



Audit Strategy Memorandum
New College Lanarkshire
Year ending 31 July 2021

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This document is to be regarded as confidential to New College Lanarkshire. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance by the Board of Management. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

The Board of Management
New College Lanarkshire
Motherwell Campus
1 Enterprise Way
Motherwell
ML1 2TX

17 May 2021

Dear Members,

Audit Strategy Memorandum – Year ending 31 July 2021

We are pleased to present our Audit Strategy Memorandum for New College Lanarkshire for the year ending 31 July 2021.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing New College Lanarkshire which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me.

Yours faithfully

Lucy Nutley
Mazars LLP

Engagement and responsibilities summary

Overview of engagement

We are appointed by the Auditor General for Scotland to perform the external audit of New College Lanarkshire College for the year to 31 July 2021. This is our fifth year of appointment. During 2020, our contract with Audit Scotland was extended for a further year, meaning this is our penultimate year of appointment.

Responsibilities

Our responsibilities, principally derived from the Code of Audit Practice ('the Code') issued by Audit Scotland, are outlined below.

<p>Audit opinion</p>	<p>We are responsible for forming and expressing an opinion on the financial statements.</p> <p>The Audit Committee is responsible for the assessment of the College's ability to continue as a going concern. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of the disclosures made.</p>
<p>Regularity opinion</p>	<p>We are required to form and express an opinion on whether the College has, in all material respects, incurred expenditure and income in accordance with any applicable enactments and guidance issued by the Scottish Ministers.</p>
<p>Opinion on other matters</p>	<p>We are required to express an opinion on whether the audited part of the Remuneration and Staff Report, and the Governance Report have been properly prepared in line with relevant legislation and directions. We also express an opinion on whether the Performance Report is consistent with the audited financial statements.</p>
<p>Wider scope work</p>	<p>The Code requires us to conclude and make a judgement on the four dimensions of wider scope work. The four dimensions are Financial Sustainability, Financial Management, Governance and Transparency, and Value for Money.</p>

Our audit does not relieve the Board of Management, as those charged with governance, or management of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

Our audit engagement team and experience

A committed, accessible team

Lucy Nutley
Director
lucy.nutley@mazars.co.uk

Lucy is the Engagement Lead for the audit and will be the key point of contact for the Audit Committee. She will have overall responsibility for delivering a high quality audit to the College. Lucy will be responsible for the opinions given on the financial statements and will liaise with the Principal, Vice Principal; Resources and the Finance Team. She will attend Audit and Risk Committee meetings, and where appropriate, Board meetings.

Suzie Graham
Audit Manager
suzie.graham@mazars.co.uk

Suzie will manage and coordinate the audit and be the key point of contact for the Vice Principal; Resources and the Finance Team, as well as liaising with Internal Audit. Suzie will oversee completion of audit work to a high standard and attend Audit and Risk Committees as appropriate.

Alyce Russell
Audit Assistant Manager
alyce.russell@mazars.co.uk

Alyce will be responsible for leading the onsite work, reviewing the work of more junior members of the team and performing the audit work in more specialised areas.

Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

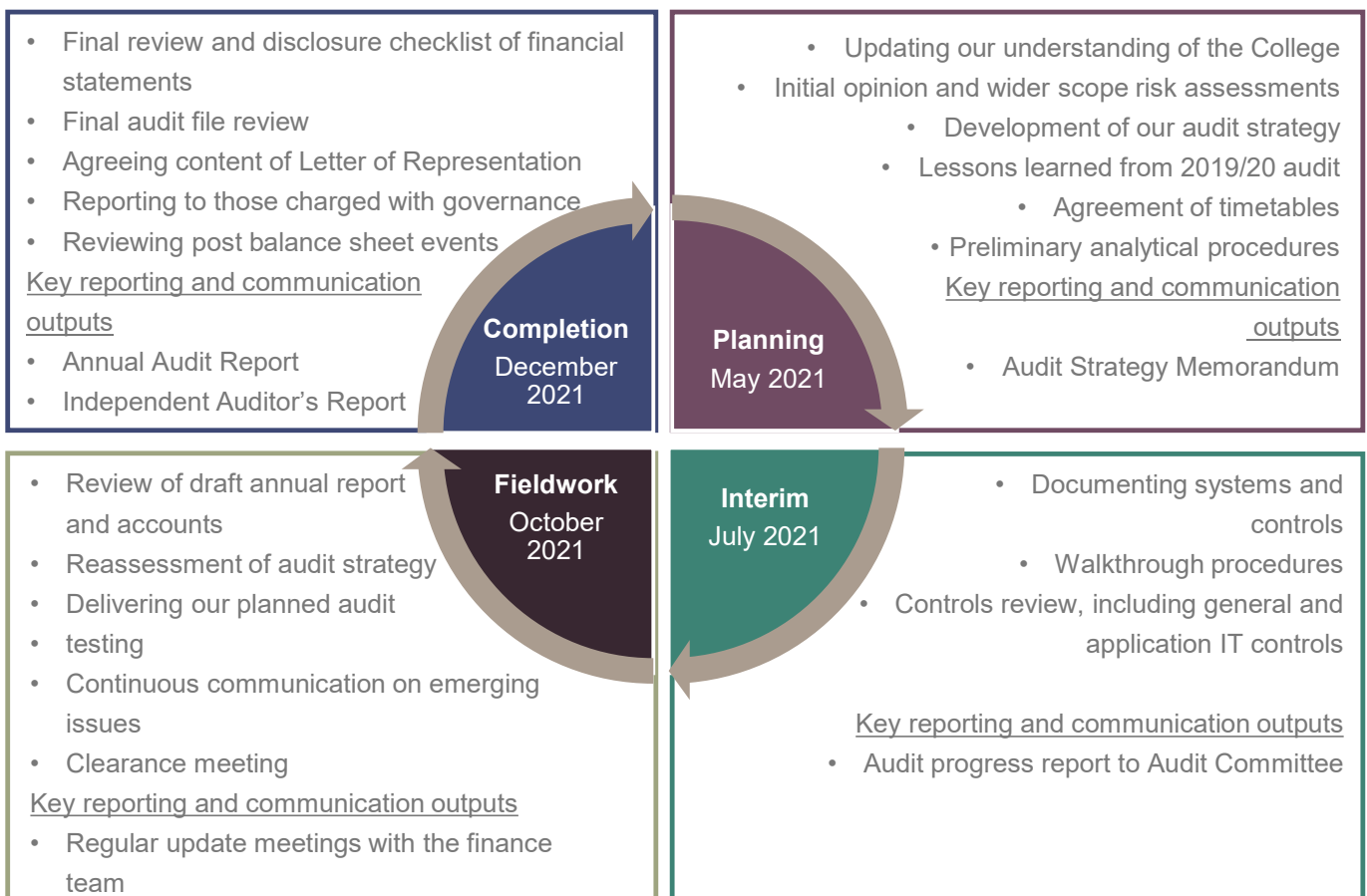
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



Audit scope, approach and timeline (continued)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the College's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Planned audit approach
Defined benefit pension liability and associated accounting entries and disclosures required by FRS 102.	Actuary – Hymans Robertson	We will consider the reasonableness of the actuarial assumptions made, referring to our in-house pension scheme experts.

Reporting to Audit Scotland

During the year we will continue to make returns to Audit Scotland as they collect data to establish the impact on the further education sector and feed into any national reporting as required.

National Fraud Initiative

Returns were required to be made to the Cabinet Office who run the National Fraud Initiative in November 2020. Colleges are required to submit payroll and creditors data for matching nationwide. New College Lanarkshire made their return within the deadline and received their completed matches in March 2021. Work is progressing to review the matches and update the NFI software. We will report to Audit Scotland and the Audit Committee on the College's progress during the year.

Adding value

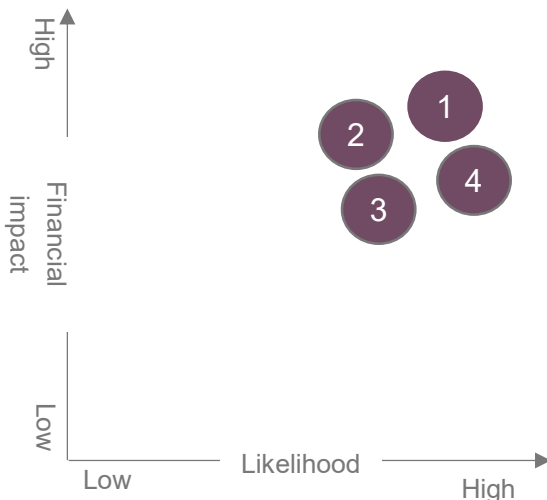
We aim to add value to New College Lanarkshire through our external audit work by being constructive and forward looking, by identifying areas for improvement and be recommending and encouraging good practice. In doing so, we intend to help the College promote improved standards of governance, more effective use of resources and better management and decision making.

Significant risks and key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

- Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.
- Enhanced risk** An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
 - other audit assertion risks arising from significant events or transactions that occurred during the period.
- Standard risk** This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the audit risk continuum below, highlights those risks which we deem to be significant and other enhanced risks. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Revenue recognition
3	Expenditure recognition
4	Valuation of land and buildings (regional accounts)

Significant risks and key judgement areas (continued)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We will address this risk through performing audit work over:</p> <ul style="list-style-type: none"> Accounting estimates impacting amounts included in the financial statements; Consideration of identified significant transactions outside the normal course of business; and Journals recorded in the general ledger and other adjustments made in preparation of the financial statements
2	<p>Revenue recognition</p> <p>There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when grant income should be recognised and if clawback conditions apply to the funding.</p> <p>The risk above applies only to the non-core grant income and other non-grant income generated by the College. The risk has been rebutted in relation to the core grant income received by the College, given the highly regulated nature of this income, and therefore the low inherent risk associated with it.</p> <p>Given the unconventional academic year in 2020-21 arising from COVID-19 we consider that there is a risk that revenue could be impacted as a result of deferred students, reduced credit delivery and reduced commercial funding. Provisions against income should be carefully considered, using forward looking data where appropriate and steps taken to ensure that revenue is recorded in the correct period where appropriate.</p>	<p>We will address this risk through performing audit work over:</p> <ul style="list-style-type: none"> the design and implementation of controls management has in place to ensure income is recognised in the correct period; cash receipts around the year end to ensure they have been recognised in the right year; the judgements made by management in determining when non-grant income is recognised; for major grant income, obtaining counterparty confirmation; and expected credit loss provisions applied to receivables at the year end, considering the appropriateness of judgements made by management.

Significant risks and key judgement areas (continued)

Significant risks (continued)

	Description of risk	Planned response
3.	<p>Expenditure recognition</p> <p>For public sector organisations, the same risk in relation to fraud and error in respect of the timing of recording of transactions can apply to the recognition of non-payroll related expenditure and contractual obligations. The pressure to manage expenditure to ensure that budgeted outcomes are achieved increases the risk surrounding fraudulent reporting of expenditure.</p>	<p>We will address the risk through performing audit work over:</p> <ul style="list-style-type: none"> • the design and implementation of controls management has in place; • testing of non-payroll expenditure around the year end to ensure transactions are recognised in the correct year; • testing material year end payables, accruals and provisions; and • reviewing judgements about whether the criteria for recognising provisions are satisfied
4	<p>Valuation of land and buildings (Regional accounts)</p> <p>The College prepares consolidated financial statements for the Lanarkshire Region. Included within fixed assets are land and buildings relating to South Lanarkshire College with a net book value of £33m at 31 July 2020.</p> <p>Both Colleges have individual revaluation cycle with New College Lanarkshire carrying out a full revaluation every 5 years with an interim desktop revaluation at year three. South Lanarkshire College carryout a full revaluation every 3 years. Both policies are compliant with the SORP which requires valuations to be undertaken 'sufficiently regularly'.</p> <p>At 31 July 2021 South Lanarkshire College will carry out a revaluation of land and buildings.</p> <p>Given the significance of the value of fixed assets held, a misstatement in the valuation could be material to the consolidated financial statements.</p>	<p>We will address the risk primarily through performing our audit work at South College Lanarkshire by undertaking a range of substantive procedures that include:</p> <ul style="list-style-type: none"> • examining the professional qualifications of the valuer; • challenging and substantiate the assumptions and the appropriateness of the date of the valuation used by your value in completing the valuations; • ensuring that valuations and impairments have been completed on the correct basis for each item and that movements are in line with expectation; and • assessing whether the report produced by the valuer has been correctly reflected in the accounts. <p>We will address the risk at the Regional level by considering whether movements in valuations have been appropriately included in the consolidated financial statements.</p>

Significant risks and key judgement areas (continued)

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Description of risk	Planned response
1	<p>Valuation of pension liabilities</p> <p>The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). While both are defined benefit schemes, it is not possible to identify the College's share of the underlying assets and liabilities in the STSS scheme and it is therefore accounted for as a defined contribution scheme.</p> <p>The College's share of the SPF's underlying assets and liabilities is identifiable and a net liability is recognised in the accounts.</p> <p>Given the scale of the liability recognised in the accounts, a misstatement in the reported position could be material to the financial statements.</p>	<p>We will consider the College's arrangements, including the existence of any relevant controls, for making estimates in relation to pension entries within the financial statements. We will also consider the reasonableness of the actuary's assumptions used in providing the College with information in the financial statements through the use of our internal experts.</p>
2	<p>Grouped assets accounting policy</p> <p>During 2020-21 digital funding was made available to the College for the purchase of equipment to provide to students to enable and support remote learning that was required as a consequence of Covid-19. The College is required to account for this as capital funding as a term of the funding.</p> <p>Any assets acquired using this funding, although distributed to students, are considered the property of the College and will be capitalised under a grouped asset accounting policy.</p>	<p>We will consider the College's grouped asset accounting policy and whether this is consistent with the requirements of the digital funding provided. Enquiry will be made with management as to how the College has satisfied itself that it has appropriate processes in place around the stewardship of the associated assets and what consideration of impairment has been made.</p>
3	<p>Valuation of land and buildings (College)</p> <p>The College holds land and buildings with a net book value of £138m as at 31 July 2020.</p> <p>In line with the requirements of the Government Financial Reporting Manual, the College has adopted a formal revaluation policy of an external valuation every five years, with a desktop, interim valuation performed during the five year period. As the external valuation was performed at 31 July 2020, no revaluation is planned in the current year.</p> <p>The College policy meets the requirement of the FE SORP that assets are valued sufficiently regularly so that the carrying value of the asset is not materially different from its fair value. The College is required to assess on an annual basis whether there are indicators of impairment to assets at the reporting date.</p> <p>Given the significance of the value of fixed assets held, a misstatement in the valuation could be material to the financial statements.</p>	<p>We will undertake a range of substantive procedures including:</p> <ul style="list-style-type: none"> • review of management's assessment as to whether the value still reflects the prior year valuation; • review of the reconciliation between the College's asset register and general ledger; and • consider the College's impairment review process for land and buildings.

Significant risks and key judgement areas (continued)

	Description of risk	Planned response
4	<p>Regional financial statements consolidation process</p> <p>Regional financial statements are prepared which comprise the financial statements of New College Lanarkshire, South Lanarkshire College and Amcol Scotland Limited.</p> <p>Management are required to make judgements around the consolidation of the transactions and balances of South Lanarkshire College and Amcol Scotland Limited.</p> <p>In particular we will consider managements judgement in the incorporation of the property valuations at South Lanarkshire College which has been raised as a significant risk in respect of both the Regional consolidated financial statements as per page 10 and at South Lanarkshire College.</p>	<p>We will undertake a range of substantive procedures including;</p> <ul style="list-style-type: none"> • Review of management's judgements relating to the consolidated regional financial statements; • Review and test the method of consolidation

Wider scope work

Our approach to wider scope work

The Code requires us to conclude and make a judgement on the four dimensions of wider scope work. These are:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

We set out on the following page the work that we intend to perform to reach these judgements:

Wider scope work (Continued)

Dimension	Description	Our planned approach
Financial sustainability	Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing and assessing the College's arrangements for financial planning and affordable and sustainable service delivery.	<p>We intend to consider:</p> <ul style="list-style-type: none"> the financial planning system in place for short, medium and long term periods the adequacy and accuracy of financial reporting arrangements the reasonableness of affordability assumptions made in financial planning the extent to which the financial planning assumptions have been updated and affected by the COVID-19 pandemic
Governance and transparency	The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review.	<p>We intend to consider:</p> <ul style="list-style-type: none"> the effectiveness of internal control arrangements the appropriateness of disclosures made in the Governance Statement whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met where governance arrangements were modified in response to the COVID-19 pandemic, that they are working effectively The arrangements in place and adapted by the College as RSB in respect of the proposed regional dissolution
Financial management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	<p>We intend to consider:</p> <ul style="list-style-type: none"> the monitoring of the effectiveness of internal control arrangements the response to the COVID-19 pandemic and whether this has involved changes to the governance of the College whether the College's budgetary control system is timely and accurate whether and how the College has assessed their financial capacity and skills
Value for money	Value for money concerns using resources effectively and continually improving services.	<p>We intend to consider:</p> <ul style="list-style-type: none"> the College's evidence of providing value for money the focus on improving value for money and the pace of change at the College.

Wider scope work (Continued)

Identified significant risks to our wider scope work

We have also considered, as part of our planning, whether there are significant risks that would impact on any of the four areas of our wider scope work that require special audit consideration. At the planning stage we have identified one significant risk, under the governance and transparency heading as detailed below. Should our assessment of risk, or our planned approach to address the risk change during the course of the audit, we will report this to the Audit Committee.

	Description of significant risk	Planned response
1.	<p>In October 2020, the SFC published their report - "Review of Regional Strategic Bodies – Lanarkshire Board", that included a number of recommendations. The chief recommendation being that <i>'the Regional Strategic Body should be dissolved and both colleges manage themselves as separate regional entities, forming a direct relationship with SFC'</i>. The New College Lanarkshire Board held a Special Board Meeting on 9 November 2020, voting to support the SFC recommendation, as the South Lanarkshire College Board subsequently voted on 9 November 2020. Both Colleges are now working with the SFC to take this recommendation forward. Appropriate arrangements will require to be made between NCL, SLC and the SFC to ensure the transition is smooth and appropriate governance arrangements remain in place during any transition period.</p> <p>There are many elements that will require to be considered and changed in the coming months to facilitate the dissolution of the RSB. This will be a challenging period and it is imperative that any proposed amendments are carefully and robustly considered, with reasonable timeframes for delivery applied.</p>	<p>We will review the arrangements in place and adapted by the College in respect of the regional separation and the transition period that is now in place.</p> <p>We will continue to monitor progress against the agreed transition plan.</p> <p>We will also consider any revised governance framework established by the College and consider this against good practice standards.</p>
2.	<p>Our 2017/18 Annual Audit Report highlighted that a 5 year Lanarkshire Business Plan had been prepared in close collaboration with the SFC. The purpose of the Business Plan was to identify efficiency savings and longer term cost savings measures that would be implemented to enable the College to move to a financially sustainable operating model.</p> <p>We reported in our 2019/20 Annual Audit Report that whilst progress had been made in recent years with adherence to the Business Plan, given the challenging landscape for the College sector under Covid-19 conditions, the Business Plan was considered to have run its course and should be updated to reflect the current funding and delivery landscape. During 2020/21 the College has undertaken work to develop 'Strategy 2025', their new five-year strategy, which is due to be published shortly. We understand that work will then begin on a long-term financial plan that will reflect the needs and aims of the new Strategy.</p> <p>Given the current climate that the College is operating in with many uncertainties, including future funding, it is imperative that the College has a robust future financial plan. We consider that without such a plan, agreed at Board level, that future financial sustainability remains a significant risk.</p>	<p>We intend to consider</p> <ul style="list-style-type: none"> • Work performed to align long-term financial plans with the requirements of the strategy • The financial reporting arrangements in place at the College and whether these have been operating as expected • Whether the forecast position for 2021/22 was achieved and what implications of variances from the forecast position may have on future plans

Fees for audit and other services

Fees for audit and other services

Our fees for the audit of the financial statements and for any other services are outlined in the tables below.

We set out below the work that we intend to perform to reach these judgements:

Service	2020/21 proposed fee £	2019/20 final fee £
Auditor remuneration*	43,720	42,660
Pooled costs	2,590	2,220
Contribution to Audit Scotland costs	1,690	2,120
Total Fee	48,000	47,000

The fees outlined above are provided on the basis that we will receive a high-quality set of draft financial statements, supported by good working papers. Should we be required to perform significant levels of additional audit work, or face significant delay in our audit, we will discuss the impact of this on our proposed fee with management.

*Auditor remuneration will require to be increased for 2020/21 to reflect the additional work required in respect of the regional dissolution. The additional fee will be reported to the Audit Committee once approved by Audit Scotland and agreed with the College.

Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Lucy Nutley in the first instance.

Prior to the provision of any non-audit services, Lucy Nutley will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Annual Audit Report

Materiality and misstatements

Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Summary of initial materiality thresholds

Threshold	Initial threshold £'000
Overall materiality	1,148
Performance materiality	918
Trivial threshold for errors to be reported to the Audit Committee	34

Overall Materiality

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Materiality and misstatements (Continued)

We consider that gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We expect to set a materiality threshold at 2% of gross expenditure (£1,148,000).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is the level we use to calculate our sample sizes, and is our acceptable difference in any substantive analytical procedures. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the risk level. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Specific Materiality

We assess specific materiality if there is one or more 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 users of the financial statements. Specific materiality focuses on the qualitative nature, as well as the size, of an item. It recognises that, in some circumstances, it may take a much smaller misstatement to influence the user of the financial statements.

We are required to provide an opinion as to whether the audited part of the Remuneration and Staff Report has been properly prepared. Given the sensitivity of the disclosures made in the Remuneration and Staff Report, we have assessed a specific materiality for this work at £500, being the level that would impact rounding for figures shown to the nearest £'000.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £34,400 based on 3% of overall materiality.

Key communication points

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓