West Lothian Council

Annual Audit Plan
Year ending 31 March 2019

Audit Committee – 25 March 2019

Building a better working world

Contents

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of West Lothian Council (the Council) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Executive Summary

Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of West Lothian Council (the Council) for the five year period 2016/17 to 2020/21.

This Annual Audit Plan, prepared for the benefit of Council management and the Audit Committee, sets out our proposed audit approach for the audit of the financial year ending 31 March 2019, the third year of our appointment. In preparing this plan, we have updated our understanding of the Council through planning discussions with management, review of relevant documentation and committee reports, and our general understanding of the environment in which the Council is currently operating.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Council employs best practice and where processes can be improved. We use these insights to form our audit recommendations to support the Council in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit.

After consideration by the Council, the plan is provided to Audit Scotland and published on their website.

Scope and responsibilities

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the Council and the auditor, more details of which are provided in Appendix A.

Financial statement audit

We are responsible for conducting an audit of the financial statements of the Council. We will provide an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the Council and its group as at 31 March 2019 and its expenditure and income for the year then ended; and
- whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published by the Council along with its financial statements.

Best Value and wider scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit, as well as an assessment around the Council's arrangements for securing Best Value. Our audit work over the wider scope audit dimensions compliments our financial statements audit.

Materiality

Planning materiality £14.2 million	Materiality has been set at £14.2 million, which represents 2% of the prior years gross expenditure on provision of services. It excludes the 'gross-up' of IJB income and expenditure, and internal recharges.
Tolerable Error £10.6 million	Tolerable error has been set at £10.6 million, which represents 75% of materiality. This reflects our prior year audit experience and the reduction in volume of audit adjustments arising in the 2017/18 financial statements.
Summary of uncorrected differences £0.25 million	We will report all uncorrected misstatements relating to the primary financial statements greater than £0.25 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Key contacts		
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Independence

We confirm that we have undertaken client and engagement continuance procedures, included in which is our assessment of our continuing assessment of our independence to act as your external auditor.

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report, providing an overview of our initial risk assessment and any change in risk profile in the year.

Financial statements audit

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk / Significant risk	No change in risk or focus	In accordance with ISA (UK) 240, we respond to the presumed fraud risk in respect of improper income recognition. We extend our work to consider the recognition of expenditure, in accordance with Practice Note 10, issued by the Financial Reporting Council, as applicable to public sector audit.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Valuation of property, plant and equipment	Inherent risk	No change in risk or focus	The fair value of property, plant and equipment (PPE) represent significant balances in the Council's financial statements. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension liability and asset valuation	Inherent risk	No change in risk or focus	Accounting for Local Government Pension 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, the assumptions underlying fair value estimates, and the valuation of the Council's share of scheme assets at the yearend.
National loans fund accounting	Inherent risk	New area of audit focus	The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016 and replaced the provisions in the Local Government (Scotland) Act 1975 in respect of the loans fund with a prudent approach. The Cabinet Secretary for Finance has announced an intention to amend the regulations to allow councils to adopt the new prudent approach for pre-2016 advances.

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report, providing an overview of our initial risk assessment and any change in risk profile in the year.

Wider scope audit

Audit dimension	Risk identified	Change from PY	Details
Financial management	No specific risk focus	No change in risk or focus	For the year to December 2018, the Council forecast expenditure of £407.3 million against a budgeted expenditure of £407.1 million. We will continue to consider the Council's budgetary processes for 2018/19 and beyond, including financial capacity and the internal control and reporting environment in place through the financial year.
Financial sustainability	Wider scope focus area	No change in risk or focus	We concluded in our Annual Audit Report for 2017/18 that the Council continues to demonstrate good practice in forward financial planning, and that members and officers responded to findings in the 2017 BVAR. This was within the context of the ongoing financial challenge facing all local authorities, and the need for continued member and officer focus in delivering challenging levels of savings. As such, we have identified financial sustainability as a wider scope focus area for the 2018/19 audit. Our work will focus on the detail of the Council's financial plans and our assessment of the robustness of the budget strategy to respond to the challenges faced.
Governance & transparency	No specific risk focus	No change in risk or focus	Our work for the year will consider: ➢ Progress against prior year audit recommendations from both internal and external audit, significant findings identified and the work done to address issues identified. ➢ Leadership and decision making in the year, including engagement with key stakeholders, quality of reporting and information provided to decision makers, and evidence of effective challenge and scrutiny by those charged with governance. ➢ Reporting arrangements to committees during the year, and arrangements for ensuring transparency across the Council.
Value for Money	No specific risk focus	No change in risk or focus	Our work for the year, in conjunction with our work around financial sustainability and governance and transparency, will focus around the Council's corporate plan delivery and its response to the Accounts Commission's direction around statutory performance information.

1. Audit context

1. Audit context

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the Council operates to inform our audit approach.

Local government environment

The Accounts Commission published their Local government in Scotland: Financial overview 2017/18 report in November 2018. Part 4 of this report focused on the financial outlook facing councils. The Commission's key message was that the environment remains challenging, with further real-terms reductions in funding and a range of cost and demand pressures on budgets. The Commission notes that many councils are in the process of transformational change, and have produced medium term financial plans, however less than 50%, have significant plans beyond the next 5 years.

In total, councils approved planned budget savings of £75 million in setting budgets for 2018/19 along with the use of £71 million of unearmarked reserves. The Commission were pleased to note that the number of councils budgeting to use unearmarked reserves in 2018/19 has reduced from 23 to 18.

Other key messages were:

- Councils are expected to manage smaller budget gaps in 2018/19, with all 32 councils selecting to increase council tax by 3%.
- There are no councils where the budgeted use of reserves is a critical issue over the next three years.
- The impact of EU withdrawal is unclear, but councils are required to identify and manage the risks.

The Accounts Commission also completed its Local government in Scotland; challenges and performance report. It commented on the challenging environment facing local government with uncertainty around Brexit and the pace of reform required in the sector. Transformational change is now seen as an essential part of councils' agenda to address funding gaps and deliver more services with less resources. The report made recommendations around ensuring forward looking approaches, clarity of priorities and plans and better working with communities.

In 2018, Audit Scotland also conducted its second performance audit of Health and Social Care Integration, with its findings published in November 2018. The report contained a number of key messages, including acknowledging that integration joint boards work in a challenging environment, but noting that more needs to be done by the partners in respect of collaborative working and leadership. There is a need for integrated, long term financial planning which is focused on providing the best outcomes for those who need support, as well as an improvement to strategic planning.

As part of our work around the governance and transparency and value for money dimensions of wider scope, we will review the Council's arrangements for considering all national overview and performance reports issued in the year, including evaluating the findings and implementing recommendations as appropriate.

Scrutiny

The Local Scrutiny Plan April 2018 to March 2019 set out the planned scrutiny activity in the Council during the financial year 2018/19. The plan was based on a shared risk assessment undertaken by a local area network (LAN), comprising representatives of all the scrutiny bodies who engage with the Council.

The conclusion of the shared risk assessment for 2018/19, was that no significant risks were identified that would require specific scrutiny by members of the LAN in the year. However, financial sustainability was highlighted as an ongoing area of challenge for the Council, and that this would be reported by the appointed auditor. Our findings in this respect were included in our 2017/18 Annual Audit Report on the Council and form the basis of our risk assessment for the 2018/19 external audit.

As the appointed auditor of Council we act as the LAN-lead for the Council SRA. Consideration of the 2019/20 shared risk assessment by the LAN is ongoing.

Headwinds in the public sector	
Within the 2018/19 audit planning guidance, Audit Scotland identified a number of risk areas currently impacting the public sector in Scotland. We have outlined these, and our proposed response, below.	
EU Withdrawal	Continuing uncertainty exists around the detailed implications for the UK, and Scotland around EU withdrawal. While this continues, it is important for all public sector bodies to remain aware of, and consider the implications for them in areas such as funding, workforce and regulation.
Changing landscape for public financial management	Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for 11 social security benefits worth over £3 billion a year. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater volatility, uncertainty and complexity.
Dependency on key suppliers	It has become clear that the collapse of Carillion has had a significant impact across the public sector. This has brought into focus the risk of key supplier failure, including the risk of underperformance in suppliers that are experiencing difficult trading conditions. Bodies should review their relationships with suppliers, whilst remaining conscious that suppliers can provide services under different names, and as such the aggregate exposure should be considered.
Care income, financial assessments and financial guardianship	The experience of a few local government audits indicates there may be wider issues with the systems and processes for collecting care income, undertaking financial assessments on individuals receiving care and financial guardianship. In some cases, responsibility for financial assessments on those receiving care has transferred from social care to finance, and this has revealed issues with backlogs of financial assessment and under-recovery of care charges over long periods (more than five years). Instances have also been identified where council employees act as financial guardians for individuals. This may give rise to a potential conflict of interest when finance officers are in a senior position and the council is issuing invoices to a person for their care and the officer is also acting as financial guardian for the individual.
Openness and transparency	There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. Openness and transparency can be improved by having council and committee papers publicly available, explanations or insights as to why business is conducted in private, and increased disclosures through the annual report. This is a particular area of consideration in respect of the Council's financial statements and its disclosures around the front end narrative of the financial statements, and the impact on the public of how it uses public money.
Our audit response: We will engage with management across the Council to understand their preparation and consideration of these areas, and others identified by the Council. In particular we will consider how the Council structures its risk management arrangements to capture and respond to risk identification. Our consideration and discussions around these areas will be reflected in our reporting of the wider scope dimensions of the Council in our Annual Audit Report.	

2. Financial statements and accounting

2. Financial statements and accounting

The Council's Annual Accounts enables the Council to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom.

Audit opinion

We are responsible for conducting an audit of the financial statements of the Council. We will provide an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the Council and its group as at 31 March 2019 and its expenditure and income for the year then ended; and
- whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published by the Council along with its financial statements.

Audit approach

We determine which accounts, disclosures and relevant assertions could contain risks of material misstatement. Our audit involves:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including that the annual report is fair, balanced and understandable, 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
- Substantive tests of detail of transactions and amounts. For 2018/19 we plan to follow a predominantly 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.
- Maintaining auditor independence.

Materiality
For the purposes of determining whether the financial statements are free from material error, in accordance with ISA (UK) 320 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.

Gross expenditure on provision of services, excluding the 'gross-up' of income and expenditure for the Integration Joint Board = £312.5 million	
Planning materiality £14.2 million	**Planning materiality (PM)** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For planning purposes, materiality for 2018/19 has been set at £14.2 million (*2017/18: £13* million). This represents 2% of the Council's prior year gross expenditure on provision of services excluding IJB gross-up of income and expenditure. We have derived this figure following our assessment of risks factors impacting the Council in 2018/19.
Tolerable Error £10.6 million	**Tolerable error (TE)** – materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set this at £10.6 million (*2017/18:* £6.5 million) which represents 75% of planning materiality (2017/18: 50%). This increased level reflects our prior year audit experience and the reduction in volume of audit adjustments arising in the 2017/18 financial statements.
Summary of Audit Differences £0.25 million	**Summary of Audit Differences (SAD) Nominal amount** – the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements. The Code requires that auditors report at no more than £0.25 million. We have therefore set the SAD nominal amount, in line with the Code, at £0.25 million (*2017/18:* £0.2 million).

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At the end of the audit we will form, and report to you, our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We consider all accounts and disclosures within the financial statements individually to ensure an appropriate materiality is used. In determining their materiality, we consider both the quantitative and qualitative factors that could drive materiality for the users of the financial statements. Accordingly we determine it is appropriate to use lower levels of materiality for some areas of the financial statements, including:

- Remuneration report - given the sensitivity around the disclosure of senior staff remuneration we apply a materiality of £1,000 to our audit consideration around the remuneration report and related disclosures.
- Related party transactions – related party transactions are considered material when they are material either party in the transaction. As such, we do not apply a specific materiality to related party audit work but consider each transaction individually.

2. Financial statements and accounting

We have set out the significant risks (including fraud risks) 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.

<table>
<tr><th colspan="2">Significant risk – risk of fraud in income and expenditure recognition</th></tr>
<tr><th>What is the risk?</th><th>Our identified response to the risk</th></tr>
<tr><td>Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. 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. Based on the nature of the income received and expenditure incurred by the Council, we consider the risks around income and expenditure recognition through:
➢ Incorrect income and expenditure cut-off recognition to alter the Council's financial position around the financial yearend.
➢ Incorrect recognition applied to grant income with performance conditions.
➢ Incorrect capitalisation of revenue expenditure.
Misstatements that occur in relation to the risk of fraud in income and expenditure recognition have been identified as having the potential to affect the following income and expenditure accounts (estimates based on the 2017/18 financial statement balances):
➢ Other Income: £236 million
➢ Non-payroll Expenditure : £332 million
In line with auditing standards, we rebut the risk around income and expenditure where appropriate depending on the nature of the account. Accordingly, we have rebutted the risk of improper recognition of income in respect of core grant funding from the Scottish Government, as well as in respect of council tax and non-domestic rate income. With regards to expenditure we have rebutted the risk of improper recognition of payroll, depreciation, and financing and investment expenditure.</td><td>➢ Review and challenge management on any accounting estimates on income or expenditure recognition for evidence of bias.
➢ Focused and extended substantive testing of related income and expenditure transactions where we have identified a significant risk.
➢ Testing of income and expenditure cut-off treatment around the yearend at a lower threshold and across an extended period.
➢ Review a sample of expenditure transactions recorded in the ledger and payments made from bank accounts post year-end and confirm that the associated expenditure has been recorded in the correct period.
➢ Assess and challenge manual adjustments / journal entries by management around the yearend for evidence of management bias and evaluation of business rationale and supporting evidence.
➢ Develop a testing strategy to test material revenue and expenditure streams, including testing revenue and capital expenditure to ensure it has been correctly classified.</td></tr>
</table>

- **Significant risks identified in the audit relate to the risk of fraud in income and expenditure recognition. We also perform procedures in all audits to respond to the risk of misstatement due to fraud or error caused by management override of controls.**
- **We will report our findings in these areas to you within our 2018/19 Annual Audit Report.**

2. Financial statements and accounting

We have set out the significant risks (including fraud risks) 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.

Significant risk – misstatement due to fraud or error	
What is the risk?	**Our identified response to the risk**
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. Beyond the noted risk around recognition of income and expenditure, we have not identified a specific account where the risk of management override is higher than generally throughout the financial statements.	➢ 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. ➢ Specific focus on the accounting for any identified key areas of judgement and estimates in the financial statements and significant and unusual transactions.

2. Financial statements and accounting

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Other areas of audit focus

What is the risk?	Our identified response to the risk
Valuation of property, plant and equipment The fair value of PPE and investment properties (IP) represent significant balances in the Council's financial statements (2017/18 PPE totalled £1.7 billion) 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 on the Council's balance sheet.	We will: ➢ Assess the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. ➢ Consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer. ➢ Involve EY internal specialists as appropriate to review the work performed by the Council's valuers. ➢ 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). ➢ Review 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. ➢ Test assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated. ➢ Examine changes to useful economic lives as a result of the most recent valuation. ➢ Test accounting entries have been correctly processed in the financial statements.

- **The valuation of property, plant and equipment is assessed as an inherent risk. Management involves specialists in the preparation of this accounting valuation and estimate. We utilise our own specialists, as appropriate, to support the core audit team in the performance of audit procedures on this balance.**

2. Financial statements and accounting

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Other areas of audit focus

What is the risk?	Our identified response to the risk
Pension liability and asset 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 West Lothian Pension Fund. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council. The Council's net pension fund deficit is a material estimated balance. At 31 March 2018 this totalled £202 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) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. The most material adjustment to the prior year financial statements related to the year end pension liability, being understated by £16.2 million. While the draft financial statements were a true representation of the estimate at the time of preparation, new information materialised prior to finalising the financial statements in respect of the valuation of pension assets, which required updating to the financial statements.	We will: ➢ Liaise with the auditor of Lothian Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council and confirm joint assurances in respect of employer and employee contributions in the year. ➢ Assess the work of the actuary (Hymans), including the assumptions they have used by relying on the work of PWC, appointed for all Local Government sector bodies to consider actuarial assumptions used at the yearend, and consider any relevant reviews by the EY actuarial team. ➢ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. ➢ Require an updated IAS19 report in July to ensure that there have been no material movement in the value of pension fund assets between the initial IAS19 report, and the signing of the financial statements.
National loans fund accounting The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016 and replaced the provisions in the Local Government (Scotland) Act 1975 in respect of the loans fund with a prudent approach. Guidance provided from Audit Scotland sets out the accounting practices for administering a loans fund and: ➢ provides options for the repayment of loans fund advances made from 1 April 2016 under the new prudent approach ➢ reflecting the current legislative position, requires all pre-2016 advances to continue to be repaid as if the 1975 Act had not been repealed (the statutory method). The Cabinet Secretary for Finance has announced an intention to amend the regulations to allow councils to adopt the new prudent approach for pre-2016 advances.	Audit Scotland has released updated clarifications that councils are required to observe the accounting practices applicable to the year for which their financial statements are prepared. For 2018/19, applicable proper accounting practices are those in force at 31 March 2019. We are aware that the Council has sought external legal advice which concludes pre-2016 advances are applicable for adjustment under the new regulations. We will review management's proposed arrangements to ensure they are in compliance with the required statutory position at 31 March 2019.

- **Pension liability and asset valuation is assessed as an inherent risk. Management involves specialists in the preparation of this accounting valuation and estimate. We utilise our own specialists, as appropriate, to support the core audit team in the performance of audit procedures on this balance.**
- **Audit Scotland has released clarifications on proper accounting practice in respect of national loans fund accounting. We will review management's proposed arrangements.**

We also plan and perform certain general audit procedures on every audit which may not be directly related to financial statement account assertions. Examples of such procedures compliance with applicable laws and regulations, litigation and claims and related parties.

Other audit considerations

Changes to the Accounting Code of Practice in 2018/19

While there are no significant changes to the 2018/19 Accounting Code of Practice, we will engage early with management to consider their assessment and incorporation of any changes to the 2018/19 Accounting Code which affects the Council's financial statements.

We have requested management provide an impact assessment in relation to the implementation of IFRS 9 and 15 which are new requirements in the Code this year. While the introduction of IFRS 16 accounting standard has been postponed, we will consider the progress being made by the Council during the year in preparing for the introduction of this new standard and the degree of risk around the readiness for the implementation of the changes in accounting for leases as a result of IFRS 16. We will also assess appropriateness of disclosures in the 2018/19 financial statements regarding new accounting standards effective from 2019/20.

Data analytics

Where possible and appropriate, we will use our bespoke data analysers to enable us to capture whole populations of your financial data, in particular covering journal entries and payroll transactions. These analysers help identify specific exceptions and anomalies within populations of data to focus substantive audit tests more effectively than traditional audit sampling.

We have started the process of obtaining the financial data from both the general ledger and payroll system for 2018/19 as part of our interim testing arrangements. We will report the findings of our work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee through the yearend audit reporting process.

Use of specialists

When auditing key judgements, such as the valuation of property, plant and equipment, defined benefit pension scheme assets and liabilities, or certain assets and liabilities, 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. 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.
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Internal audit

We will review the internal audit plan and the results of internal audit's work, including the discussion of audit findings at the Audit Committee and management's response to findings. We will reflect the findings from internal audit reports, together with reports from any other work completed in the year, in our plan for the audit, where they raise issues that could have an impact on the financial statements or our wider responsibilities.

Other audit considerations – group financial statements
Group financial statements The Council has a number of non-consolidation interests in other entities. For the purposes of consolidation and incorporation within the Group Accounts, the Council recognised in their 2017/18 audited accounts that West Lothian Leisure has become a company limited by guarantee and, due to changes in the structure through the company's articles of association, should be accounted for as a subsidiary from 1st of April 2017. Management has assessed that it exerts significant influence but not control over Lothian Valuation Joint Board, therefore this interest is deemed to be an associate. The West Lothian Integration Joint Board (IJB) and West Lothian Recycling Ltd. are identified as joint ventures. These entities are consolidated in accordance with the requirements of the Code. The only significant component by size is the Council, which accounts for 89% of consolidated gross expenditure, with the IJB accounting for 8% of this expenditure. There have been no specific risks identified that may indicate a component is significant by risk, as the IJB does not affect the transactions as such, only the nominal funding agreement in and out of the IJB. We have been appointed as auditor to the West Lothian integration Joint Board and will report separately on our audit of that entity. We will also discuss with management their updated assessment in respect of other entities where the Council has a relationship, but it has been assessed that consolidation has not been required.

3. Wider scope audit risks

Together the Accounts Commission and the Auditor General for Scotland agreed the four dimensions set out in the Code which comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money.

Wider scope audit

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work.

In addition, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR programme included the publication of a BVAR report for the Council in 2017. Our annual audit continues to focus on aspects of Best Value over the full five year audit appointment. In line with the expectations of the Accounts Commission, we will report in our Annual Audit Report on our findings around the progress made by the Council in securing Best Value. Judgements in respect of Best Value are formed from the findings in respect of each of the four dimensions.

Our indicative high-level five year Best Value Plan is set out below. This is subject to review and is refreshed annually, based on our risk assessment process. Further revisions may be made as priorities change or emerging risks arise.

High-level five year Best Value plan					
	2016/17	2017/18	2018/19	2019/20	2020/21
Planned BVAR	X				
Follow up of BVAR		X			
Audit coverage:					
Performance and outcomes	X	X	X		
Improvement	X	X		X	
Leadership, Governance and Scrutiny	X	X			X
Equal Opportunities				X	
Partnership Working and Empowering Communities	X	X			X
Financial and service planning			X		
Financial governance and resource management	X	X		X	

Strategic Audit Priorities

In undertaking our work in respect of the wider scope audit dimensions, we have specific regard to the Accounts Commission's strategic audit priorities. The following areas are of particular focus for consideration through wider scope and best value work and will be considered during 2018/19 through our wider scope and best value reporting:

- Having clear priorities with a focus on outcomes, supported by effective long term planning.
- Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.
- Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
- Empowering local communities and involving them in the design and delivery of local services and planning for their local area.
- Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.

3 Wider Scope Audit Risks

The Code sets out an expectation that 'significant' risks identified through our planning process that relate to the wider scope dimensions will be communicated with you. These are referred to in our report as 'Wider Scope Audit Focus Areas'.

Audit dimension	Risk assessment	Rationale and response
Financial management considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.	**No specific additional audit focus**	In our prior year Annual Audit Report, we concluded that the Council had demonstrated good financial control of the in-year budget, budget monitoring reporting is clear and accurately forecasts the out-turn position, and that the importance of good financial control is clearly understood across the Council. For the year to December 2018, the Council forecast expenditure of £407.3 million against a budgeted expenditure of £407.1 million. We will continue to consider the Council's budgetary processes for 2018/19 and beyond, including financial capacity and the internal control and reporting environment in place through the financial year.
Financial sustainability considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.	**Wider scope focus area**	We concluded in our Annual Audit Report for 2017/18 that the Council continues to demonstrates good practice in forward financial planning. Its five year revenue budget strategy covered 92% of the budget reduction measures required to meet its £65.3 million budget gap to 2022/23. We also noted that members and officers responded to findings in the 2017 BVAR. This was within the context of the ongoing financial challenge facing all local authorities, and the need for continued member and officer focus in delivering challenging levels of savings. As such we have identified financial sustainability as a wider scope focus area for the 2018/19 audit. Our work will focus on the detail of the Council's financial plans and our assessment of the robustness of the budget strategy to respond to the challenges faced.

Best Value Assurance Reporting

As outlined on the previous page, an area of Best Value focus in 2018/19 is the Council's arrangements around financial and service planning. Linked to our consideration of financial sustainability, as well as governance and transparency and value for money, we will consider:

- how effectively the Council's longer term financial plans are aligned to its priorities;
- how detailed budgets align to operational delivery plans;
- what training and support is available to non-finance members;
- how decisions around budgets are made in conjunction with service delivery implications; and
- how stakeholders are engagement in planning, from members through to services and the wider public.

We will report on our findings as part of our wider scope reporting in our Annual Audit Report.

Audit dimension	Risk assessment	Rationale and response
Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	No specific additional audit focus	In our 2017/18 Annual Audit Report, we concluded that the Council has an effective governance structure through committee meetings, the scheme of delegation and standing orders. We also reported that the Council had responded to findings through the BVAR to enhance its arrangements for effective scrutiny, challenge and transparency on decision making. Our work for the year will consider: ➢ Progress against prior year audit recommendations from both internal and external audit, including the Council's arrangements for ensuring these are monitored and reported on a routine basis. ➢ Internal audit arrangements during 2018/19, including significant findings identified and the work done to address issues identified. ➢ Leadership and decision making in the year, including engagement with key stakeholders, quality of reporting and information provided to decision makers, and evidence of effective challenge and scrutiny by those charged with governance. ➢ Reporting arrangements to committees during the year, and arrangements for ensuring transparency across the Council.
Value for money considers whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.	No specific additional audit focus	We reported in 2017/18 that the Council has a clear culture of improvement and a commitment to self-assessment of its performance, to ensure that services remain focussed on improvement. There is a clear alignment from the Corporate Plan to the supporting corporate strategies which underpin delivery of the Council's objectives. Council services continue to perform well compared to other councils. Our work for the year, in conjunction with our work around financial sustainability and governance and transparency, will focus around the Council's corporate plan delivery and its response to the Accounts Commission's direction around statutory performance information. We will also consider how the management is considering the results of national reports, such as the Accounts Commission's overview and performance reports, including how it considers and actions any relevant recommendations.

Best Value Assurance Reporting

As outlined on the previous page, an area of Best Value focus in 2018/19 is the Council's arrangements around performance and outcomes. Consideration will include:

- how Council services are performing;
- how well the Council works to ensure focus on its customers and wider stakeholders: and
- how the Council monitors and assesses its own performance on an ongoing basis.

4. Other work; timing and deliverables; fees

4. Other audit responsibilities

Under the terms of our appointment, our role and responsibilities include a number of other assurance activities. These include the certification of certain grant claims and the Council's Whole of Government Accounts return, as well as provision of information to support Audit Scotland national reports and studies.

Other audit responsibilities
Following the Public Pound Local Authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on Funding External Bodies and Following the Public Pound (the FtPP Code). The principles of the FtPP Code are embedded into the new approach to auditing Best Value. As part of our risk based planning approach we will consider the Council's arrangements to comply with the FtPP Code. We link this work directly to that undertaken to support the conclusions on the governance and transparency wider scope audit dimension.
Statutory Performance Information Local authorities have a responsibility, under their Best Value duty, to report performance to the public. One of the Accounts Commission's Strategic Audit priorities is 'the quality of council public performance reporting to help citizens gauge improvement'. Consequently, over the term of our appointment, we will focus on the Council's performance reporting arrangements and integrate this with our wider planning activity. In 2018/19 we will consider the reporting in place against the Accounts Commissions updated SPI direction issued in December 2018.
National Fraud Initiative and fraud returns All local authorities are required to participate in the 2018/19 National Fraud Initiative (NFI). Councils submitted data (as per the instructions) in October 2018 and received matches for investigation in January 2019. Audit Scotland expect bodies to investigate all recommended matches plus further matches based on findings and the risk of error or fraud. Match investigation work is to be largely complete by 30 September 2019 and the results recorded on the NFI system. The role of Auditors is to monitor their audited bodies' participation and progress during 2018/19 and into 2019/20 and, where appropriate, include references to NFI in their annual audit reports for both years. We will complete an NFI audit questionnaire by the deadline of 30 June 2019 and assess whether the Council had adequate arrangements in place to respond to the NFI and undertake sufficient investigation of matches identified. The information provided by auditors will be used for Audit Scotland's NFI report to be published in Summer 2020.
Audit Scotland – National Study Programme Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission. Audit Scotland ask us to ensure that local government bodies review the national studies relevant to them, which may also include joint studies under the remit of the Auditor General for Scotland, at a committee level and act on them accordingly. In 2019, Audit Scotland is continuing its programme of performance reports, including reporting around city finance deals and its annual local government overview report. As appointed auditors we will be required to support in the provision of information from the Council for the preparation of these reports. We will take forward these requests in conjunction with management as required through the course of the audit cycle.
Anti-money laundering The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force on 26 June 2017 and replace The Money Laundering Regulations 2007. The regulations impose an obligation on the Auditor General to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. As appointed auditor we will consider arrangements in place for the Council to identify and report any instances of money laundering in line with Audit Scotland reporting arrangements.
Other assurance activity Under the terms of our appointment we are required to undertake a number of other areas of audit activity. These include certifying authorities Whole of Government Accounts returns and certifying any applicable grant claims and returns such as the non-domestic rates return and housing benefits subsidy claim.

4. Timing and deliverables

We deliver our audit in accordance with the timeline set by the Council, in accordance with guidance from Audit Scotland. 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 2018/19.

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

Audit Activity	Deliverable	Expected Timing
➢ Onsite fieldwork, documentation and walkthrough of key accounting processes and controls ➢ Scoping of Best Value and wider scope work for the year	Annual Audit Plan	25 March 2019
➢ Review of current issues impacting the Council throughout the audit process ➢ Review of reported frauds	Periodic current issues return submission Quarterly Fraud Return Submission	21 January 2019 22 March 2019 9 August 2019 18 October 2019 30 November 2018 28 February 2019 31 May 2019 30 August 2019
➢ Review progress of the NFI exercise ➢ Education Maintenance Allowance (EMA) grant claim testing	Submit NFI Questionnaire Certified EMA return	30 June 2019 31 July 2019
➢ Year-end substantive audit fieldwork on unaudited financial statements ➢ Conclude on results of audit procedures ➢ Issue opinion on the Council's financial statements ➢ Performance of Best Value fieldwork	Whole of Government Accounts assurance statement to NAO (as required) Certify Annual Financial Statements Issue Annual Audit Report Submit Best Value Data and minimum dataset Return to Audit Scotland	27 September 2019 27 September 2019 1 October 2019
➢ Completion of Non-domestic rates return testing	Certified Non-Domestic Rates return	6 October 2019
➢ Completion of housing benefits claim testing	Certified Housing benefit subsidy claim	29 November 2019

4. Fees

The audit fee is determined in line with Audit Scotland's fee setting arrangements, set out in recent communications to all audited bodies in line with their publication on '*Our Approach to setting audit fees*' (http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf).

Audit fees		
Component of fee:	**2018/19**	**2017/18**
Auditor remuneration – expected fee	£189,170	£184,860
Audit fee in respect of S106 Trust Funds	£4,120	£4,000
Audit Scotland fixed charges:		
Pooled costs	£18,340	£16,430
Performance audit and best value	£100,990	£101,690
Audit support costs	£11,880	£11,740
Total fee	**£324,500**	**£318,720**

The expected fee for each body, set by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year.

Fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, for example, where significant local issues require additional work to be undertaken.

For the current year, the proposed fee agreed with management is based on setting the fee at the expected fee level. We have assumed in determining the proposed fee that our work in respect of both the financial statements audit and the wider scope audit dimensions is supported by robust schedules and supplementary information. We have noted in our report areas where potential additional work may be required, such as around the implications of IFRS 9 and 15 accounting standards coming into effect, however we will review management's impact assessment before determining if there is a material impact from this. Where further additional work is required, fees will be agreed with management and reported to the Audit Committee in our 2018/19 Annual Audit Report.

Appendices

A - Code of Audit Practice: responsibilities

The Code of Audit Practice (the Code) summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

Responsibilities of audited bodies	
Corporate governance	Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.
Financial statements and related reports	Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for: ▸ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. ▸ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. ▸ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. ▸ maintaining proper accounting records. ▸ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Financial position	Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: ▸ such financial monitoring and reporting arrangements as may be specified ▸ compliance with any statutory financial requirements and achievement of financial targets ▸ balances and reserves, including strategies about levels and their future use ▸ how they plan to deal with uncertainty in the medium and longer term ▸ the impact of planned future policies and foreseeable developments on their financial position.
Best Value	Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions. Specified audited bodies also have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

B - Independence report

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.	▸ 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.

Relationships, services and related threats and safeguards

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 are not aware of any relationships between Ernst & Young LLP and the Council that may reasonably be thought to bear on our independence as of the date of this letter.

As part of our considerations for any non-audit engagement, we review potential threats in respect of self-interest, self-review, acting as management and advocacy. There have been no non-audit services provided to the Council at this time in 2018/19 (2017/18: nil).

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate any potential threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Reid, your audit engagement partner and the audit engagement team have not been compromised.

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Annual Audit Plan
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	Annual Audit Plan Annual Audit Report
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	Annual Audit Report
Misstatements ▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Annual Audit Report
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	Annual Audit Report
Consideration of laws and regulations ▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit 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	Annual Audit Report (to be issued on completion of audit work) or as occurring if material.

Required communication	Reference
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	No such matters have been identified. Annual Audit Report (to be issued on completion of audit work) or as occurring if material.
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	Annual Audit Plan Annual Audit Report
Internal controls Significant deficiencies in internal controls identified during the audit	Annual Audit Report (to be issued on completion of audit work) or as occurring if material.
Group audits ▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Annual Audit Plan Annual Audit Report (to be issued on completion of audit work) or as occurring if material.
Representations Written representations we are requesting from management and/or those charged with governance	Annual Audit Report (to be issued on completion of audit work) or as occurring if material.
Material inconsistencies Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Annual Audit Report (to be issued on completion of audit work) or as occurring if material.

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