County Buildings, Stafford
Tel 01785 276135
Please ask for Julie Plant
Email: julie.plant@staffordshire.gov.uk

Date: 14 March 2023

Audit and Standards Committee - Tuesday 21st March 2023

Dear Sir/Madam,

I have recently forwarded to you a copy of the agenda for the next meeting of the Audit and Standards Committee.

I am now able to enclose, a copy of the following report listed at item 4:

External Audit Plan 2021/22 – Report by Ernst Young (External Auditors).

John Tradewell

Deputy Chief Executive and Director of Corporate Services

Staffordshire County Council

Audit planning report

Year ended 31 March 2022

21 March 2023

Agenda Item 4

Building a better working world

Private and Confidential

21 March 2023

Staffordshire County Council
No's 1&2 Staffordshire Place
Tipping Street
Stafford
ST16 2DH

Dear Audit and Standard Committee Members

Audit planning report 2021/22

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Standard Committee Members with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 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 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.

This report is intended solely for the information and use of the Audit and Standard Committee Members 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 February 2023 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Hassan Rohimun

For and on behalf of Ernst & Young LLP

Contents

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

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the **Audit Committee and Standard Committee, management of Staffordshire County Council** in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the **Audit Committee and Standard Committee, management of Staffordshire County 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 Committee and Standard Committee, management of Staffordshire County 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 2021/22 audit strategy

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Standard 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
Risk of fraud in revenue and expenditure recognition	Fraud risk	No change in risk or focus	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.
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.
Valuation of property, plant and equipment (PPE) – land and buildings	Significant Risk	No change in risk or focus	Land and buildings assets account for a significant proportion of the Council's assets. The valuation of land and buildings is subject to a number of assumptions and judgements by management's expert. There is a risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements.
PPE Disposals of schools converting to academies	*Inherent Risk*	No change in risk or focus	Errors relating to the accounting for disposals of schools on conversion to academies were identified. Our expectation is that the Council has responded to previous audit findings and improved controls and processes around conversion such that a significant risk is no longer present but inherent risk apply as the conversion is still not complete.
Local Government Pension scheme (LGPS)	*Inherent Risk*	No change in risk or focus	Funding of the Council's participation in the LGPS will continue to have an impact on both its cash flows and the liability in the balance sheet. The Council is a members of the LGPS, administered by Staffordshire Pension Fund. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations requires advice from an external specialists, to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the value in the balance sheet.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Standard 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
Group Accounts	Inherent risk	No change in risk or focus	Staffordshire County Council has investments in three companies: Entrust (49% holding), Penda (50% holding) and Nexxus (100% holding). The Council, also hold a redeemable share at Vernon Parks Property Management and it has full voting rights and the right to appoint all Directors of the Company. The investments in Entrust, Penda, Nexxus and Vernon have not previously been consolidated into the results of Staffordshire County Council as they have not been considered material, either qualitatively or quantitatively to the results of the Council. As these companies expand, there is a risk that their materiality relative to the Council's operations changes and the Council fails to prepare group accounts when in fact these are required under the accounting framework.
PFI accounting	Other financial statement risk	No change in risk or focus	The Council has four PFI Schemes. By nature PFI schemes are complex. There is a risk that disclosures in the financial statements are not consistent with the PFI operating model.
Going concern – inflationary pressures directly impacting on the budgetary levels of Staffordshire County	Area of audit focus	Change in increased focus	Inflationary pressures present financial challenges for the Council with an increased focus on forecasting and monitoring of the Council's financial position.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Standard 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
Infrastructure Assets : £975.3m	Area of audit focus	Change in risk or focus	An issue was raised via the NAO's Local Government Technical Group that local authorities are not writing out the gross cost and accumulated depreciation on infrastructure assets when a major part/component has been replaced or decommissioned. DLUHC has since issued a statutory override relating to the accounting for infrastructure assets and CIPFA has amended the Code to simplify disclosures required. Asset registers do not tend to record infrastructure capital expenditure with sufficient detail and geographical specifics to enable identification of prior cost of replaced parts/components and related accumulated depreciation. So, it is challenging to identify the cost and accumulated depreciation balances that need to be derecognised. We will assess the extent of records held by the Council to support its approach to reporting infrastructure in light of the Statutory Instrument and Code adaptation by CIPFA.

Overview of our 2021/22 audit strategy

Materiality

Planning materiality

£20m

Materiality has been set at £ 20.1m, which represents 1.65% of the current year's gross expenditure on provision of services.

Performance materiality

£10m

Performance materiality has been set at £10m, which represents 50% of materiality.

Audit differences

£1m

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) greater than £1m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Standards Committee.

Overview of our 2021/22 audit strategy

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 Staffordshire County Council give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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.

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

Audit team changes

Key changes to our team.

Ntombifuthi Mhlongo - Senior Manager

Futhi is a Senior Manager in our Government and Public Sector Audit team with significant public sector accounting experience.

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.

Risk of fraud in revenue and expenditure recognition*

Financial statement impact

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

2021/22 Income Account: £1,375.9m

2021/22 Expenditure Account: £1,277.7m

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 consider the risk manifests itself in the following areas:

- Recognition of income and expenditure in relation to disabled facilities grants, covid-19 related grants, dedicated schools grants and public health grants;
- Inappropriate cut-off of revenue expenditure and non-grant income at the year-end date resulting in transactions being recorded in the wrong financial period; and
- Inappropriate capitalisation of revenue expenditure which could result in a misstatement of the cost of services reported in the comprehensive income and expenditure statement.

What will we do?

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

- Review the appropriateness of the Council's accounting policies for grant income recognition and the processes in place for the consistent application of those accounting policies;
- For a sample, responsive to our risk assessment, of grants received by the Council in the year, review the conditions attaching to the grant and ensure that the income (and associated expenditure) has been appropriately recognised in accordance with the accounting framework;
- Testing the year end cut-off of expenditure and non-grant income to ensure that transactions have been recorded in the appropriate financial period;
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically to;
    i. the accounting entries for pass through grants; and
    ii. those that move expenditure to PPE balance sheet general ledger codes; and
- Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to confirm recognition is in accordance with accounting policies.

Our response to significant risks (continued)

	What is the risk?	What will we do?
Misstatements due to fraud or error – management override of controls*	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.	• 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. • Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. • Review and discuss with management any changes the methodologies of existing and new accounting estimates, which include accruals and provisions, for evidence of bias.

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.

Valuation of property, plant and equipment (PPE) – land and buildings	What is the risk?	What will we do?
Financial statement impact Misstatements that occur in relation to PPE valuation could impact on reported balance. 2021/22 PPE: £ 1 825.7m Included above: Land and Building : £ 653.9m	Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. 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. The fair value of other land and buildings represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Land and buildings assets account for a significant proportion of the Council's assets. The valuation of land and buildings is subject to a number of assumptions and judgements by management's expert. There is a risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements.	We will: ▸ Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding; ▸ Evaluate the competence, capabilities and objectivity of management's specialist;. ▸ Review any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards, and assess if the instruction includes a specific instruction from the council to the valuer relating to an assessment on the unvalued population; ▸ Engage our valuation specialists to support our testing strategy and help evaluate the work of the Council's valuer specifically to assess if the movement on the unvalued population has been addressed appropriately; ▸ Engage our valuation specialists to support our testing strategy and help evaluate the work of the Council's valuer; ▸ Perform appropriate tests over the completeness and appropriateness of information provided to the valuer; ▸ Review the classification of assets and ensure the correct valuation methodology has been applied; ▸ Ensure the valuer's conclusions have been appropriately recorded in the accounts; and ▸ Review assets not subject to formal revaluation in 2021/22, to confirm that the remaining asset base is not materially misstated.

Our response to 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.

PPE Disposals of schools converting to academies	What is the risk?	What will we do?
Financial statement impact The losses on disposal include the reclassification of school assets for newly created academies. These are accounted for as leased assets and they amount to £17.9m (£15.4m in 2020/2021) on Academy and Foundation conversions and losses of £19.4m (£2.6m gain in 2020/2021) on non school asset disposals.	In previous years the Council has seen a number of schools convert to academy status and moving outside of the Local Education Authority's control. Errors relating to the accounting for disposals of schools on conversion to academies were identified. Our expectation is that the Council has responded to previous audit findings and improved controls and processes around conversion such that a significant risk is no longer present but inherent risk apply as the conversion is still not complete. When a school converts to academy status it should be treated as a 'disposal' by the Council at the point of transfer. The inherent risk relates to the existence of schools assets included in the Council's statement of financial position at 31 March 2022.	We will use the Department for Education academy school conversions listing to test a sample of schools to confirm if the disposal has been accounted for in the correct financial year.

Our response to 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?	What will we do?
PFI Financing	Accounting for the PFI waste scheme The Council has four PFI Schemes, the most significant of which is the Waste to Energy PFI Scheme. Accounting for PFI is a highly complex and judgemental area of the financial statements. Incorrect indexation used in the PFI model PFI module value inconsistent with financial statements.	We will: • Test the completeness and accuracy of the inputs to the financial model and the subsequent correct application of the outputs to the financial statements. • We will consider if we need to engage our internal PFI specialist to undertake an assessment of the accounting treatment.

Financial statement impact

Two Schools Scheme £2.4m
Streetlighting Scheme £53.2m
Children's Homes Scheme £5.7m
Waste to Energy £161.6m
Total value of assets £222.9m

Two Schools Scheme £2.6m
Streetlighting Scheme £3.7m
Children's Homes Scheme £2.3m
Waste to Energy £56.3m
PFI liabilities £64.9m
Waste to Energy -Third Party financing £59.3m
Total value of liabilities £124.2m

Our response to 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?	What will we do?
Local Government Pension scheme (LGPS)	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 Staffordshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that the net liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund. 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 ▸ Perform appropriate tests to obtain assurance over the information provided to the actuary; ▸ Write to the Pension Fund auditor requesting a program of work be conducted in respect of Staffordshire County Council's share of the total fund and to ascertain whether there are material concerns we need to be aware of for our audit; ▸ Ensure accounting entries and disclosures are consistent with the actuaries report; and ▸ Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team

Financial statement impact

The pension account had the following balances as at 31 March 2022:

Liability £595m

Our response to 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?	What will we do?
Group Accounts	Staffordshire County Council has investments in three companies: Entrust (49% holding), Penda (50% holding) and Nexxus (100% holding). The council also hold a redeemable share at Vernon Parks Property Management and it has full voting rights and the right to appoint all Directors of the Company. The investments in Entrust, Penda, Nexxus and Vernon have not been consolidated into the results of Staffordshire County Council as they have not been considered material, either qualitatively or quantitatively to the results of the Council. As these companies expand, there is a risk that their materiality relative to the Council's operations changes and the Council fails to prepare group accounts when in fact these are required under the accounting framework.	We will ▸ Request management to prepare an assessment of the requirement to consolidate the results of each of the three companies into the results of the Council by reference to the Code; and ▸ Review management's assessment and consider whether we are aware of any additional considerations as to whether these entities are either qualitatively or quantitatively material to the Council in coming to our own assessment of whether consolidated financial statements are required to be prepared.

Other areas of audit focus

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 and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Going concern – inflationary pressures directly impacting on the budgetary levels of Staffordshire County. In order to perform our work , we will require a robust assessment from management of the financial position and going concern basis of the Authority, which clearly sets out and evidences the key risks, mitigations and assumptions that underpin that assessment.	We will: ▸ audit and challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; ▸ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements; ▸ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. ▸ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ▸ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.
Infrastructure Assets : £975.3m An issue was raised via the NAO's Local Government Technical Group that local authorities are not writing out the gross cost and accumulated depreciation on infrastructure assets when a major part/component has been replaced or decommissioned. 2. Asset registers do not tend to record infrastructure capital expenditure with sufficient detail and geographical specifics to enable identification of prior cost of replaced parts/components and related accumulated depreciation. So, it is challenging to identify the cost and accumulated depreciation balances that need to be derecognised.	We will audit the compliance with the resolutions as indicated by the two streams: a. CIPFA have issued an adaptation to the Code of Practice on Local Authority Accounting to allow reporting on a net basis for infrastructure assets. b. DLUHC have issued a Statutory Instrument (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022). The SI relates to a financial year beginning on or before 1st April 2024 and in respect of which a certificate has not been entered under section 20(2)(a) of that Act. The SI allows for the infrastructure assets opening balance to be brought forward without amendment and determines the carrying amount to be derecognised in respect of replaced components to be nil. The Statutory Instrument became active on 25 December 2022.

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 conclusion.

For 2021/22 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.

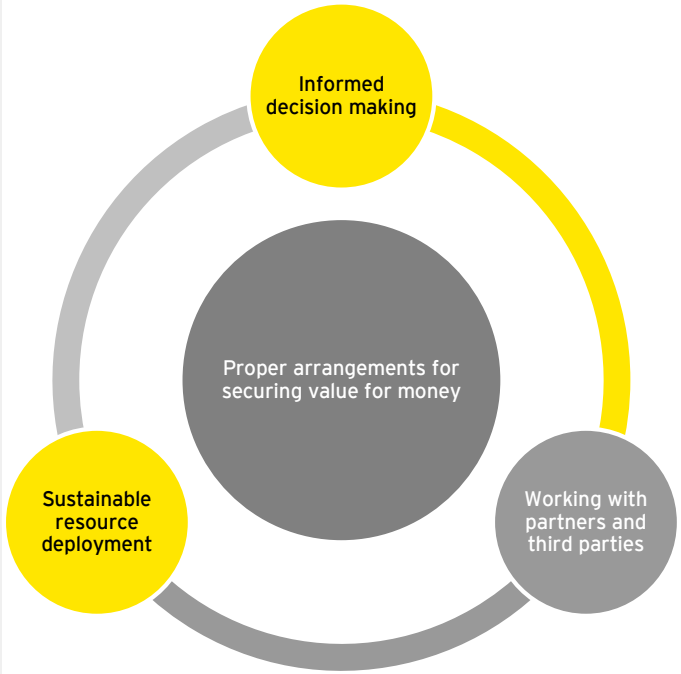
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. From 2018/19 this has included consideration of the steps taken by the Council to consider the impact of Brexit and the increase cost of living on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Councils will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the key focus areas noted on the following page which we view as relevant to our value for money conclusion.



Value for Money (continued)

We have identified other value for money focus areas in line with the NOA guidance

Financial sustainability

Value for Money impact

How the body plans and manages its resources to ensure it can continue to deliver its services.

What is the focus area for value for money?

1. how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans;
2. how the body plans to bridge its funding gaps and identifies achievable savings;
3. how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
4. how the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning
5. how the body identifies and manages risks to financial resilience,

What will we do?

Our approach will comprise:

1. Review of the arrangements that the Council has in place for identifying significant financial pressures.
2. Meeting with key personnel to gain an overview of relevant risks related to financial resilience and how they are managed,
3. Document our understanding of the processes and controls in place to identify, manage and mitigate identified risks
4. Review of arrangements for ensuring financial plan are consistent with workforce, capital, investment, and other operational planning
5. Review of minutes of meeting on decisions taken by the Council to obtain and understand the Council's options for addressing future budget gaps and their consideration of planned response actions;
6. Consider the Council's available reserves balances and to what extent this would cover any remaining budget gap.

Value for Money (continued)

We have identified other value for money focus areas in line with the NOA guidance

	What is the focus area for value for money?	What will we do?
Governance: **Value for Money impact** How the body ensures that it makes informed decisions and properly manages its risks,	1. how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud; 2. how the body approaches and carries out its annual budget setting process; 3. how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships; 4. how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from the Audit and Standards Committee; and 5. how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services.	Our approach will comprise: 1. Review the Council's Fraud and Risk Assessment processes and how council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud; 2. Meeting with key personnel to understand how council approaches and carries out its annual budget setting process; 3. Review the Council's budgetary control that supports its statutory financial reporting requirements; and the arrangements for ensuring corrective action is taken where needed, including in relation to significant partnerships; 4. Reviewing the minutes of meetings to assess the arrangements for the Council to make properly informed decisions 5. Assessing the arrangements for ensuring there is effective challenge from the Audit and Standards Committee; and 6. Reviewing the arrangements that the Council has in place to monitor and meet legislative and regulatory requirements. 7. Reviewing the arrangements that the Council has in place to set and monitor expected standards for officer and member behaviour. 8. Review the declaration of interest to ensure compliance with the code prior to any decisions being made on the used of resources. 9. Reviewing the arrangements that the Council has in place for procuring and commissioning services.

Value for Money (continued)

We have identified other value for money focus areas in line with the NOA guidance

Improving economy, efficiency and effectiveness

Value for Money impact

How the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

What is the focus area for value for money?

1. how financial and performance information has been used to assess performance to identify areas for improvement;
2. how the body evaluates the services it provides to assess performance and identify areas for improvement;
3. how the body ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
4. where the body commissions or procures services, how it assesses whether it is realising the expected benefits

What will we do?

Our approach will focus on:

1. Meeting with key personnel to gain an overview of relevant risks related to the delivery of key services and how they are managed,
2. Reviewing the arrangements that the Council for using financial information and non-financial information to identify areas for improvement.
3. Reviewing the arrangements that the Council for evaluating the services it provides.
4. Reviewing the arrangements that the Council has in place for managing its role within significant partnerships
5. Reviewing the arrangements that the Council has in place for evaluating procured services.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £20m. This represents 1.65% of the Council's current year gross expenditure on provision of services. It will be reassessed throughout the audit process considering the following factors

1. Proximity to financial statement metric.
2. Extent of commercial activity,
3. Unusual or contentious commercial activity ,
4. External Financing and Financing with unusual characteristics given the type of entity ,
5. Public Profile, Viability, Stability of environment,
6. Qualification or modification prior year audit,
7. Consideration of use of additional powers.

We have provided supplemental information about audit materiality in Appendix D.

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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £10m which represents 50% of planning materiality. The prior year audit report is not yet finalised however we have noted the following misstatements:

- Numerous impacting debtors, creditors, Bad debt provision, Pension liability ,PPE, PPE valuation overstatement, Reclassification adjustment of loan, Infrastructure assets.

The aggregate of corrected misstatements in the prior period as noted above were above 25% of

PM. **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, 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 Standard Committee, or are important from a qualitative perspective.

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 [delete if not applicable]

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.

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

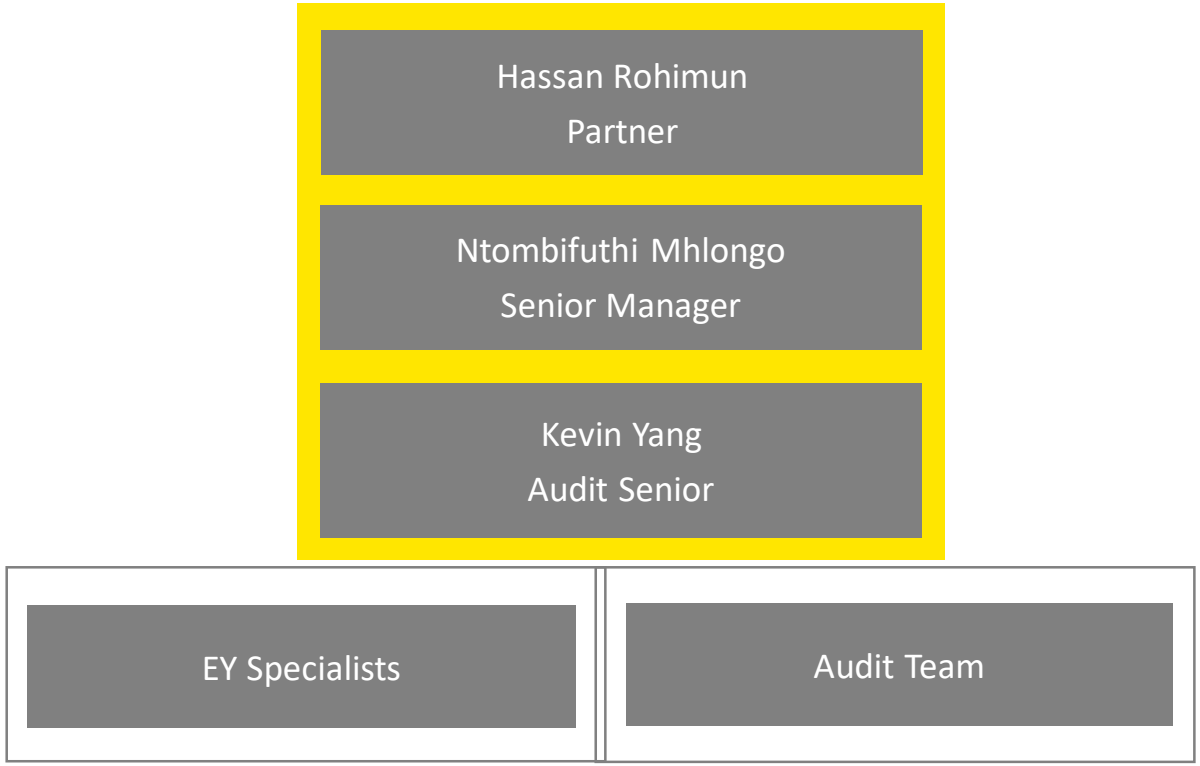
Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:
- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater 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 Standards Committee.
Internal audit:
We will regularly meet with the Head of Internal Audit and Chief Internal Auditor, and review internal audit plans and the results of their work. We will only use the internal audit reports to assist our audit planning processes.

06 Audit team

Audit team

Audit team structure:



* Key Audit Partner

Use of specialists

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

Area	Specialists
Valuation of Land and Buildings	EY Property Valuations Team. Management specialists – District Valuer (external valuer) and Property services (internal valuer).
Pensions disclosure	PSAA consulting actuary, the actuary of the Staffordshire Pension Fund and EY Pension Team
PFI	EY Internal PFI Specialist if required

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

Timetable of communication and deliverables

Timeline

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

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

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	November		
	December		
Walkthrough of key systems and processes	January		
	February	Audit and Standards Committee	Audit Planning Report
Execution of audit procedures and concluding	March		
Execution of audit procedures and concluding	April	Audit and Standards Committee	Audit update
	May		
	July - August	Audit and Standards Committee	
Year end audit Audit Completion procedures	September	Audit and Standards Committee	Audit Results Report Audit opinions and completion certificates
			Auditor's Annual Report

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 [note: additional wording should be included in the communication reflecting the client specific situation]	▸ 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 Hassan Rohimun, 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 ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

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

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

Self review threats

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

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

Management threats

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

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

Other threats

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

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

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019 which was effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2022

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 31 October 2022:

ey-uk-transparency-report-2022.pdf

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government. 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.

	Scale fee 2020/21 (Note 1)	Scale fee 2021/22
	£	£
Total Fee – Code work	84,511	84,511
Work to address changes in professional requirements (Note 2)	35,000- 45,000	35,000- 45,000
Changes in VFM requirements - (Note 3)	10,000 -19 000	10,000 - 19,000
ISA (UK) 540 (Revised) - (Note3)	3,800- 5,000	3,800 - 5,000
Going Concern – (Note 3)	2,820 – 4,500	2,820 - 4,500
Property, Plant and Equipment	32,800 – 45,000	35,000 - 48,000
Infrastructure Assets	5,500 – 15,500	5,500 – 15,500
Pensions	3,800-5,000	3,800 -5,000
PFI	-	2,500 -5,000
Total fees	TBC	TBC

All fees exclude VAT

(1) As highlighted in the Redmond Report, local government external audit fees have not kept pace with regulatory change. We believe that changes in the work required to address professional and regulatory requirements and scope changes associated with the risk of the organisation mean that the scale fee for the Council should more realistically set at a level that reflects the complexity and risk profile of the Council, and the resulting hours required to delivery the audit.

(2) The scale fee is set by PSAA Limited. We wrote to management and the Audit and Governance Committee Chair setting out our considerations on the sustainability of UK local public audit.

The 20/21 audit is in progress and additional work relating to additional required as indicated above and work on infrastructure assets to be completed and a final fee will be discussed with management and then communicated to the committee. Any additional fees are subject to PSAA agreement or determination.

(3) In addition to the increased cost of regulation, we set out an estimate of the additional fee for areas requiring additional work which will be discussed with management and be subject to PSAA approval or determination. The issues we have identified include:

- Additional procedures to respond to VFM code of audit practice responsibilities
- The revised auditing standard 540 requires additional consideration of estimates.
- Additional procedures to consider the Council's going concern assessment,
- Additional procedures on land and building valuations including the engagement of EY Real Estates to review the work of the Council's valuer.
- Additional procedures to review the Council's accounting of infrastructure assets.
- The review of IAS19 pension transactions including the engagement of EY Pensions to review assumptions used by the fund actuary.
- Review of PFI accounting for the changes on the contract period for one of the PFI arrangements.

- Appropriate quality of documentation is provided by the Council; and

The fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- The Council has an effective control environment.
- Our accounts opinion and value for money conclusion being unqualified;

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance. Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Required communications with the Audit and Standards Committee

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

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit and Standards 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.	February 2023
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	October 2023

Required communications with the Audit and Standards Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
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
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
Fraud	• Enquiries of the Audit and Standards 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
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

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
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 For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016: • Relationships between EY, the Council and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence	Audit Planning Report and Audit Results Report

Required communications with the Audit and Standards 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
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 Standards 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 Standards Committee may be aware of	Audit results report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Management letter/audit results report

Required communications with the Audit and Standards Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report
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	Audit planning report Audit results report
Value for Money	• Any circumstances identified that affect the form and content of our Auditors Annual Report	Auditor's Annual Report
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

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