

CITY OF LONDON - CITY FUND

AUDIT PLAN TO THE AUDIT AND RISK MANAGEMENT COMMITTEE
Audit for the year ending 31 March 2018

15 February 2018

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INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of the City of London City Fund for the year ending 31 March 2018. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Risk Management Committee. In preparing this report, we do not accept or assume responsibility for any other purpose, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM

Core team	Specialist support	Name	Contact details	Key responsibilities
Leigh Lloyd-Thomas Engagement Lead		Leigh Lloyd-Thomas Engagement Lead	Tel: 020 7893 2616 leigh.lloyd-thomas@bdo.co.uk	Oversee the audit and sign the audit report
Kerry Barnes / Francesca Palmer Project Manager		Kerry Barnes / Francesca Palmer Project Manager	Tel: 020 7893 3837 / 01473 320739 kerry.l.barnes@bdo.co.uk / francesca.palmer@bdo.co.uk	Management of the audit
Nyasha Chikwati Senior	Ridzwan Mahdi Technology Risk Management	Nyasha Chikwati Senior	Tel: 020 7893 3668 nyasha.chikwati@bdo.co.uk	Day to day supervision of the audit team
	Karl Vernum Employment Taxes	Ridzwan Mahdi Technology Risk Assistant Manager	Tel: 020 7893 3126 ridzwan.x.mahdi@bdo.co.uk	Manage IT review for audit purposes
		Karl Vernum Employment Tax Principal	Tel: 020 7893 3549 karl.vernum@bdo.co.uk	Manage employment tax review for audit purposes

Leigh Lloyd-Thomas is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements and use of resources.

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

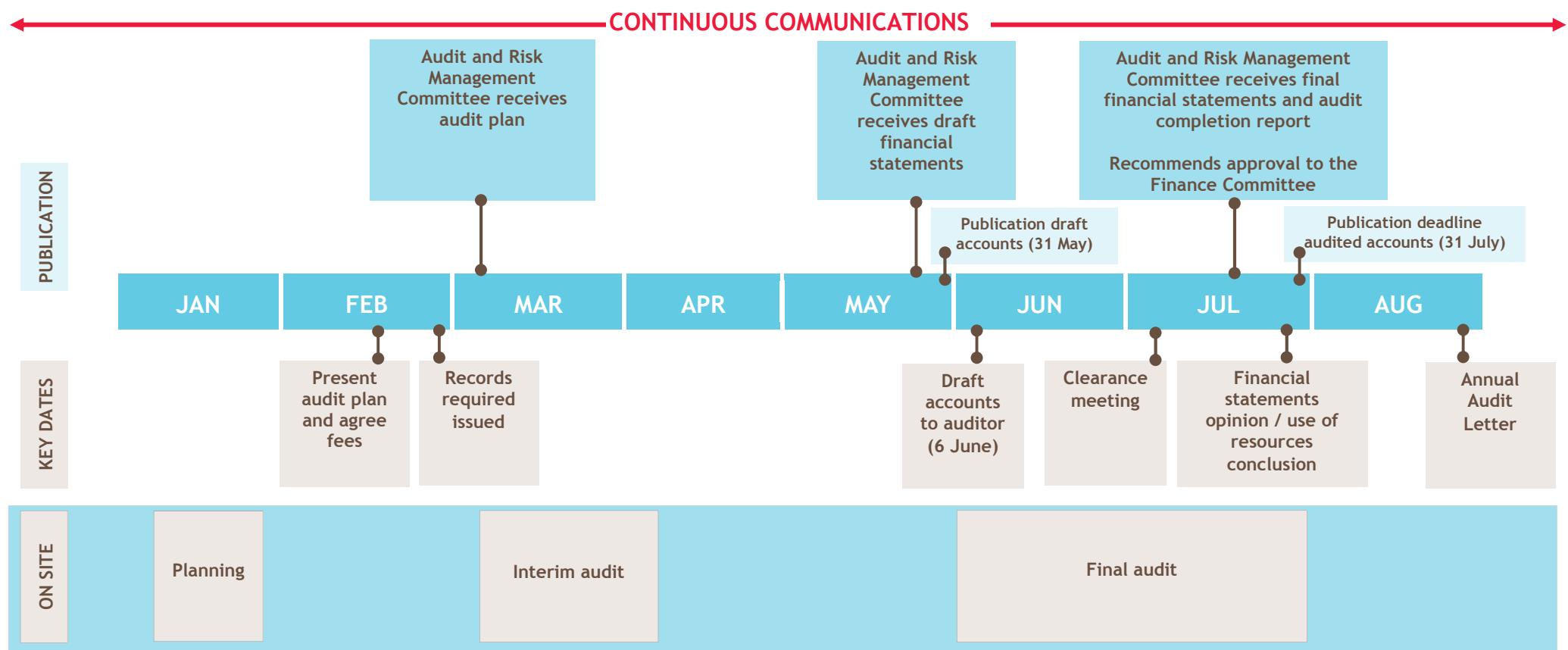
- the financial statements are free from material misstatement, whether due to fraud or error
- the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

He is responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

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



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

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

Our objective is to form an opinion on whether:

FINANCIAL STATEMENTS	OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
1 The financial statements give a true and fair view of the financial position of the authority and its expenditure and income for the period in question.	2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.	3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).	4 The return required to facilitate the preparation of Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.

ADDITIONAL POWERS AND DUTIES

6 Where appropriate: To consider the issue of a report in the public interest. To make a written recommendation to the authority.	7 To allow electors to raise questions about the accounts and consider objections. Where appropriate, to apply to the court for a declaration that an item of account is contrary to law. Where appropriate, to consider whether to issue an advisory notice or to make an application for judicial review.
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MATERIALITY

MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
City Fund overall materiality ⁽¹⁾	£23,400,000	£460,000
Specific materiality for other financial statement areas:		
- Impact on revenue resources through the Comprehensive income and expenditure statement (CIES) and Movement in reserves statement (MiRS) ⁽²⁾	£5,800,000	£116,000

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

⁽¹⁾ City Fund has custody of significant public assets through its ownership of property assets and investments that are used to generate income to support the local authority services provided by the Corporation. These capital and investment balances form the largest part of the balance sheet. We consider that the balance sheet is of primary interest to the reader of the financial statements (Members of the City of London Corporation) and therefore we use the total value of property, plant and equipment, investment properties and investments as a suitable value for materiality. Materiality has been set at 1% of this balance sheet amount.

⁽²⁾ While the balance sheet is of primary interest to the reader of the financial statements, we consider that a misstatement at a lower level through revenue expenditure would be material where this may impact on setting future council tax or HRA rent levels. Revenue resources available to the City Fund at 31 March 2017 were £99 million, comprising the General Fund balance, Housing Revenue Account balance and earmarked reserves. Therefore, we will apply a lower level of materiality at 1.5% of gross expenditure to income and expenditure transactions in the Comprehensive income and expenditure statement (CIES) and Movement in reserves statement (MiRS) that impact on revenue resources to reduce the risk of material misstatements.

Materiality is based on balances and transactions disclosed in the prior year financial statements. Materiality will be revisited when the draft financial statements are received for audit.

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

OVERALL AUDIT STRATEGY

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

This enables us to focus our work on key audit areas. Our starting point is to document our understanding of the Corporation City Fund (local authority) activities and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

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

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

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

Risks and planned audit responses

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

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

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

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

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

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

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

Internal audit

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

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

OVERALL AUDIT STRATEGY

Continued

Management assessment of fraud

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

We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

Frauds identified in recent years include:

- Ineligible applications for right to buy discounts on HRA properties
- Housing benefit and local council tax support claimants
- Failure to receipt and bank all cash income received in some service areas
- Providing chargeable services to customers but not collecting income due
- Misuse of public assets but without financial impact, such as tenancy sub-letting and blue badges.

Management believe that the risk of material misstatement due to fraud in the financial statements is low and that controls in operation would prevent or detect material fraud.

The Audit and Risk Management Committee has oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. This is discharged through the reviews undertaken by internal audit.

To corroborate the responses to our inquiries of management, please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing standards there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. 	Not applicable.
Revenue recognition	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the existence of income. In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES). We also consider there to be a significant risk in relation to the existence of fees and charges and investment rental income recorded in the CIES with a particular focus on year-end cut off.</p>	<p>We will test a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.</p> <p>We will test a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.</p>	Government grant funding will be agreed to information published by the sponsoring department including any grant conditions.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Land, buildings, dwellings and investment property valuations	<p>Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties are not materially different to existing use for operational assets or fair value for surplus assets and investment properties at the balance sheet date.</p> <p>Management use external valuation data to assess whether there has been a material change in the value of classes of assets. Investment properties are revalued annually according to market conditions at year-end. Higher value operational properties (other land and buildings and dwellings) are revalued annually to provide assurance that carrying values are materially stated, with the remainder of non-material value assets revalued periodically (minimum of every five years). Operational asset valuations are undertaken by both external and internal valuers.</p> <p>We consider there to be a significant risk over the valuation of land buildings, dwellings and investment properties where valuations are based on market assumptions or where updated valuations have not be provided for a class of assets at the year-end.</p> <p>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value land and property assets.</p>	<p>We will review the instructions and the detailed information provided by the City Fund to the valuer and perform procedures to confirm the accuracy and completeness of the information.</p> <p>We will review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage. We will confirm that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost.</p> <p>We will review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices.</p>	We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the City Fund.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions	<p>The net pension liability comprises the City Fund's share of the market value of assets held in the City of London Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience.</p> <p>The estimate is based on a roll-forward of data from the 2016 triennial valuation, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk that the membership data and cash flows provided to the actuary as at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p> <p>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability.</p>	<p>As the auditors of the pension fund, we will review the controls for providing accurate membership data to the actuary.</p> <p>We will compare the assumptions used by the scheme actuary with assumptions used by other local government actuaries (provided by PwC consulting actuaries) to assess the reasonableness of the assumptions and impact on the calculation of the present value of estimated future pension payments.</p> <p>We will compare the disclosure in the financial statements to the information provided by the actuary.</p>	We will use the PwC consulting actuary report provided to auditors for the review of the methodology of the actuary and reasonableness of the assumptions.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Lease premiums	<p>The City Fund is party to a significant number of lease arrangements as lessor. The premiums and rents are apportioned between the land element, which will ordinarily be an operating lease recognised as revenue, and the building element which is likely to be a finance lease and recorded as a capital disposal. The element of the premium relating to the land is treated as deferred income and released to revenue over the term of the lease.</p> <p>The apportionment between the land and building elements is a complex accounting estimate and there is a risk that the value of the split applied may not be appropriate.</p>	<p>We will review the process applied for apportioning lease premiums between land (deferred revenue) and buildings (capital disposal) including reviewing the work of external valuer to confirm if this is appropriate.</p> <p>We will also select a sample of leases and confirm that the allocations have been accurately calculated.</p>	Not applicable.
Consideration of related party transactions	<p>We consider if the disclosures in the financial statements concerning related party transactions are complete and accurate, and in line with the requirements of the accounting standards.</p> <p>There is a risk that related party transactions disclosures are omitted from the financial statements, or do not accurately reflect the underlying related party transaction.</p>	<p>We will review relevant information concerning any such identified transactions.</p> <p>We will discuss with management and review member's and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.</p>	Companies House searches for undisclosed interests.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Non-domestic rates appeals provision	<p>Billing authorities are required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled.</p> <p>Management use this information to calculate a success rate for specific business types for settled appeals, and applies an appropriate rate to each type of business appeal still outstanding at year end.</p> <p>We consider there to be a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.</p>	<p>We will review the accuracy of the appeals data to confirm that it is complete based on the VOA list, and that settled appeals are removed.</p> <p>We will review the assumptions used in the preparation of the estimate including the historic success rates to confirm if the rates applied are appropriate.</p>	We will compare the listing of current appeals to listings from the VOA.
Allowances for non-collection of receivables	<p>The City Fund includes a material amount in respect of provisions for non-collection of NDR arrears, private residential rent arrears (current tenants) and arrears in relation to the Barbican Centre and City Police.</p> <p>There is a risk that the provisions may not accurately reflect collection rates based on age or debt recovery rates.</p>	<p>We will review the provision model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Sustainable finances (City Police)	<p>City Police were forecasting an overspend of £1.6 million as at 30 September 2017 however as at 31 December 2017 City Police are on course to balance their budget. This favourable movement is due to the continued and widespread vacancies across the Force and eleven deleted Police Staff posts in December 2017 which has created significant underspending within pay budgets.</p> <p>The police budget for 2018/19 has been brought into balance, through a combination of efficiency savings, additional government grant in the provisional settlement and draw down on reserves. This intends to provide time to implement Force transformation plans, following the Deloitte Review, which will help to address the forecast budget deficit of £4 to 5 million per annum in subsequent years, when it is anticipated reserves will be exhausted, and pressures arising from increased demand and the changing nature of police services.</p> <p>Identifying the required level of savings in the medium term will be a challenge and is likely to require difficult decisions around service provision and possible increases in business rate premium.</p>	<p>We will review the Medium Term Financial Strategy and assess the reasonableness of the assumptions used for cost pressures and the amount of grant reductions applied.</p> <p>We will monitor the delivery of the budgeted savings in 2017/18 and review the strategies, identified by the external value for money review, to close the budget gap in the medium term.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Sustainable finances (City Fund)	<p>The City Fund is currently forecasting a better than budget position of £1.5 million in 2017/18 which is mainly due to additional income from positive box office performances at the Barbican.</p> <p>Extra business rates income, combined with an increase in anticipated rents from the fund's investment properties and additional interest on cash balances, has allowed cost pressures to be accommodated and the inclusion of additional funding to meet Member priorities and initiatives, whilst still leaving the fund in surplus for 2017/18 and 2018/19. The fund moves into deficit from 2019/20 onwards due to the inclusion of costs for the Museum of London and the Combined Courts relocation projects. This assumes that the preference will be to utilise City Fund reserves prior to borrowing to fund these projects, though this is subject to the overall funding strategies for the projects, which are yet to be agreed.</p> <p>The MTFS is based on key income and expenditure assumptions as well as significant savings/ income generation proposals within service budgets. If key assumptions and savings plans have not been based on reliable data or have been overly optimistic the financial position could deteriorate over the medium term.</p>	We will undertake a high level review of the assumptions in the City Fund's Medium Term Financial Strategy, including benchmarking key variables such as inflationary pressures and grant income, and savings schemes.	Not applicable.

INDEPENDENCE

INDEPENDENCE

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

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

Our appointment by the Audit Commission (and confirmed by Public Sector Audit Appointments Limited) covers both the City of London Corporation City Fund and pension fund. We do not consider this to be a threat to our independence and objectivity.

Non-audit services fees (relating to audit related services) for the assurance reviews of the teachers’ pensions return and pooling of housing capital receipts are shown on the following page. We do not plan to provide any other non-audit services.

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

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired.

ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
Leigh Lloyd-Thomas - Engagement lead	3
Kerry Barnes - Project manager	3
Francesca Palmer - Project manager	1

FEES

FEES SUMMARY

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

	2017/18 Proposed fee £	2016/17 Actual fee £
Code audit fee	86,383	86,383
Certification fee (Housing benefits subsidy)	11,396	11,205
Total code audit and certification fees	97,779	97,779
Fees for audit related (see below)	11,340	11,340
Fees for non-audit services	0	0
TOTAL FEES	109,119	108,928

NON AUDIT SERVICES FEES ANALYSIS	£
Audit related services:	
Teachers' Pension (local education authority)	4,500
Teachers' Pension (Centre for Young Musicians (City's Cash))	4,500
Pooling of Housing Capital Receipts	2,340
Total	11,340

The above fees do not differ from those included in the fee letter that we issued on 27 April 2017.

Billing arrangements

Invoices for the Code audit fee will be raised as set out below:

- Instalment 1 £43,191.50 in July 2017
- Instalment 2 £21,595.75 in March 2018
- Instalment 3 £21,595.75 in July 2018

Certification fees will be billed on completion of the work.

Our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice.

Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Deputy Chamberlain. Where this requires a variation to the scale fee we will seek approval from PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Risk Management Committee. At this stage, nothing has come to our attention that would require us to seek approval to amend the scale fee.

Our fee is based on the following assumptions

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

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

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

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

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

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

CALCULATION AND DETERMINATION

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

APPENDIX I: MATERIALITY

Continued

REASSESSMENT OF MATERIALITY

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

UNADJUSTED ERRORS

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

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

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