

The Audit Plan for Waverley Borough Council

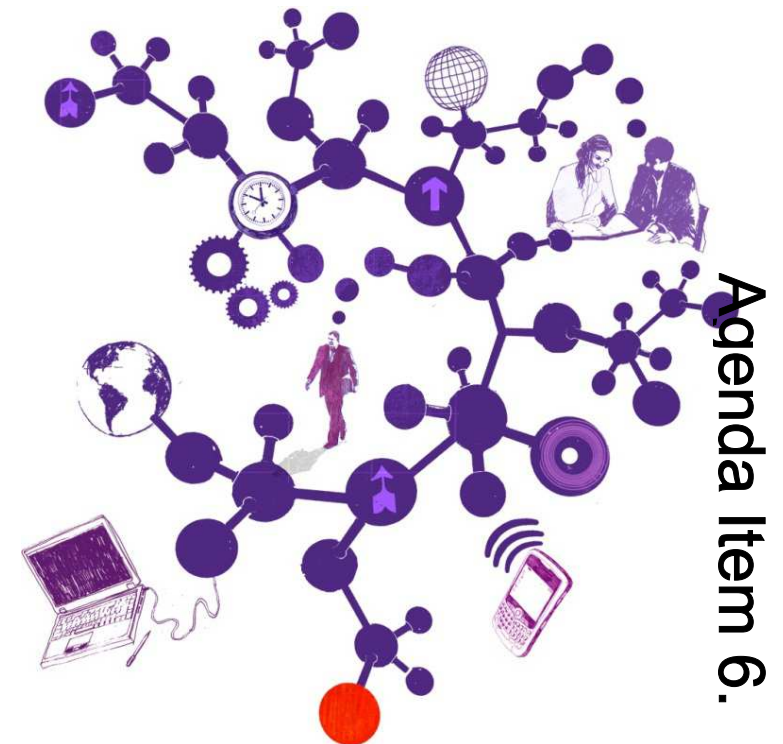
Year ending 31 March 2016

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15 March 2016

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Agenda Item 6.

The Audit Committee
Waverley Borough Council
The Burys
Godalming
Surrey
GU7 1HR

15 March 2016

Dear Members of the Audit Committee

Audit Plan for Waverley Borough Council for the year ending 31 March 2016

Page 2 This Audit Plan sets out for the benefit of those charged with governance (in the case of Waverley Borough Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of you and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on your financial statements
- satisfy ourselves you have made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Iain Murray
Engagement Lead

Chartered Accountants

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.
- You need to find an additional £800,000 savings for 2016/17 and further savings in 2017/18 and 2018/19.

2. Housing

- The Autumn Statement also included a number of announcements intended to increase the availability and affordability of housing.
- In particular, the reduction in your housing rents and changes to right to buy will have a significant impact on your housing revenue account business plans.
- Impact of 1% rents reduction compared to agreed Business Plan has been budgeted for.

3. Development

- The Brightwells Development remains a key part of your regeneration plans for Farnham.
- Progress on the development continues with several key milestones and decision points due in the coming months.
- You have recently received an application for a significant development at Dunsfold Park.

4. Local Plan

- The Council's existing local plan was last formally updated in 2001, and thus requires a refresh.
- You have not been able to agree an updated Waverley local plan with central government. It is becoming critical that the local plan is formulated and agreed.
- Your local plan will play a key part in decisions about how you develop your local area and communities.



Our response

- We will consider the yours plans for addressing its financial position as part of our work to reach our VfM conclusion.
- We will review the current progress of the Development throughout the year via discussions with key officers and review of relevant reports. This will help support our work on the VfM Conclusion.

- We will consider how you have reflected government announcements as part of its business planning process.
- We will share our knowledge of how other Councils are responding to these changes.

- We will review the current progress of these developments throughout the year via discussions with key officers and review of relevant reports. This will help support our work on the VfM Conclusion.

- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Joint arrangements

- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- You produce group accounts to include by Shottermill Recreation ground and swimming pool and Ewart Bequest.

4. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.



Our response

- We will keep you informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

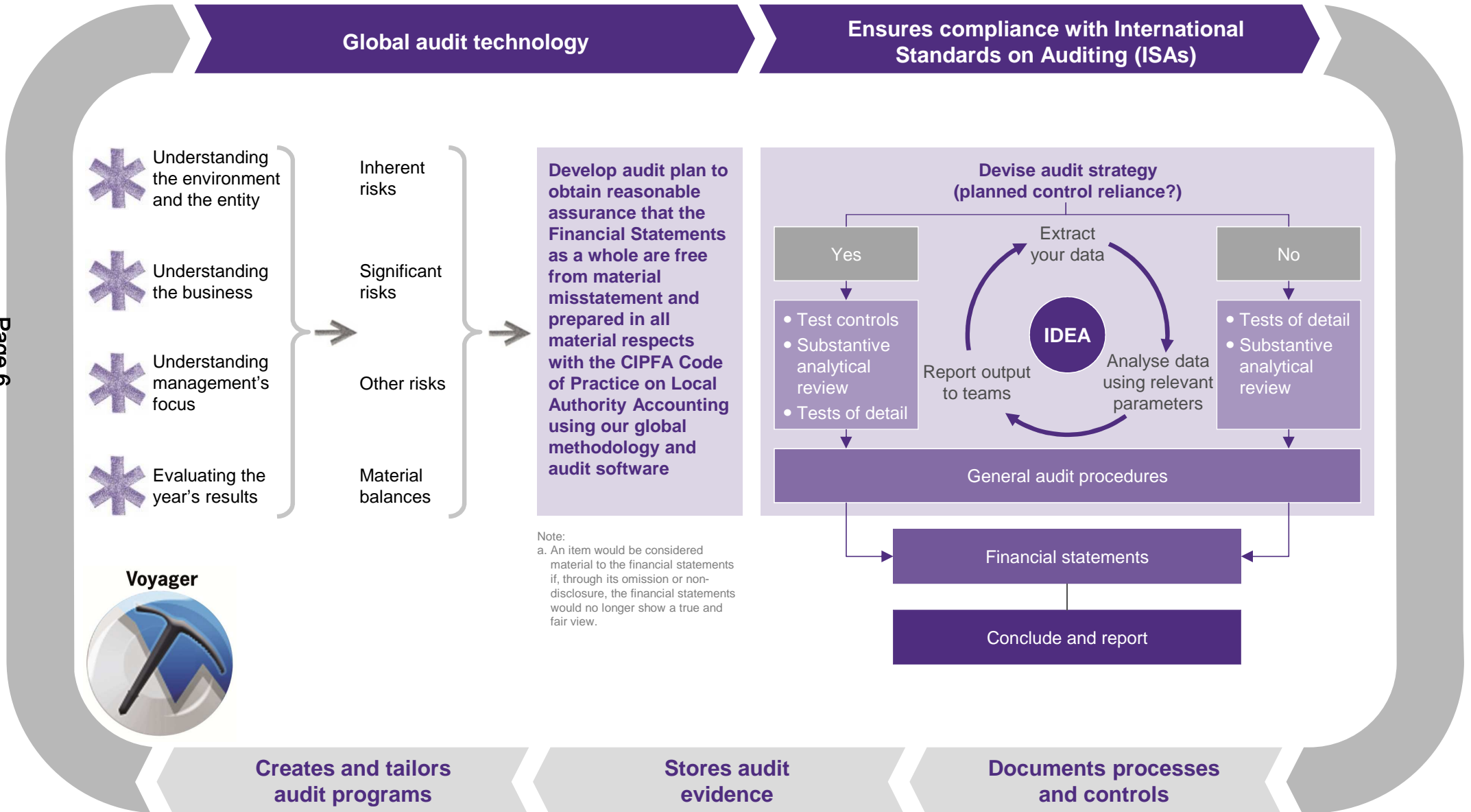
- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge you and the requirements of CIPFA guidance.

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.
- We will work with you to produce financial statements which represent these arrangements in a way that aids users' understanding and meets the requirements of the CIPFA Code.

- We will work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- We aim to complete all substantive work in our audit of your financial statements by 30 June 2016 as a 'dry run'.

Our audit approach

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Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of your gross revenue expenditure. For purposes of planning the audit we have determined overall materiality to be £1,598k (being 2% of the prior year gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £80k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have not identified any items where separate materiality levels are appropriate.

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Waverley Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including you, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries months 1 to 9 • Review of unusual significant transactions <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries months 10 to 12 • Review of unusual significant transactions

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Walkthrough of operating expenses system, updating our understanding • Substantive testing of expenditure months 1-9 • Results of our work are reported on page 16 <p>Further work planned:</p> <ul style="list-style-type: none"> • Substantive testing of expenditure months 10-12 • Test creditor payments, including accruals, for completeness, classification and occurrence • Review of control account reconciliations • Cut-off testing • Review of allocating/apportioning expenses
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Walkthrough of payroll system, updating our understanding • Substantive testing of payroll records months 1-9 • Results of our work are reported on page 16 <p>Further work planned:</p> <ul style="list-style-type: none"> • Substantive testing of payroll records months 10-12 • Review of reconciliation of payroll system to the General Ledger • Trend analysis of employee remuneration expenses

Other risks identified (continued)

Other risks	Description	Audit approach
Valuation of property, plant and equipment	The Council undertakes a rolling revaluation programme of its land and buildings	<p>Work planned:</p> <ul style="list-style-type: none"> • Identify the controls put in place by management to ensure that the carrying value of property, plant and equipment is not materially different from fair value at year end. • Review the consistency of the financial statements with the valuation report from your valuers. • Undertake procedures to confirm the reasonableness of the proposed revaluations, including reference to national trends. • Test the data provided to the valuer.
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> • Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • Review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • Undertake procedures to confirm the reasonableness of the actuarial assumptions made. • Review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. • Test the data provided to the actuary.

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Investments (long term and short term)
- Heritage Assets
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes
- Funds held on trust note

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Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of you.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Shottermill Recreation Ground and Swimming Pool	No	Targeted	<ul style="list-style-type: none"> Property, plant and equipment (PPE) revaluation measures not correct Recorded cash at bank not valid 	<ul style="list-style-type: none"> Review the relevant PPE balances to ensure they are recorded correctly Agree the relevant cash balance to external confirmations
Ewart Bequest	No	Targeted	<ul style="list-style-type: none"> Recorded cash at bank not valid 	<ul style="list-style-type: none"> Agree the relevant cash balance to external confirmations

Value for Money

Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to consider whether you have put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015 [here](#).

The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether you have put proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out below:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of good governance Understanding and using appropriate cost and performance information to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider :

- our cumulative knowledge of you, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

Following the completion of this risk assessment, we will issue a separate planning document setting out our planned work for 2015/16 to meet our duties in respect of the VfM conclusion. This will include any significant risks identified, along with details of the work we plan to carry out to address these risks.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Further planned interim audit work and early testing

We have not yet started all of our interim work, however the key planned areas are summarised below. The findings from this work will be shared with you at the next Audit Committee meeting.

	Work performed
Internal audit	We will complete a high level review of internal audit's overall arrangements. We will also review internal audit's work on your key financial systems to date.
Welfare Benefits	We will test a sample of housing benefit payments relating to both rent rebates and rent allowances, confirming the accuracy of the payments made.

Results of interim audit work

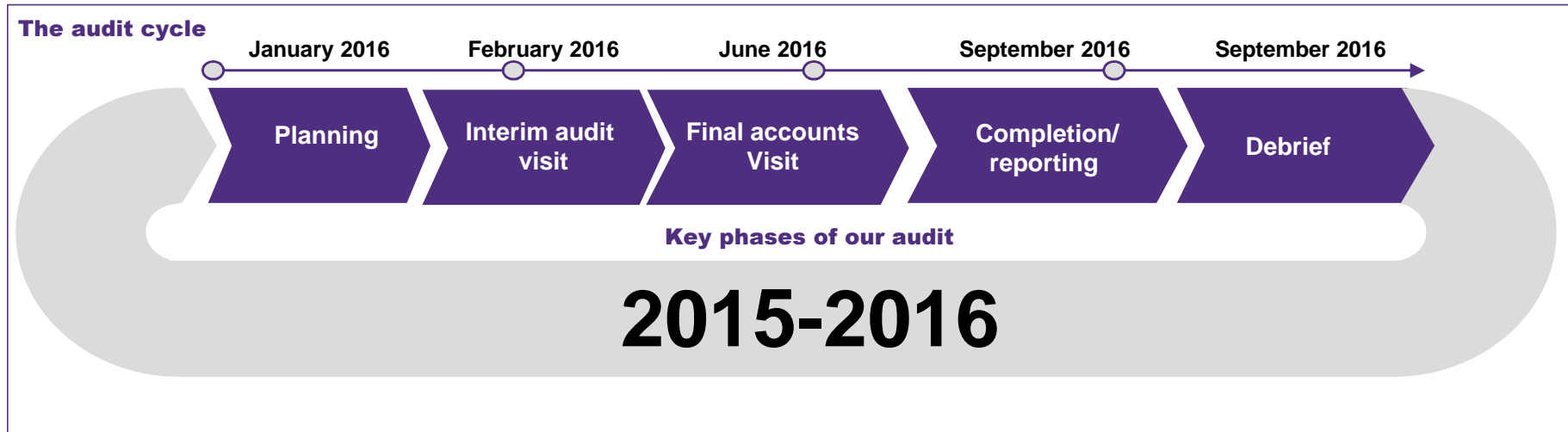
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on your financial statements
Review of information technology controls	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on your financial statements
Walkthrough testing	<p>We have completed walkthrough tests of your controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work on employee remuneration, operating expenditure and welfare benefits has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by you in accordance with our documented understanding.</p>	Our work on employee remuneration, operating expenses and welfare benefits has not identified any weaknesses which impact on our audit approach.

Results of interim audit work (continued)

	Work performed	Conclusion
Journal entry controls	<p>We have reviewed your journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on your control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>Our work on the first nine months of the financial year has not identified any weaknesses which impact on our audit approach.</p> <p>We will undertake detailed testing on journal transactions recorded for the remaining three months of the financial year during our final accounts visit.</p>
Early substantive testing	<p>We have completed the following early substantive work:</p> <ul style="list-style-type: none"> • Employee Remuneration– we have tested a sample of payroll expenditure for months 1 to 9, checking employer's NI and pension and employee's pension, and agreeing employee's basic salary and pay band to HR records/contract of employment. • Operating expenditure – we have tested a sample of operating expenditure for months 1 to 9, checking appropriate documentation and payment. 	<p>From our early substantive testing of Employee Remuneration and Operating Expenditure for months 1 to 9 we have not identified any issues which impact on our audit approach.</p> <p>We will undertake further substantive testing to year end on Employee Remuneration and Operating Expenditure during our final accounts visit.</p>

Key dates



Date	Activity
February 2016	Planning
1-12 February 2016	Interim site visit
15 March 2016	Presentation of audit plan to Audit Committee
1-30 June 2016	Year end fieldwork
July 2016 (TBC)	Audit findings clearance meeting with Director of Finance and Resources
September 2016 (TBC)	Report audit findings to those charged with governance (Audit Committee)
By 26 September 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	53,888
Grant certification	11,381
Total audit fees (excluding VAT)	65,269

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- You will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	Nil
Non-audit services	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to you.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as your independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers your key risks when reaching our conclusions under the Code.

It is your responsibility to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how you are fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓



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