audit and Governance Committee. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process.

This report has been prepared to highlight and explain the key components of our audit strategy we believe to be relevant to the audit of the financial statements of the Council and consolidated entities and use of resources of the Eastbourne Borough Council ('the Council') for the year ending 31 March 2018. Audit planning is a collaborative and continuous process and our audit strategy, as reflected in this report, will be reviewed and updated as our audit progresses. In particular, we will review our approach following our interim audit site visit. We will communicate any significant changes to our audit strategy, should the need for such change arise.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

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

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

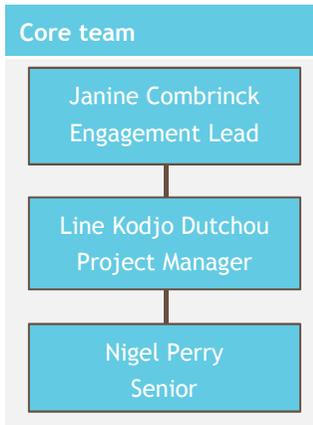
## AUDIT QUALITY

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

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

More details can be found in our latest Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk).

# YOUR BDO TEAM



| Name   | Contact details                                     | Key responsibilities                        |
|--|---|---|
| <b>Janine Combrinck</b><br>Engagement Lead   | Tel: 020 7893 2631<br>Janine.Combrinck@bdo.co.uk    | Oversee the audit and sign the audit report |
| <b>Line Kodjo Dutchou</b><br>Project Manager | Tel: 020 7893 2976<br>Line.X.Kodjodutchou@bdo.co.uk | Management of the audit                     |
| <b>Nigel Perry</b><br>Senior                 | Tel: 07940 497 738<br>Nigel.X.Perry@bdo.co.uk       | Day to day supervision of the on-site audit |

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

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

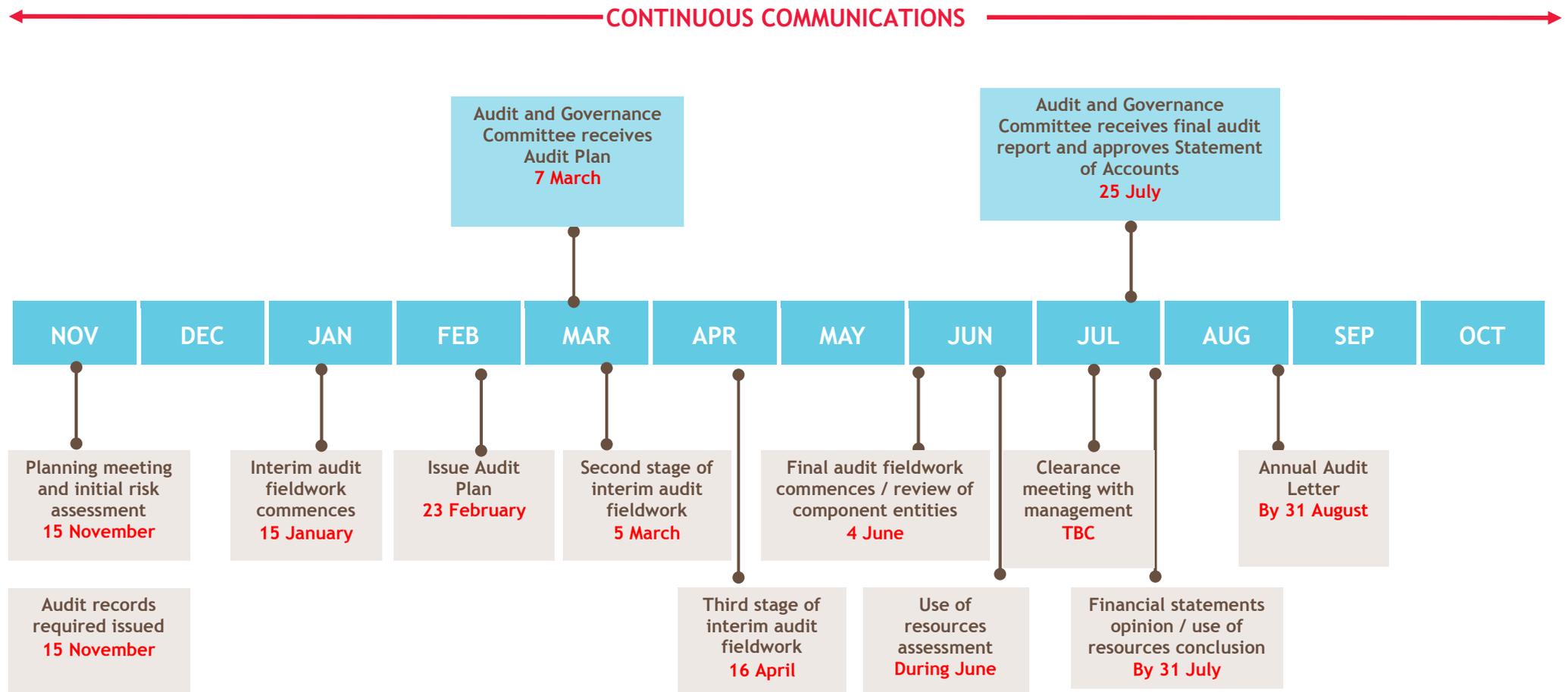
- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Janine is responsible for the overall quality of the engagement.

# ENGAGEMENT TIMETABLE

## TIMETABLE

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



# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

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

To form an opinion on whether:

| FINANCIAL STATEMENTS   |  | OTHER INFORMATION  | WGA CONSOLIDATION  | USE OF RESOURCES   |
|--|--|--|--|--|
| <p><b>1</b> The financial statements give a true and fair view of the financial position of the Group and Council and its expenditure and income for the period in question.</p> | <p><b>2</b> 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.</p> | <p><b>3</b> Other information published together with the audited financial statements is consistent with the financial statements (including the Governance Statement).</p> | <p><b>4</b> The return required to facilitate the preparation of Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.</p> | <p><b>5</b> The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p> |

## ADDITIONAL POWERS AND DUTIES

|   |  |
|---|--|
| <p><b>6</b> To consider the issue of a report in the public interest.<br/>To consider making a written recommendation to the Council.</p> | <p><b>7</b> To allow electors to raise questions about the accounts and consider objections.<br/>To apply to the court for a declaration that an item of account is contrary to law, where necessary.<br/>To consider whether to issue an advisory notice or to make an application for judicial review.</p> |
|---|--|

# MATERIALITY

## GROUP AND COMPONENT MATERIALITY

|   | MATERIALITY | CLEARLY TRIVIAL THRESHOLD |
|---|-------------|---------------------------|
| Group   | £2,000,000  | £40,000                   |
| Significant components:                         |             |                           |
| • Council                                       | £2,000,000  | £40,000                   |
| Non-significant components:                     |             |                           |
| • Eastbourne Homes Limited                      | n/a         | n/a                       |
| • Eastbourne Housing Investment Company Limited | n/a         | n/a                       |

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the Group and the Council has been based on 2% of the prior year gross expenditure. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level of the Group and the Council.

# OVERALL AUDIT STRATEGY

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

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

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

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

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

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

### Approach to components of the Group financial statements

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

We are aware that there is some uncertainty whether local authority controlled companies are able to take advantage of the size and threshold exemptions for audit or whether the requirement for audit remains in place where the Council itself is preparing consolidated accounts. It is our understanding that local authority controlled companies are not able to take advantage of the audit exemption.

Total coverage is expected to be as shown opposite.

| SCOPE                    | EXPENDITURE<br>COVERAGE<br>2016/17 | NET ASSETS<br>31/3/17 |
|--------------------------|------------------------------------|-----------------------|
| Full scope<br>procedures | £104m                              | £243m                 |
| Desktop review           | <£1m                               | <£1m                  |
| <b>Total</b>             | <b>£105m</b>                       | <b>£244m</b>          |

We do not expect any significant changes in 2017/18.

# OVERALL AUDIT STRATEGY

## Group matters

| COMPONENT NAME                                | % GROUP EXPENDITURE | % GROUP NET ASSETS / LIABILITIES | COMPONENT AUDITOR | OVERVIEW OF WORK TO BE PERFORMED  |
|---|---------------------|----------------------------------|-------------------|---|
| <b>Full scope procedures:</b>                 |                     |                                  |                   |   |
| Eastbourne Borough Council                    | >99%                | >99%                             | BDO UK            | Code audit of the financial statement prepared under CIPFA Code of Practice on Local Authority Accounting   |
| <b>Full scope procedures:</b>                 |                     |                                  |                   |   |
| Eastbourne Homes Limited                      | <1%                 | <(1)%                            | RSM               | <p>Analytical review of financial statements prepared by the component entity assessed against expectations and prior year amounts.</p> <p>Specific review of calculation of pension fund net liability prepared by the actuary and agreement of management fee income against the Council's expenditure.</p> |
| Eastbourne Housing Investment Company Limited | <1%                 | <(1)%                            | RSM               | <p>We will review the ISA 260 completion reports by the component auditor and consider the impact on our group audit.</p> <p>We will consider the accounting implications of conversion from FRS102 to IFRS based accounts under CIPFA's Code of Practice on Local Authority Accounting.</p>                  |

# OVERALL AUDIT STRATEGY

## Continued

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

This enables us to focus our work on key audit areas. Our starting point is to update our understanding of the Council's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk during our planning visit in order to gain an understanding of the Council's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to assess their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained. For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and Council level, and draw on relevant cost and performance information as appropriate.

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

### Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing (ISA) 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention. In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

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

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

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

### Internal audit

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

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

### Management assessment of fraud

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

Management believe that the risk of material misstatement due to fraud in the Council's financial statements is low and that controls in operation would prevent or detect material fraud. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

We are required to discuss with those charged with governance their oversight of management's processes for identifying and responding to risks of all fraud. We expect Audit and Governance Committee members, as those charged with governance, to let us know if there are any actual, suspected or alleged instances of fraud of which they are aware.

# KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other Issue

## AUDIT RISK AREAS - FINANCIAL STATEMENTS

| RISK                | DESCRIPTION  | PLANNED AUDIT RESPONSE  | EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE |
|---------------------|--|---|--|
| Management override | <p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing standards there is a presumed significant risk of management override of the system of internal controls.</p>   | <p>We will:</p> <ul style="list-style-type: none"> <li>• Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud</li> <li>• Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual.</li> </ul> | Not applicable.  |
| Revenue recognition | <p>Under auditing standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.</p> <p>We consider there to be a significant risk in relation to the existence, accuracy and completeness of fees and charges recorded in the Comprehensive Income and Expenditure Statement (CIES).</p> <p>In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 (PN10), issued by the Financial Reporting Council. PN10 states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>• Test an increased sample of fees and charges income to underlying documentation and confirm the existence and accuracy of transactions throughout the year</li> <li>• Test an increased sample of receipts either side of year end, to confirm that income has been recorded in the correct period and that all income that should have been recorded at year end has been</li> <li>• Test an increased sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period.</li> </ul>       | Not applicable.  |

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

| RISK                                   | DESCRIPTION   | PLANNED AUDIT RESPONSE   | EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE   |
|--|---|--|--|
| <b>Valuation of non-current assets</b> | <p>Local authorities are required to ensure that the carrying value of non-current assets is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.</p> <p>The Council has appointed an external valuer to carry out a year-end desktop review on certain asset classes.</p> <p>Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty, there is a risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p>                           | <p>We will:</p> <ul style="list-style-type: none"> <li>Review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert</li> <li>Confirm that the basis of valuation for assets valued in year is appropriate, including checking that investment properties and surplus assets have been valued at 'highest and best use'</li> <li>Review the reasonableness of assumptions used in the valuation of non-current assets and the Council's critical assessment of the external valuer's conclusions.</li> </ul> | <p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council. We will follow up valuation movements that appear unusual against indices, or any assets which have not been revalued at the year-end which may have had material movements since the last formal valuation.</p> |
| <b>Pension liability assumptions</b>   | <p>The net pension liability comprises the Council's share of the market value of assets held in the East Sussex County Council's Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>Agree the disclosures to the information provided by the pension fund actuary</li> <li>Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data</li> <li>Obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary</li> <li>Check whether any significant changes in membership data has been communicated to the actuary.</li> </ul>  | <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>   |

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

| RISK                         | DESCRIPTION  | PLANNED AUDIT RESPONSE   | EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE |
|------------------------------|--|--|--|
| <p><b>Group Accounts</b></p> | <p>The Council holds 49% of the voting rights and 21% of the non-voting rights in Welbeing. This is considered to be an associate, as the Council has significant influence but not control over this organisation. Historically the Council has not included this organisation in its Group Accounts as its transactions have not been material. Welbeing has now completed its fourth year of operation and it is possible that accumulated retained profits have increased to a material level. This would require the transactions to be included in the Council's Group Accounts, using equity accounting.</p> <p>In addition, the Council has an interest in a new joint housing investment partnership with Lewes District Council, Aspiration Homes Limited. The Council's share of the joint arrangement depends on the value and timing of transactions in the new company. If material, an assessment will need to be made as to whether the joint arrangement comprises a joint venture or a joint operation under International Financial Reporting Standard 10 <i>Consolidated Financial Statements</i> and Group Accounts will need to be prepared.</p> <p>There is a risk that income, expenditure, assets and liabilities in the Group Accounts will not be complete if the Council does not account for its share of material transactions in Welbeing and Aspiration Homes Limited.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>Review the financial statements and management accounts of Welbeing and Aspiration Homes Limited and assess whether management has fully considered the need to include its interest in these entities in its Group Accounts</li> <li>If they are required to be included in the Group Accounts, determine whether the Council has appropriately accounted for its interest in these entities, taking account of the nature and underlying substance of the joint arrangement.</li> </ul> | <p>Not applicable.</p>                                 |

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

| RISK   | DESCRIPTION   | PLANNED AUDIT RESPONSE   | EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE |
|--|---|--|--|
| <p>Recharges between the Council and Lewes District Council and redundancy costs</p> | <p>The Council has undergone a major Joint Transformation Programme (JTP) with Lewes District Council to merge frontline services and back office functions.</p> <p>In February 2017, the vast majority of Lewes District Council employees were transferred onto the Council's payroll. There are recharging arrangements in place for each of the four key service areas (Corporate Management Team, Information Technology, Human Resources and Asset Management) and for employees outside of these services. On a monthly basis the Council calculates, based on these arrangements, the amount to be recharged via invoice back to Lewes District Council.</p> <p>Legal Services are held within Lewes District Council and the Council is recharged for these services.</p> <p>We understand that the recharge percentages may change when budgets are realigned in 2017/18.</p> <p>Given that this is the first full year of these recharge arrangements, there remains a risk over the accuracy of expenditure in the Comprehensive Income and Expenditure Statement.</p> <p>There is also a risk that redundancies resulting from the JTP may not be appropriately accounted and disclosed for in line with CIPFA's Code of Practice on Local Authority Accounting 2017/18.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>Review the reasonableness and accuracy of the recharge arrangements in place between the councils and check that the Council's share of the costs is in line with approved recharge arrangements</li> <li>Review the completeness and accuracy of redundancy accruals and provisions and exit package disclosures.</li> </ul> | <p>Not applicable.</p>                                 |

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES

| RISK                               | DESCRIPTION  | PLANNED AUDIT RESPONSE  | EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE |
|------------------------------------|--|---|--|
| <p><b>Sustainable finances</b></p> | <p>The update to the Medium Term Financial Strategy (MTFS) to 2019/20 has forecast further reductions in Government core grant funding, falling New Homes Bonus funding from 2017/18 and annual inflationary and pay award pressures. Budget gaps have been identified in 2017/18 (£1.143 million), 2018/19 (£1.022 million) and 2019/20 (£1.011 million), resulting in an average level of required savings of £1.058 million per annum over the period.</p> <p>The Council currently has a number of major development / transformation programmes in place to either help facilitate these savings or create additional revenue streams in the medium term, to close the budget gaps.</p> <p>These programmes include:</p> <ul style="list-style-type: none"> <li>• Joint transformation programme with Lewes District Council to provide joint services</li> <li>• Major project for the enhancement of the current Devonshire Park Complex</li> <li>• Procurement for the redevelopment of the Sovereign Centre</li> <li>• Joint housing investment partnership with Lewes District Council</li> <li>• Procurement for a joint venture energy scheme with Lewes District Council.</li> </ul> <p>There is a risk that the MTFS does not adequately take account of the investment costs and savings associated with these projects, and that the Council does not have appropriate arrangements to monitor progress in delivering benefits from these projects against the MTFS.</p> | <p>We will review the assumptions used in the MTFS for investment costs and savings associated with major development / transformation programmes.</p> <p>We will review the Council’s arrangements for monitoring the progress of these programmes against the budgeted savings targets.</p> | <p>Not applicable</p>                                  |

# INDEPENDENCE

## INDEPENDENCE

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

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

We have not identified any potential threats to our independence as auditors.

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

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include director and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

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# FEES

## FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2018 are:

|  | 2017/18<br>£  | 2016/17<br>£  |
|--|---------------|---------------|
| Audit fee  | 67,781        | 67,781        |
| Certification fee (Housing benefits subsidy claim)               | 11,310        | 11,310        |
| <b>Total audit and certification fees</b>                        | <b>79,091</b> | <b>79,091</b> |
| Fees for audit related services (Pooled capital receipts return) | 1,500         | 1,500         |
| <b>TOTAL FEES</b>  | <b>80,591</b> | <b>80,591</b> |

### Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

The certification fee for the housing benefits subsidy claim for 2016/17 stated above is the indicative scale fee published by Public Sector Audit Appointment Limited, which is based on fee outturns in previous years. We have not yet completed our work for 2016/17 and therefore this fee may change. The indicative scale fee for 2017/18 is £8,297, however we have proposed a fee of £11,310 as we expect the level of our certification work to be similar to 2016/17. We will keep the level of certification fee for 2016/17 and 2017/18 under review if additional work is required.

Audit fee invoices for the Code audit are being raised in quarterly instalment of £16,945.25 during 2017/18.

Fee invoices for other audit related services will be raised as the work is completed.

# APPENDIX I: MATERIALITY

## CONCEPT AND DEFINITION

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

## CALCULATION AND DETERMINATION

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

# APPENDIX I: MATERIALITY

## Continued

### REASSESSMENT OF MATERIALITY

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

### UNADJUSTED ERRORS

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

## APPENDIX II: INDEPENDENCE

### INDEPENDENCE - ENGAGEMENT TEAM ROTATION

#### SENIOR TEAM MEMBERS

#### NUMBER OF YEARS INVOLVED

Janine Combrinck - Engagement lead

Third year as engagement lead preceded by two years as project manager

Line Kodjo Dutchou- Project manager

First year as project manager



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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