



# SLOUGH BOROUGH COUNCIL

PLANNING REPORT TO THE AUDIT AND CORPORATE GOVERNANCE COMMITTEE  
Audit for the year ending 31 March 2016

25 February 2016

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# INTRODUCTION

## PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of the authority for the year ending 31 March 2016. 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. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Corporate Governance Committee and should not be shown to any other person without our express permission in writing.

In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

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# YOUR BDO TEAM



Name	Contact details	Key responsibilities
<b>Janine Combrinck</b> Engagement Lead	Tel: 020 7893 2631 Mob: 07879 816 470 Janine.Combrinck@bdo.co.uk	Oversee the audit and sign the audit report
<b>Kerry Barnes</b> Project Manager	Tel: 020 7893 3837 Mob: 07583 099 795 Kerry.L.Barnes@bdo.co.uk	Management of the audit
<b>Lucy Ballard</b> Assistant Manager	Tel: 020 7034 5878 Mob: 07966 246 058 Lucy.Ballard@bdo.co.uk	Assists with the management of the audit
<b>Michael Asare Bediako</b> Senior	Tel: 020 7893 3643 Mob: 07811 244 020 Michael.AsareBediako@bdo.co.uk	Day to day supervision of the on-site audit

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

# OUR CLIENT SERVICE COMMITMENT TO YOU

## CLIENT SERVICE EXPECTATIONS

1

High quality audit service at a reasonable cost.

2

A quality team, with relevant expertise.

3

Clear communication.

4

Concentrating our work on areas of higher risk.

5

Avoiding surprises through timely reporting of issues.

6

Consulting with management to resolve matters early.

7

Meeting deadlines.

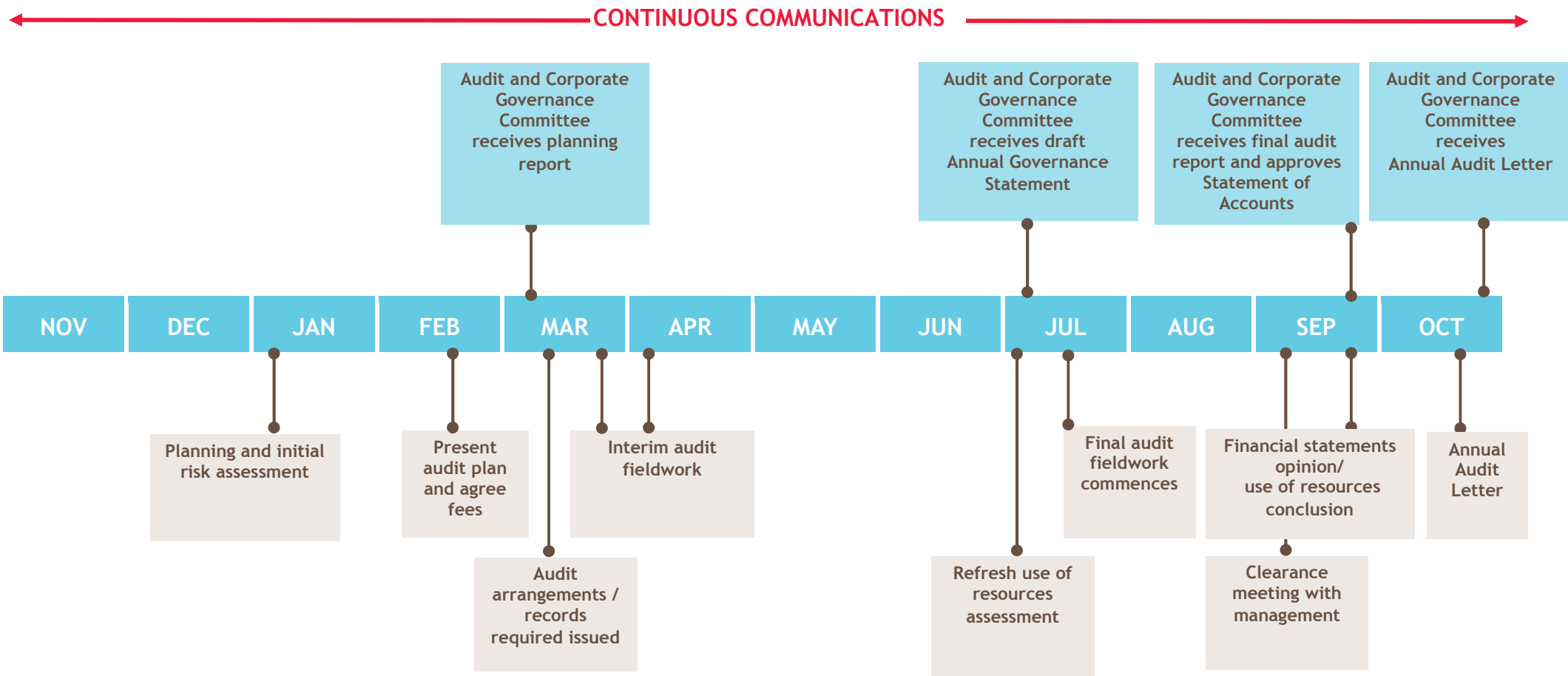
8

Identifying shortcomings in controls and processes.

# ENGAGEMENT TIMETABLE

## TIMETABLE

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



# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit Office (NAO) Code of Audit Practice, International Standards on Auditing (UK and Ireland) 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 authority 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 annual 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 authority 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, where necessary.</p> <p>To make a written recommendation to the authority, where necessary.</p> | <p><b>7</b> To allow electors to raise questions about the accounts and consider objections.</p> <p>To apply to the court for a declaration that an item of account is contrary to law, where necessary.</p> <p>To consider whether to issue an advisory notice or to make an application for judicial review, where necessary.</p> |
|---|---|

# MATERIALITY

## AUTHORITY MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Slough Borough Council	£8,000,000	£160,000

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

Planning materiality for the Council has been based on 2% of gross expenditure. At this stage, the figure is based on prior year gross expenditure in the Comprehensive Income and Expenditure Statement (CIES). 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.



# OVERALL AUDIT STRATEGY

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

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

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

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

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

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

## **Risks and planned audit responses**

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

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

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

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

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

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

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

## **Internal audit**

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

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

# 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
<b>Management override</b>	<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 International Standards on Auditing (UK and Ireland) 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements”, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates as a significant fraud risk.</p> <p>In every organisation, management may be in a position to override routine day to day financial controls. Accordingly, our audit has been designed to consider this risk and adapt procedures accordingly.</p>	Not applicable.
<b>Revenue recognition</b>	<p>Under International Standard on Auditing 240 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 over fees and charges revenue in the CIES, and we plan to rebut the significant risk over the other revenue streams.</p>	<p>We will carry out audit procedures to gain an understanding of the authority’s internal control environment for fees and charges, including how this operates to prevent loss of income, and ensure that income is recognised in the correct accounting period.</p> <p>We will substantively test a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.</p>	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
<p><b>Financial statements preparation</b></p>	<p>Our prior year audit identified weaknesses in the Council's arrangements for preparing the financial statements and working papers, and a significant number of misstatements were identified, particularly in the following areas:</p> <ul style="list-style-type: none"> <li>• disclosure of dedicated schools grant for amounts recouped in respect of schools transferring to academy status</li> <li>• accounting for internal recharges in income and expenditure</li> <li>• mapping of cost centres to services in the CIES</li> <li>• financial instrument notes</li> <li>• senior officer remuneration bandings and exit packages note</li> <li>• note on amounts reported for resource allocation decisions</li> <li>• disclosure of the new Better Care Fund pooled budget with NHS Slough Clinical Commissioning Group</li> <li>• detailed analysis of the cash and cash equivalents balance and supporting bank reconciliations.</li> </ul> <p>In addition, we are aware that Slough Children's Services Trust is using the Council's general ledger system. We will need to check that the trust's transactions are not erroneously included in the Council's accounts.</p>	<p>We will assess progress towards improving production of the 2015/16 financial statements and supporting working papers. This will include:</p> <ul style="list-style-type: none"> <li>• carrying out an early review of the draft financial statements against the requirements of the Code of practice for Local Authority Accounting 2015/16</li> <li>• briefing finance staff on our expectation for good quality working papers</li> <li>• reviewing the consistency of the financial statements with underlying working papers before the start of the onsite audit visit</li> <li>• reviewing the general ledger to check that transactions by Slough Children's Services Trust are excluded from the Council's accounts</li> <li>• obtaining assurance that management has carried out a critical review of the financial statements before they are submitted for audit; this could be evidenced by comprehensive explanations for all significant variances from the prior year.</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><b>Change in general ledger system</b></p>	<p>The Council changed its general ledger system from Oracle to Agresso on 1 February 2016.</p> <p>There is a risk that the general ledger transactions from 1 April 2015 to the date of transition may not have been accurately and completely transferred between the systems.</p>	<p>We will review work done by internal audit to test the migration of data from the previous general ledger system to the new system, and associated reconciliations.</p> <p>We will carry out further testing as necessary to obtain assurance over the completeness and accuracy of the data migration.</p>	<p>Not applicable.</p>
<p><b>Schools transactions and reconciliations</b></p>	<p>In the prior year we reported that the Council's arrangements for consolidating schools' income, expenditure, working capital balances and reserves required significant improvement.</p> <p>There is a risk of material misstatement in the 2015/16 financial statements if the weaknesses in working papers and journals prepared to support the consolidation of schools transactions are not addressed.</p>	<p>We will review reconciliations between the general ledger and returns submitted by schools to support their income, expenditure, working capital balances and reserves. In addressing this risk, the Council will need to utilise the information provided by schools more effectively.</p>	<p>Schools returns authorised by the Treasurer or Head teacher of each school.</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>Property, plant and equipment valuations</p>	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.</p> <p>The fair value for land and buildings included in PPE is a management estimate based on market values or depreciated replacement cost (DRC).</p> <p>Management uses external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation.</p> <p>In 2015/16 the Council is obtaining formal valuations for the following assets, and the valuation is being carried out as at 1 January 2016:</p> <ul style="list-style-type: none"> <li>• Council dwellings</li> <li>• Specialised assets valued on a DRC basis (including schools)</li> <li>• Surplus assets (first year under IFRS 13 Fair value measurement)</li> <li>• Investment properties.</li> </ul> <p>The indices available to management to assess valuation changes are produced independently by the external valuer and are based on observable data (asset sales and building contract prices). The valuation expert is independent of management and will use its sector knowledge of local sales to estimate the fair values and remaining useful economic lives of assets.</p> <p>We consider there to be a risk over the valuation of land and buildings where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.</p>	<p>We will 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.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage, including the valuation of surplus assets at fair value under IFRS 13.</p> <p>We will check that the financial statements adequately disclose the change in valuation date from 1 April to 1 January.</p>	<p>We will review reports from the valuer, Wilks Head and Eve, against indices and price movements for classes of assets provided by Gerald Eve LLP.</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>Pension liability assumptions</p>	<p>The net pension liability comprises the authority's share of the market value of assets held in the Royal County of Berkshire Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around 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 agree the disclosure to the information provided by the pension fund actuary.</p> <p>We will obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p>	<p>We will agree the disclosures to the report received from actuary, Barnet Waddingham.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>
<p>Fraud and error</p>	<p>We are required to discuss with you the possibility of material misstatement, due to fraud or error.</p> <p>We are informed by management that there have not been any cases of material fraud or error, to their knowledge.</p>	<p>We will continue to consider this throughout the audit process and discuss with management.</p>	<p>Not applicable.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - WHOLE OF GOVERNMENT ACCOUNTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Accuracy and completeness of the data collection tool</p>	<p>We are required to perform tests with regard to the WGA Data Collection Tool (DCT) prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.</p> <p>In the prior year, we identified a significant number of errors within the return and we issued a qualified ‘except for’ conclusion in respect of the completeness of the counter party data (CPID). As a result of these issues, the Government’s deadline for completion of the audit of the DCT was not met.</p> <p>The achievement of the deadline going forward will depend on the quality of the return, its timely receipt and the quality of the supporting working papers.</p> <p>There is a risk the DCT will again contain numerous errors and incomplete CPID analyses, and the audit deadline will not be met if there are a large number of adjustments to the draft return.</p>	<p>We will check the consistency of the WGA return with the audited financial statements and supporting working papers, and review the completeness and accuracy of income and expenditure transactions and receivables and payable balances with other government bodies.</p>	<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
Sustainable finances	<p>The update to the Medium Term Financial Strategy to 2019/20 has forecast further reductions in Government core grant funding and annual inflationary and pay award pressures.</p> <p>Significant levels of savings are required to balance the budget in each of the five years from 2015/16. As at February 2016 the unidentified savings requirement amounts to £4.6 million in 2017/18, £0.4 million in 2018/19 and £0.2 million in 2019/20 (£0.4 million).</p> <p>Identifying the remaining required savings over the medium term will be a challenge and is likely to require difficult decisions around service provision and alternative delivery models.</p>	<p>We will review the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied. We will monitor the delivery of the budgeted savings in 2015/16 and the plans to reduce services costs and increase income from 2016/17. We will also review the strategies to close the budget gap after 2015/16.</p>	Not applicable.



# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Children's social care services</p>	<p>Our 2014/15 value for money conclusion was qualified because of significant weaknesses in Children's Social Care Services identified by Ofsted since 2011.</p> <p>In November 2014 the Council agreed a Memorandum of Understanding (MOU) with the Secretary of State for Education to enable the externalisation of the Council's children's services function to a new organisation.</p> <p>Slough Children's Services Trust, a company limited by guarantee, became operational on 1 October 2015.</p> <p>There is a risk that the Council may not be able to demonstrate value for money from its arrangements for improving services and outcomes in Children's Social Care Services during 2015/16, when it retained direct control over these services in the first half of the year and in managing the contract with the independent organisation in the second half of the year.</p> <p>In the absence of sufficient evidence of improvement there is a risk we may qualify our value for money conclusion.</p>	<p>We will gain an understanding of action taken by the Council and the newly established Slough Children's Services Trust during 2015/16 to address Ofsted's recommendations and seek evidence of improved processes.</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 Corporate 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 2016.

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

We are not planning to provide any non audit services.

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 partner and audit staff is not impaired. These policies include partner 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.

# FEES

## FEES SUMMARY

Our proposed fees, excluding VAT, are:

	2015/16 £	2014/15 £
Code fee - audit of financial statements	127,523	180,030*
Code fee - certification of housing benefit subsidy claim	9,950**	27,500
Fees for audit related services:		
- Pooling of housing capital receipts return	3,535	3,535
- Teachers' pensions return	1,800	1,800
Fees for non audit services	-	-
<b>TOTAL FEES</b>	<b>142,808</b>	<b>212,865</b>

\*The prior year Code fee for the audit of the financial statements includes £10,000 for additional costs incurred in auditing schools balances in the accounts and the WGA return.

\*\*The fee for the certification of the housing benefits grant claim is lower than the indicative scale fee published by Public Sector Appointments Limited as the Council has commissioned the services of a housing benefits expert to carry out the audit testing and BDO will seek to place reliance on that work.

### Fee invoices

Fee invoices for the audit of the financial statements will be raised as set out below, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice:

- Instalment 1 £31,899.00 in June 2015
- Instalment 2 £31,899.50 in September 2015
- Instalment 3 £31,899.50 in December 2015
- Instalment 4 £31,825 in March 2016

### Our fee is based on the following assumptions

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

- The balance of cash and cash equivalents in the financial statements will be supported by a complete analysis of all cash book balances, with supporting reconciliations to bank statements, for all bank accounts held by the Council and schools.
- Schools' balances in the general ledger for income, expenditure, working capital balances and reserves will be reconciled to signed returns from the schools.

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

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

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

# APPENDIX I: MATERIALITY

## CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
  - Narrative disclosure e.g. accounting policies, going concern
  - Instances when greater precision is required (e.g. senior officer remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transactions, 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 authority, 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 Corporate 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 Corporate 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, senior officer 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	ROTATION TO TAKE PLACE IN YEAR ENDING
Janine Combrinck - Engagement lead	1 year as engagement lead and 3 years as project manager	31 March 2020
Kerry Barnes - Project manager	1 year as project manager	31 March 2025



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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