Hinckley & Bosworth Borough Council
Audit planning report

Year ended 31 March 2020

May 2020

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1 May 2020

Members of the Audit Committee
Hinckley & Bosworth Borough Council
Hinckley Hub
Rugby Road
Hinckley, LE10 0FR

Dear Audit Committee Members

Audit planning report

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 Committee with a basis to review our proposed audit approach and scope for the 2019/20 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 Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 20 May 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Henshaw

For and on behalf of Ernst & Young LLP

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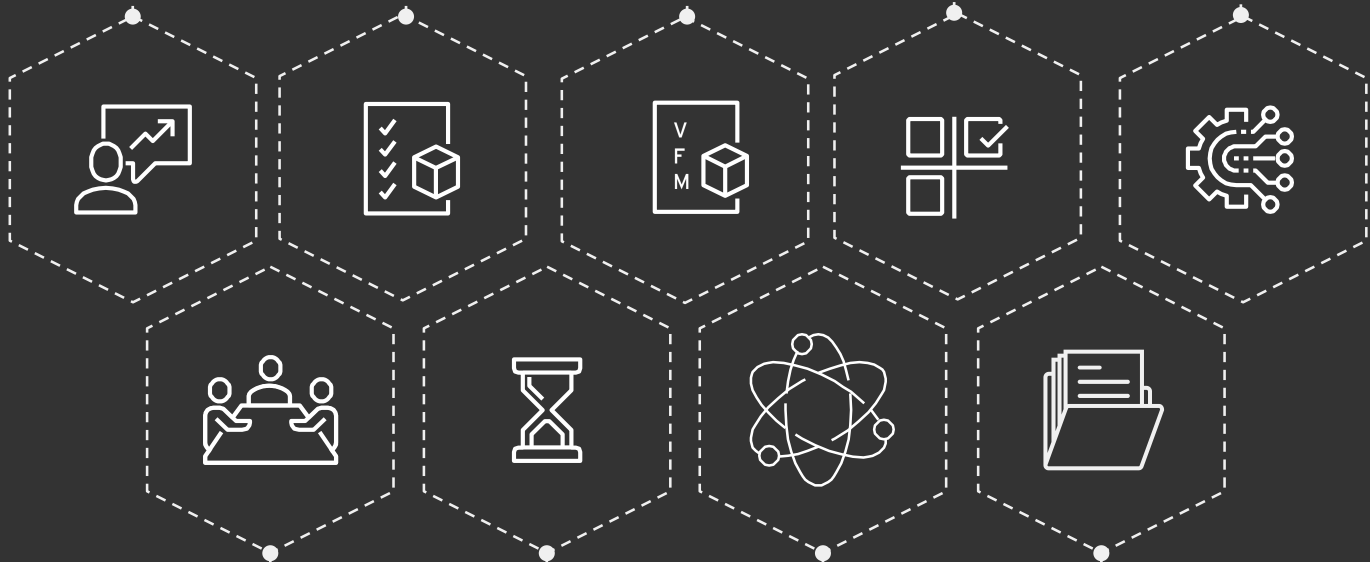

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Hinckley & Bosworth Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hinckley & Bosworth Borough 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 management of Hinckley & Bosworth Borough 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 2019/20 audit strategy

Overview of our 2019/20 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition: Inappropriate capitalisation of expenditure	Fraud risk	No change in risk of 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. We have re-evaluated the perceived fraud risks and consider that this risk is more prevalent over the medium term and is likely to occur through the capitalisation of expenditure that should be accounted for in the Comprehensive Income and Expenditure Statement (CIES).
Valuation and impairment of Property, Plant and Equipment (PPE)	Significant risk	Increased risk	The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Due to the impact of Covid 19, there is greater uncertainty around the valuation of properties which have future yields present within the calculation methodology.
Pensions liability valuations	Higher Inherent Risk	No change in risk or focus	The Council's pension fund deficit is a material estimated balance. At 31 March 2019 this totalled £43.4 million. 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.
NNDR Appeals Provision	Higher Inherent Risk	Increased risk	The Council calculates an NNDR (business rates) appeals provision in relation to appeals made by businesses which believe that the NNDR that they have paid in previous years was inflated due to an unreasonably high RV (Rateable value). The calculation involves a significant amount of estimation uncertainty and typically includes the use of an expert. As such, the value of the NNDR appeals provision is identified as an area which has an increased risk of material misstatement.

Overview of our 2019/20 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 Hinckley & Bosworth Borough Council give a true and fair view of the financial position as at 31 March 2020 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.

Audit team changes

Key changes to our team.

Engagement Partner - Helen Henshaw
Helen has over twenty years of audit experience working for EY with significant experience across both the public and private sector.

Overview of our 2019/20 audit strategy

Materiality

Planning materiality

£1.1m

Materiality has been set at £1.1m, which represents 2% of the prior years gross expenditure on provision of services (which is the gross expenditure on net cost of services plus other operating expenditure and financing expenditure).

Performance materiality

£828k

Performance materiality has been set at £828k, which represents 75% of materiality.

Audit differences

£55k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund) greater than £55k. This figure is calculated based on 5% of planning materiality. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Audit Timetable

Janet Dawson, the UK Government and Public-Sector Assurance Leader for Ernst & Young LLP wrote to all Chief Financial Officers and Audit Committee Chairs for PSAA audited bodies in February 2020 setting out our views on the sustainability of UK local public audit.

At the end of January 2020, 85 organisations had not yet received their audit opinion on the 2018-2019 financial statements. The factors that have led to this unprecedented position are extensive, impact all audit suppliers in the PSAA contract and need to be considered by public sector finance professionals and Audit Committees. In summary, the types of issues and challenges we have seen include:

- Financial reporting and decision making in local government has become increasingly complex.
- Some local authorities have a shortage of financial reporting skills, capabilities and weaknesses in audit readiness (including keeping pace with technological advancement in data management and processing for audit).
- There has been a significant increase in the specialised skills, time and cost required by auditors to address regulatory expectations.
- Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff.

To ensure we deliver the best quality audits, the PSAA, NAO and Local Public Audit Stakeholder forum were informed that we would be scheduling a number of 2019/20 external audits for completion after the 31st July 2020 publication deadline.   The Hinckley audit was scheduled to commence 1 June 2020.

In light of the COVID-19 pandemic, changes to the reporting timetables for local authority annual accounts have recently been released, pushing delivery deadlines back. Management have communicated to us that they will not be in a position to produce draft financial statements by 31 May 2020 as originally planned, so the audit will need to be pushed back. We will work with management to agree a revised audit delivery timetable, noting that the publication deadline for audited accounts is now 31 November 2020.

02 Audit risks

Our response to significant risks

We have obtained an understanding of your strategy, reviewed your principal risks and combined it with our understanding of the sector to identify key risks that impact our audit. We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

What is the risk?

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

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

What will we do?

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

- 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;
    - assessing accounting estimates for evidence of management bias; and
    - evaluating the business rationale for significant unusual transactions.

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition – Inappropriate capitalisation of expenditure*

Financial statement impact

Misstatements that occur in relation to the inappropriate capitalisation of expenditure could affect the expenditure accounts.

We consider the risk applies to capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement

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.

As the Council is more focussed on its financial position over the medium term we do not consider there to be a heightened risk for the Council's standard income and expenditure streams except for the capitalisation of expenditure on Property, Plant and Equipment (PPE) given the extent of the Council's capital programme.

What will we do?

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

- Reviewing the appropriateness of expenditure recognition and capitalisation accounting policies;
- 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 statement, specifically 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 identify any revenue items that have been inappropriately capitalised.

Our response to significant risks (continued)

Valuation and impairment of Property, Plant and Equipment

Financial statement impact

Misstatements that occur in relation to the risk of valuation of the Land and Buildings affect multiple balances and disclosures throughout the financial statements. Land and Buildings had a valuation of £50.2 million and Council Dwellings £176.4m 2018/19,

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What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the entity's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Authority will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment. As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/ overstated. 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.

Many of the property valuations involve future yields within the calculation. Due to the impact of Covid 19 there is greater uncertainty around the future yields obtainable in relation to properties. As a result, we recognise a significant risk due to enhanced levels of uncertainty in the valuation calculations.

What will we do?

We will:

- Consider the work performed by the external valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation;
- Test accounting entries have been correctly processed in the financial statements; and
- Engage EY Real Estates team to perform a review of the valuer's estimation methods and to review the valuation of a sample of assets.

Other areas of higher inherent risk

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

What is the risk/area of focus?	What will we do?
Pension Liability Valuation 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 Leicestershire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: ▶ Liaise with the auditors of Leicestershire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council; ▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
NNDR Appeals Provision The Council calculates an NNDR (business rates) appeals provision in relation to appeals made by businesses which believe that the NNDR that they have paid in previous years was inflated due to an unreasonably high RV (Rateable value). The calculation involves a significant amount of estimation uncertainty and typically includes the use of an expert. As such, the value of the NNDR appeals provision is identified as an area which has an increased risk of material misstatement.	We will: ▶ Review the methodology behind the calculation for the NNDR appeals provision, testing the assumptions used and the calculations applied. ▶ Assess the data used in the calculation – agreeing the values and attesting the completeness of appeals by agreeing to third party source information ▶ Enquire of management's specialist – obtain an understanding of their input into their process, their qualifications and expertise. Critically evaluate the work performed.

Other areas of focus

What is the risk/area of focus?

Impact of Covid-19

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements. Understandably, the priority for the Council to date has been to ensure the safety of staff and the delivery of business critical activities. However, the financial statements will need to reflect the impact of Covid-19 on the Council's financial position and performance. Due to the significant uncertainty about the duration and extent of disruption, at this stage we have not identified specific risks related to Covid-19, but wish to highlight the wide range of ways in which it could impact the financial statements. These may include, but not be limited to:

- Going concern – management's assessment of whether the Council is a going concern will need to consider the impact of the current conditions on the Council's future performance. Additional narrative disclosure will be required, including on the future principal risks and uncertainties, including the impact on operations for 2020/21 and beyond.
- Revenue recognition – there may be an impact on income collection (Council and Business rates) if businesses and residents are unable to work and earn income due to the lockdown and restriction of movement due to COVID-19.
- Tangible assets – there may be impairment of tangible assets if future service potential is reduced by the economic impact of the virus. The Council may also have already incurred capital costs on projects where the economic case has fundamentally changed.
- Pensions – volatility in the financial markets is likely to have a significant impact on pension assets, and therefore net liabilities.
- Receivables – there may be an increase in amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations.
- Holiday and sickness pay – the change in working patterns may result in year-end staff pay accruals which are noticeably different to prior years.
- Government support – any Covid-19 specific government support is likely to be a new transaction stream and may require development of new accounting policies and treatments.
- Annual Governance Statement– the widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on the ability to complete the remainder of the internal audit programme.

We will provide an update on the impact of Covid-19 on the Council's financial statements, and how we have responded to the additional risks of misstatement, later in our audit.

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on management's ability to produce the financial statements and our ability to complete the audit to the planned timetable. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.

Other matters

What is the risk/area of focus?	What will we do?
IFRS16 – leases IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset. Implementation of IFRS 16 was to be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. In July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'. This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including: ▸ the identification of leases ▸ the recognition of right-of-use assets and liabilities and their subsequent measurement ▸ treatment of gains and losses ▸ derecognition and presentation and disclosure in the financial statements, ▸ the management of leases within the Prudential Framework. The guidance also covers the transitional arrangements for moving to these new requirements, such as: ▸ the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees ▸ the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).	IFRS 16 – leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. Given the COVID-19 pandemic, CIPFA/LASAAC have recently communicated a deferral of the implementation date to 1 April 2021. Although the new standard will not be included in the CIPFA Code of Practice until 2021/22, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2021. In particular, full compliance with the revised standard for 2021/22 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2021 in order to identify: ▸ all leases which need to be accounted for ▸ the costs and lease term which apply to the lease ▸ the value of the asset and liability to be recognised as at 1 April 2021 where a lease has previously been accounted for as an operating lease. As part of our planning procedures we had already begun discussing progress made in preparing for the implementation of IFRS 16 – leases with the finance team, and will continue to do so until implementation.

Other matters

What is the area of focus?	What will we do?
<u>Going Concern Compliance with ISA 570</u> This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.' 'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'	The revised standard requires: ▸ auditor's 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 Council 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. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements; ▸ 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. The revised standard extends requirements to report to regulators where we have concerns about going concern. We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.

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 2019/20 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.

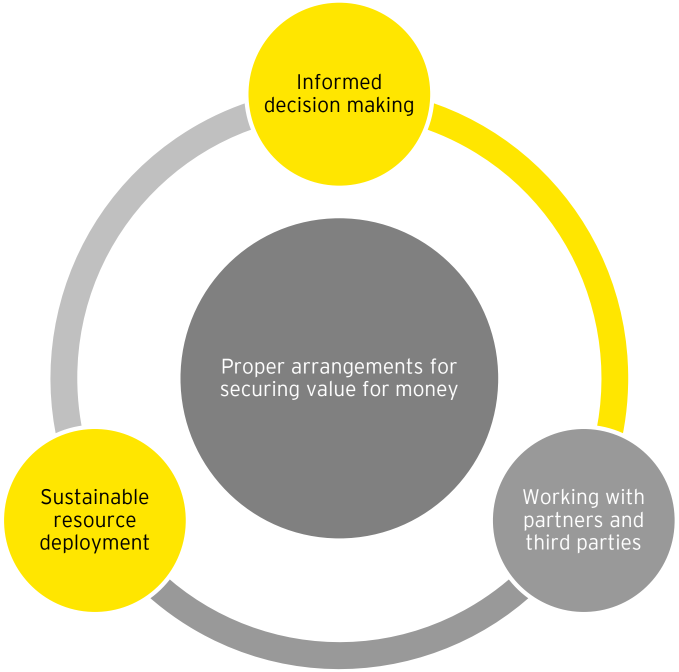
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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. In 2018/19 this has included consideration of the steps taken by the Council to consider the sustainable resource deployment in order to make the most of it’s resources considering the gap between expenditure and funding.

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 significant risks noted on the following page which we view as relevant to our value for money conclusion.



Value for Money Risks

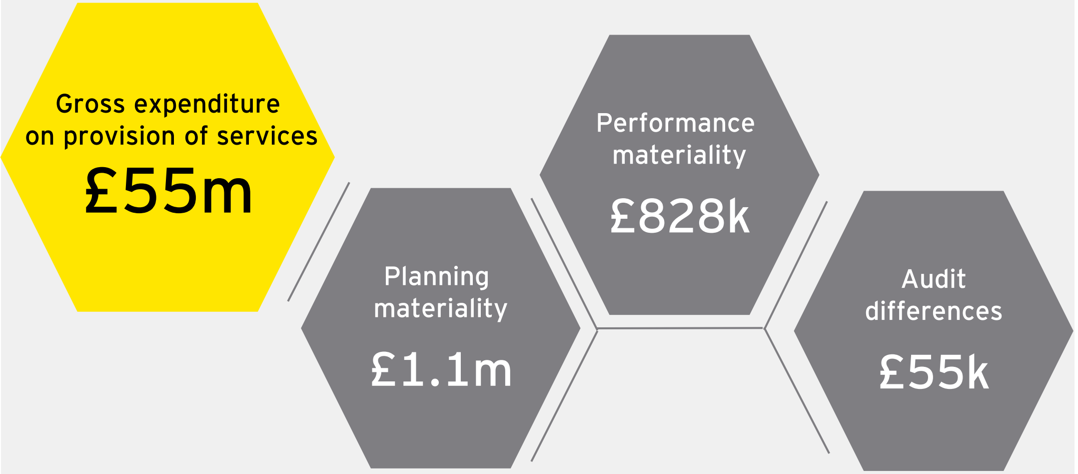
What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Securing financial resilience In common with other Local Government entities, the Authority is facing significant financial pressures in the medium term. The Authority is forecast to have a General Fund Balance of £1.65m at 31/03/2020. The Medium Term Financial Strategy (MTFS) forecasts deficits over the next three years which would leave the Authority with adequate reserves at the end of the 2022/23 period. However, the sensitivity analysis within the MTFS shows that with reductions in income due to the phasing out of the New Homes Bonus and the resetting of the NNDR baseline would provide budget deficits as follows: • 2020/21 - £123k • 2021/22 - -£46k (surplus) • 2022/23 - £326k This decreases the General Fund Reserve to £1.25m by the end of the 2022/23 period, which is below the level of £1.63m considered acceptable by the Authority going into 2022/23. Given the uncertainty of the funding settlement post 2020/21 and the financial pressures set out above, we have considered this to be a significant area of focus in forming our value for money conclusion.	**Deploy resources in a sustainable manner.** Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions	We plan to review: ▸ the MTFS including the adequacy of any major assumptions; ▸ how the organisation has monitored progress of strategic delivery plans; ▸ how the Authority has considered the impact of the Local Government settlement on the MTFS; ▸ the adequacy of plans that have been developed to identify future savings and the level of reported savings delivered in year.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £1.1m. This represents 2% of the Council's prior year gross expenditure on provision of services (which is the gross expenditure on net cost of services plus other operating expenditure and financing expenditure). It will be reassessed throughout the audit process. In an audit of a public sector entity, we consider gross expenditure to be the appropriate basis for setting materiality as it is the benchmark for public sector programme activities. We have provided supplemental information about audit materiality in Appendix C.



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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £828k which represents 75% of planning materiality. We have considered a number of factors such as the value and nature of misstatements identified in the prior year and any significant changes in 2019/20 when determining the percentage of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income. This figure is calculated based on 5% of planning materiality.

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

Specific materiality – We have set a materiality for remuneration disclosures, related party transactions and councillor allowances. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are free from material misstatement.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

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

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

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

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

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2019/20 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 Committee.

Internal audit:

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

06 Audit team

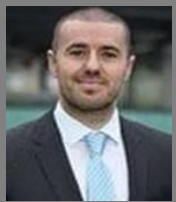
Audit team and use of specialists

Audit team structure:

There is one new addition to the audit team this year. The engagement team is led by Helen Henshaw, Associate Partner, supported by Gary Morris, Assistant Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team. Both work within our dedicated Government and Public Sector team and have significant experience on council audits.

Helen Henshaw

Associate Partner



Gary Morris

Assistant Manager

Audit team

Use of specialists:

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

Area	Specialists
Pensions disclosure	EY Actuaries
Valuation of Land and Buildings	EY Valuations Team

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

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

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

07 Audit timeline

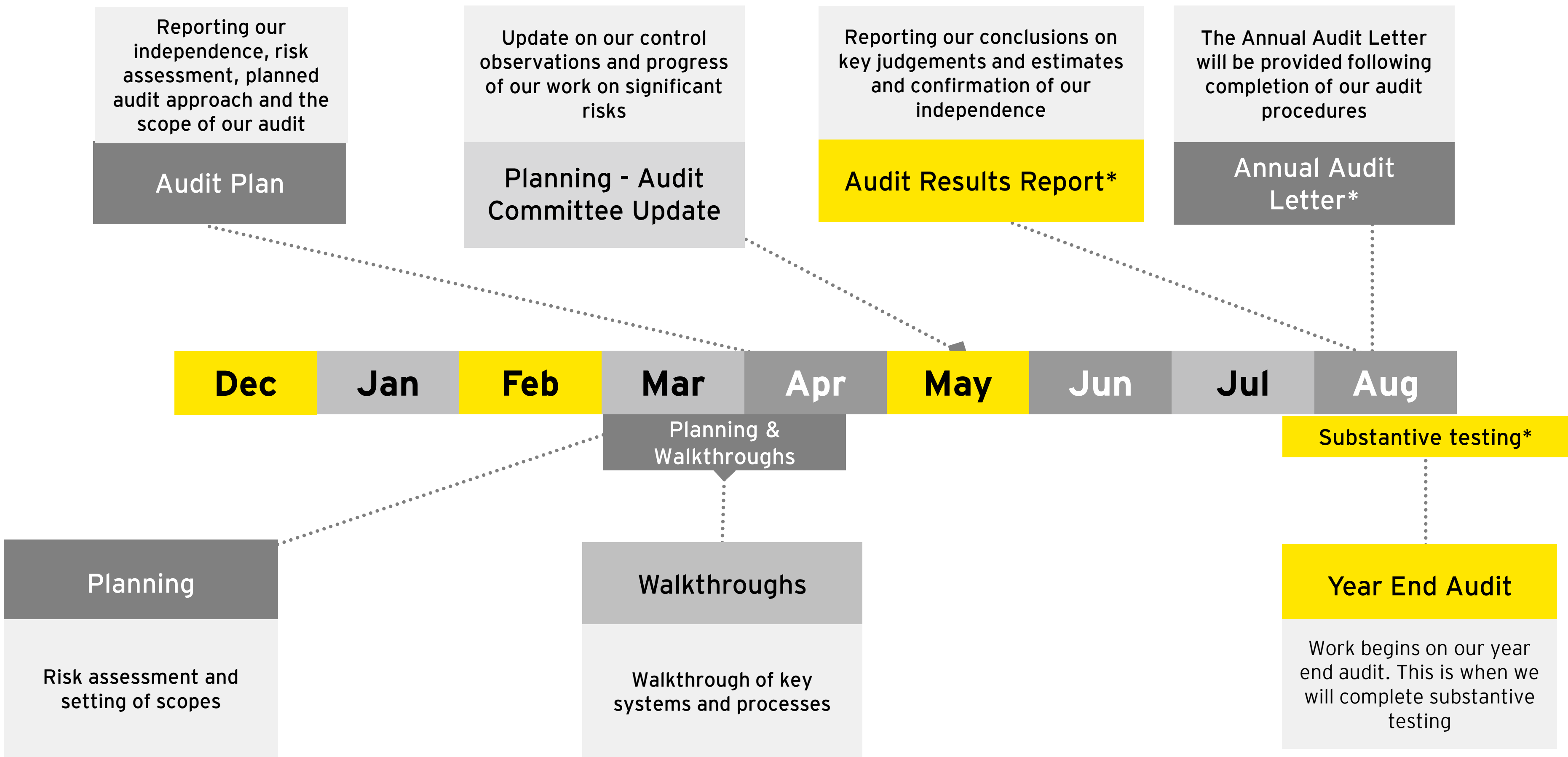
Audit timeline

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 2019/20.

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



* Final timings to be revised in light of C-19 (refer page 7) and agreed with management and the Committee.

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 Helen Henshaw, 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 approximately 0.27:1. No additional safeguards are required.

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

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

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.

Independence

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. The table below sets out the self review threats that exist as the date of this report.			
Description of service	**Related independence threat**	**Period provided/ duration**	**Safeguards adopted and reasons considered to be effective**
Housing benefit work no longer forms part of the work required by PSAA and we are separately engaging with the Council on the appointment for this work in 2019/20. Our fees have not yet been finalised.	Self review threat – figures included in the return are also included in the financial statements.	Year ended 31 March 2020 and for all subsequent accounting periods. However, this will be assessed annually.	The specific testing of individual benefit claims and associated subsidy calculations undertaken in respect of the Housing Benefits agreed upon procedures engagement is distinct and separate to any work we have or will undertake on the financial systems of the Council. The results of the testing is not reflected in the amounts included/disclosed in the financial statements. In respect of the checking of benefit system parameters, this work is common across our external audit procedures and this engagement. Our external audit is concluded prior to this engagement. The external audit conclusion is therefore not reliant upon the conclusion of the Housing Benefit engagement. No advice will be given in relation to accounting treatment. The report we provide will be prepared or given solely for the purposes of the agreed upon procedures engagement for Housing Benefits and will not be used or relied upon for any other purposes.

Other communications

EY Transparency Report 2018

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 ended 1 July 2019 and can be found here:

https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019

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.
We anticipate that new requirements for other entities will follow and we will continue to monitor and assess the impact.

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.

A breakdown of our fees is shown in the table below.

	Planned Fee 2019/20	Final Fee 2018/19
	£	£
Scale fee	38,046	38,046
Other	TBD (2)	12,600 (1)
Total Fee – Code work	TBD	50,646
Other non-audit services not covered above (Housing Benefits)	TBD	-
Other non-audit services not covered above (Pooling of capital receipts)	TBD	5,000
Total other non-audit services	TBD	5,000
Total fees	**TBD**	**55,646**

All Fees shown are exclusive of VAT

Non audit services are still to be determined for the 19/20 year. This includes Housing benefits and pooling of capital receipts work.

(Note 1) Scale Fee Variation for 2018/19 relates to additional audit work relating to:

- GMP and McCloud impact on the pension liability valuation
- Prior period adjustments relating to collection fund creditor / debtor classification
- New finance leases and related calculations and disclosure
- Minimum Revenue Provision calculation
- Errors identified within the draft accounts

(Note 2) For 2019/20, the scale fee will be impacted by a range of factors (see pages 34 and 35). The specific issues we have identified at the planning stage which will impact on the fee include the additional work that will be required to address the value for money risk identified, and the use of valuation specialists.

- In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

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

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.

Appendix A

Fees

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as the Borough Council the extent of audit procedures now required mean it will take around 900 hours to complete a quality audit. Based on our own modelling of the inputs required to complete an external audit of the Council concludes that a more appropriate scale fee for the delivery of an external audit to the Council would be in the region of £70,000.

Summary of key factors

1. **Status of sector.** Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.

    - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.

2. **Audit of estimates.** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

    - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.

3. **Regulatory environment.** Other pressures come from the changing regulatory landscape and audit market dynamics:

    - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.

    - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Fees

Summary of key factors (cont'd)

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

    - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.

    - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Next steps

- In light of recent communication from PSAA, we will need to quantify the impact of the above to be able to accurately re-assess what the baseline fee is for the Council should be in the current environment. Once this is done we will be able to discuss at a more detailed level with you.

Appendix B

Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – May 2020
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report – July 2020
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report – July 2020
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 – July 2020

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit results report – July 2020
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report – July 2020
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit planning report – May 2020 Audit Results Report - July 2020.
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – July 2020

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Consideration of laws and regulations	‣ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ‣ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit results report - July 2020
Internal controls	‣ Significant deficiencies in internal controls identified during the audit	Audit results report - July 2020
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - July 2020
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - July 2020
Auditors report	‣ Any circumstances identified that affect the form and content of our auditor's report	Audit results report - July 2020
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 - May 2020 Audit results report - July 2020
Certification work	Summary of certification work undertaken	Certification report

Appendix C

Additional audit information

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

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 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.